

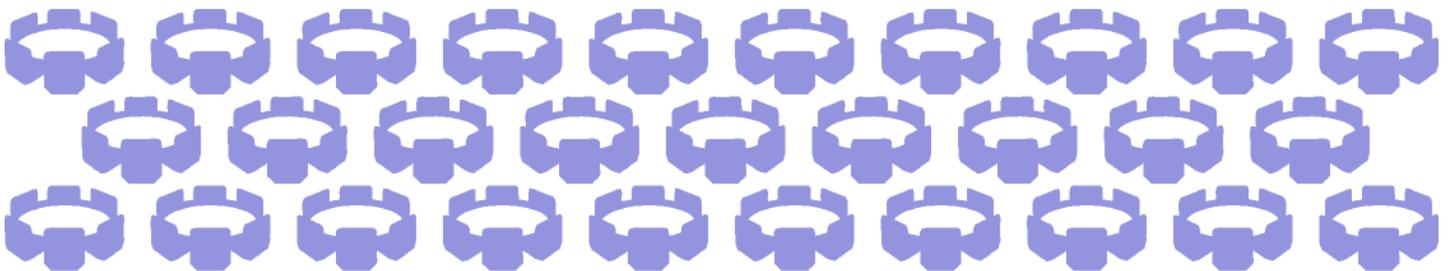


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**PUBLIC POLICY FORUM ASSESSMENT OF CANADA
REVENUE AGENCY RELATIONSHIP WITH
PROVINCES AND TERRITORIES: EXTERNAL
PERSPECTIVES**

**SUMMARY REPORT
OCTOBER 2004**



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Public Policy Forum/
Forum des politiques publiques
1405-130 Albert Street
Ottawa, ON K1P 5G4

Tel.: (613) 238-7160

Fax: (613)238-7990

www.ppforum.ca

ABOUT THE REPORT

This report presents a summary overview of a study conducted by the Public Policy Forum (PPF) on behalf of the Canada Revenue Agency (CRA) in the Spring and early Summer of 2004. PPF was asked to look at the current state, related issues and future prospects of CRA's relationship with its provincial and territorial counterparts, in particular the twelve jurisdictions on whose behalf CRA collects tax revenues and administers tax expenditure programs. The report is based primarily on interviews with senior officials in the thirteen provincial and territorial governments. A second major source was consultations with knowledgeable independent commentators.

The report is designed to be self contained and includes information on the project's background and methodology (pp 3-5 and appendices). The discussions with the independent experts are presented first (pp 6-8), as they provide an important "user" perspective on the CRA-provincial-territorial dynamic. This is followed by a summary of discussions with the provinces and territories (pp 9-16), and commentary on prospects for broadening and deepening CRA's relationship with the provinces and territories and on implications for the Parliamentary review of the *CCRA Act* (pp 17-19).

A companion document contains more detailed findings and analysis of the discussions with the outside experts and provincial and territorial officials. It has been drafted in Power Point presentation format. An annex summarizes the presentations made at the experts' workshop.

ABOUT THE AUTHORS

David Brown is Director, Special Projects at the Public Policy Forum.

Nicole Murphy is a Research Associate with the Public Policy Forum.

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The members of the project Advisory Committee provided guidance at all stages of the project. They are Julian Nowicki, Gerard Protti, Guylaine Saucier and Georgina Steinsky Schwartz; all are members of the Public Policy Forum Board of Directors.

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BACKGROUND TO THE CANADA REVENUE AGENCY

The Canada Customs and Revenue Agency (CCRA) was established on November 1, 1999, when the *Canada Customs and Revenue Agency Act* came into effect. The creation of CCRA as an agency outside the traditional departmental model emerged from a history of federal government public service reform initiatives, culminating in the 1996 Budget. This was the combined result of the government's ongoing efforts to promote innovation in service to the public, in general, and to strengthen the coherence and efficiency of revenue collection in particular.

In becoming an agency, the former Department of National Revenue incorporated a number of features that were not part of federal government departmental governance, including a Board of Management, corporate business planning, and separate employer status.

The *CCRA Act* also provided mechanisms to govern CCRA's relationship with the provinces and territories, including a role for them in nominating members of the agency Board of Management and provisions for annual reports and meetings with the provincial and territorial Revenue ministries.

A further change was introduced in the December 12, 2003 reorganization of the federal government when Customs and border-related activities of CCRA were transferred to the new Canada Border Services Agency. The balance of CCRA – centered on its tax collection activities – was renamed the Canada Revenue Agency (CRA), which is the focus of this study.¹

CRA RELATIONS WITH THE GOVERNMENTS OF THE PROVINCES AND TERRITORIES

In implementing its general mandate, CRA has developed an approach to partnerships that extends to CRA's relationships with federal government departments, provinces, other countries, business groups, the voluntary sector and others. CRA has been working to advance its partner relationships with the provinces and territories by adding new programs, data exchanges, and business number arrangements with improved accountability.²

In the most recent CCRA Annual Report to Parliament (2002-2003), the Agency stated that recent federal-provincial issues have made it somewhat more challenging to build new partnership arrangements, and that progress has been slower than planned. Nonetheless, CRA has positioned itself to offer more programs with its partners in the coming years.

The CRA is a key service provider to federal departments, provincial and territorial governments, and First Nations, with over 60 agreements for joint program delivery.³

¹ The term CCRA is used to refer to the *CCRA Act*, which at the time of writing had not yet been amended, and to Agency activities between November 1999 and December 2003. CRA refers to the Agency since December 12, 2003, including at the time this study was conducted.

² Canada. Canada Customs and Revenue Agency. *CCRA Annual Report to Parliament 2002-2003*. Ottawa: 2003.

³ Canada. Canada Customs and Revenue Agency. *CCRA Annual Report to Parliament 2002-2003*. Ottawa: 2003.

With the exception of Quebec, all provinces and territories rely on the CRA to administer, assess, and collect their provincial/territorial personal income tax. The CRA has implemented the Tax on Net Income approach to provide the provinces with increased flexibility regarding tax policy; as well it administers corporate income tax for all provinces and territories except Quebec, Alberta and Ontario.

In addition, arrangements are in place for integrated collection of the Goods and Services Tax and provincial sales tax, in three provinces through a Harmonized Sales Tax administered by CRA: Nova Scotia, New Brunswick, and Newfoundland and Labrador. The Ministère du Revenu du Québec collects both GST and PST in that province. Another, and growing, area of partnership is the CRA administration of a range of ongoing benefits and one-time payments on behalf of the provinces and territories.⁴

METHODOLOGY

OVERVIEW OF THE PPF ASSESSMENT

Section 89(1) of the *CCRA Act* mandates a comprehensive review and assessment of the provisions and operation of the Act by a committee of the House of Commons after five years from the Act coming into force in 1999. In support of this review, CRA is undertaking a series of evaluations, one of which is to assess CRA partnerships.

As part of the assessment of CRA partner relationships, the CRA team preparing for the Parliamentary review, working with the CRA Corporate Audit and Evaluation Branch (CAEB), commissioned the Public Policy Forum (PPF) to evaluate the relationship between CRA and provincial/territorial governments, focusing on the following dimensions:

1. The current state of CRA's partner relationships with provincial/territorial governments;
2. The evolution of federal/provincial/territorial partner relationships and the progress in the relationships that has been achieved since the transition to an alternative service delivery agency (i.e. since November 1, 1999); and,
3. Opportunities for improvement.

The assessment contained in this report is based on three streams of information gathering and analysis:

1. Consultations with the thirteen provincial and territorial governments, based on telephone and in-person interviews, group sessions and written material. These centered on soliciting the views of senior and working level officials responsible for tax collection in all jurisdictions and in most cases also for tax policy.
2. Consultations with knowledgeable/independent experts (academics, former senior officials, national associations and think tanks), based on written submissions, interviews and a one-day roundtable.
3. A literature/document review to supplement the governmental and expert consultations.

⁴ Canada. Canada Customs and Revenue Agency. *CCRA Annual Report to Parliament 2002-2003*. Ottawa: 2003.

CONSULTATIONS WITH KNOWLEDGEABLE/INDEPENDENT EXPERTS

The consultation with knowledgeable/independent experts was conducted by an independent consultant, Robert Plamondon, FCA, Plamondon & Associates Inc, with support from the PPF project team. A discussion paper was prepared as background to the consultations with knowledgeable and independent experts from outside the public sector. In addition to an open invitation for comments, the views of experts were also sought through a limited number of personal interviews and a roundtable in Ottawa in May 2004. See Appendix 2 for a complete list of workshop participants and of organizations that provided written input.

CONSULTATIONS WITH PROVINCIAL AND TERRITORIAL GOVERNMENTS

The heart of the assessment was a series of interviews, in May and June 2004, with the thirteen provincial and territorial governments. In each jurisdiction consultations comprised a preparatory telephone interview with a senior official in the provincial/territorial Revenue ministry, along with the distribution of a discussion paper and a questionnaire to structure the interviews. A cross-section of interviews were conducted in person, and the remainder were conducted by telephone. PPF visited the capitals of seven provinces: British Columbia, Alberta, Manitoba, Ontario, Quebec, Nova Scotia, and Prince Edward Island. Telephone interviews were conducted with Saskatchewan, New Brunswick, Newfoundland and Labrador, Northwest Territories and Yukon, and an in-person interview was conducted in Ottawa with a Nunavut official. In all jurisdictions, input was sought from senior tax collection and tax policy officers. See Appendix 1 for a complete list.

VALIDATION

Based on the expert consultations and the discussions with provincial and territorial officials, PPF prepared a Power Point presentation summarizing the information and perspectives that had been obtained. This was presented to four groups for feedback and validation:

- The CRA Commissioner and Deputy Commissioner;
- CRA Agency Management Committee;
- Governance Committee of the Board of Management; and
- Senior Revenue Officials Conference (annual meeting of federal, provincial and territorial senior tax officials).

The process for this assessment did not include interviews with CRA senior management or regional managers, nor did it include interviews with other interested areas of the federal government, such as central agencies or the Canadian Border Service Agency. The assessment therefore is based on the perspectives of the provincial and territorial governments and knowledgeable experts; it is client-focused and does not necessarily represent a full overview of the dynamics of the federal, provincial and territorial relationship in tax collection and tax expenditure administration.

SUMMARY OF DISCUSSIONS WITH KNOWLEDGEABLE/INDEPENDENT EXPERTS

An essential component of the PPF assessment was to obtain the perspective of knowledgeable independent observers of the relationship between CRA and the provinces and territories. This was intended to provide a “user” perspective on Canadian tax collection as a whole and as such represented important feedback to both CRA and its provincial and territorial counterparts. This element of the consultation included both telephone interviews and written submissions, but its focal point was a one-day roundtable held in Ottawa on May 28, 2004. The purpose was to discuss how the structure and governance of CRA affects its relationship with provinces and territories and how well CRA has functioned in meeting the needs of provinces and territories.

The roundtable was chaired by Robert Plamondon, and included participants from national organizations. See Appendix 1 for a list of the roundtable participants.

The day’s discussion had three objectives:

- Gain a deeper understanding of the issues affecting the relationship between CRA and provinces and territories;
- Assess the relationship between CRA and the provinces and territories; and
- Make recommendations to enhance, if possible, the relationship between CRA and the provinces and territories.

The key points arising in discussion are summarized below. A more detailed account is provided in slides 12 to 17 of the Power Point presentation and in the Annex to that document. Recommendations based on the roundtable discussion are provided at the end of this section of the report.

CONTEXT FOR ESTABLISHING CRA

The roundtable agreed that the cost of compliance remains a valid and significant performance measure for the tax system as a whole and in individual jurisdictions. Canada does not give adequate consideration to compliance and administration costs, both in monitoring the performance of the tax system and in decision-making about changes in taxes or in levels of government services.

The new policy flexibility for provinces to levy tax on net income is, over time, likely to increase the complexity of the tax system and increase the level of compliance costs for taxpayers.

More generally, tax coordination has an impact on the ability of the tax collector to assess and collect taxes. Data from one tax can be a helpful indicator of the amount of tax one would expect to collect in another area.

IMPACT OF CRA STRUCTURE

Participants noted that the major positive change at CRA has been psychological and not structural. There has been a change in attitude within CRA, which is now more focused on provincial and taxpayer needs and more confident.

CRA staff have greater job satisfaction and are better motivated. Surveys show that job satisfaction for staff at CRA has been increasing. Whereas the ratings achieved within Revenue Canada were below the average of the public service, the scores now exceed the

average. Relative to Revenue Canada, CRA acts with greater independence from the Department of Finance and more directly with provinces. The mandate for CRA is clear and the organization operates more professionally. It was noted that the established structure makes the relationship less vulnerable to the “personalities” of the day.

On the other hand, tax professionals suggested that staff under CRA seem to take a more aggressive stance in assessment and collection than under the former Revenue Canada. They suggested that there has been a significant increase in the number of cases before the courts and that this indicates there are more disputes that are not being readily solved.

CRA PERFORMANCE IN MEETING PROVINCIAL AND TERRITORIAL NEEDS

Participants observed that the mindset of CRA towards the provinces has changed. CRA is seen as treating the provinces more respectfully, openly and professionally. The Agency’s intentions seem to be clearer and more consistent. Problems still exist, however. Despite the change in attitude, situations still arise when CRA reverts back to its less cooperative mode, such as when provinces were not consulted before a major error on tax payments to provinces was publicly disclosed.

The CRA structure makes it much more accountable to the provinces. The status given to provinces within CRA (role in appointments to the Board of Management, annual report to and meeting with the provincial governments) has led to a significant improvement in the relationship between CRA and the provinces. Whereas provinces used to deal mostly with the Department of Finance on revenue matters, they now have a more direct and effective relationship with CRA.

TAX POLICY DEVELOPMENT IN THE PROVINCES

Roundtable participants judged that there has been a general maturing of provincial capacity to develop tax policy and in that sense to serve as a client for CRA’s services. Provinces are now more likely to communicate among themselves and coordinate their tax policies. Tax policy capacity in the provinces is increasing. This is the expected outcome from giving the provinces more control over their tax systems.

There are tax policy issues that remain to be solved. The big issue today is allocation of corporate income among provinces and territories where a corporation operates in more than one jurisdiction. CRA is not seen to be giving priority to this issue since federal revenues are not affected. CRA needs to develop expertise on this question or in some other way develop a better way of allocating corporate income among provinces.

AREAS FOR IMPROVEMENT

Participants were of the opinion that it is both possible and desirable to continue with efforts aimed at further integration in tax administration across Canada. This view is conditioned by a number of considerations:

- Major increases in the integration of tax administration improvements will require a quantum leap in benefits to the provinces. The prospect that provinces would hand over administration of their remaining tax systems was considered to be very low unless substantial and meaningful benefits could be clearly demonstrated.
- Provinces value their economic independence. In the cases of Ontario and Alberta, losing control over corporate tax administration would result in a loss of fiscal and even political leverage. If they no longer had their own sales and

corporate income tax systems they would lose a bargaining chip. Some participants wondered whether tax on net income would have happened if these provinces had not threatened to pull out of the federal-provincial Tax Collection Agreements.

- Arguments over reduced compliance and administration costs are not sufficient by themselves to achieve a single national tax administration. In fact, provinces give considerable weight to compliance and administration in their tax policy decisions.
- The GST is still a hated tax and carries a significant political downside. It will take political and business leadership before additional provinces agree to harmonize with the GST. While some participants were strongly critical of the design of provincial retail sales taxes, the harm was not considered significant enough to motivate a change in policy.
- Start-up costs are the big reason why provinces do not set up their own tax administrations. This suggests that in most cases the threats made by provinces to set up their own tax systems are less than genuine.
- There is still some mistrust that bigger is in fact better. The under-performance of the federal gun registry was cited as evidence that federal administration can be costly and ineffective.
- CRA could become more aggressive in promoting its accomplishments and pressing its objectives. Levels of service, use of technology, and employee and provincial satisfaction are all accomplishments that CRA could be vocal about. CRA under-uses its very powerful database, for both micro- and macro-economic data.
- Major change requires political leadership. The tax collection bureaucracies should not be expected to be the champions of single administration or tax harmonization across Canada. Someone will have to risk political capital to change the tax system; who this might be is difficult to predict or expect.

Recommendations:

1. The cost of taxpayer compliance be treated as a valid and significant performance measure for the national tax system as a whole and in individual jurisdictions.
2. More attention be paid to developing current and comprehensive cost estimates, addressing compliance and administrative costs, for both individual and business taxpayers. Consideration be given to conducting an “environmental scan” of new tax measures to determine impact on taxpayer costs and compliance.
3. CRA increase its efforts to broaden awareness of its accomplishments since becoming an Agency, in particular among taxpayers and tax professionals.
4. CRA explore ways of making better use of its database, by the federal and provincial/territorial governments and by non-governmental researchers.

SUMMARY OF DISCUSSIONS WITH PROVINCIAL AND TERRITORIAL GOVERNMENTS

The PPF interviewed senior tax officials from all thirteen provincial and territorial administrations. The interviews were based on an interview protocol (see Appendix 3) that was designed to elicit feedback on key themes and issues of interest to CRA: CRA legislation and administrative arrangements; impact on provincial and territorial programs and administrative arrangements; definition and objectives of the relationship between CRA and the provinces and territories; satisfaction with the current state of CRA's relationship with the provinces and territories; dynamics of change; and the potential for growth.

The key findings are summarized in this section and elaborated upon in slides 18 to 35 of the Power Point findings and analysis presentation. They are presented thematically, beginning with general observations and areas of strengths and followed by a discussion of challenges that need to be addressed, grouped under six general themes. This is followed by an analysis and commentary on broadening and deepening the relationship. The discussion concludes with implications for the Parliamentary review of the *CCRA Act*. At the end of each section is a list of related recommendations.

GENERAL OBSERVATIONS

All governments emphasized the importance, depth and strength of existing relationships with CRA. The Parliamentary review of the *CCRA Act*, coinciding with the development of a new generation of Tax Collection Agreements (TCAs), offers a timely opportunity to reflect on the relationship between CRA and the provinces and territories and to take measures to ensure that current work continues to be done well and there is a solid basis for broadening and deepening in the future. It was generally agreed that there has been significant progress in the relationship over the past 5 years, representing a maturing of capacity and understanding on all sides.

CRA AREAS OF STRENGTH - THE FOUNDATION FOR THE FUTURE

There was an over-all favourable rating for CRA and its relationship with provinces and territories. The provinces and territories highlighted several positive areas of the current relationship and the services provided by CRA:

- Services to taxpayers (Tax Services Offices, call centres, electronic services)
- Personal Income Tax and HST collection are well established
- Business Number, Workers Compensation remittances
- Collaboration on areas of common interest (monitoring, compliance, taxpayer education, underground economy)
- CRA corporate capacity, economies of scale
- Working relations with local and regional CRA offices
- CRA responsiveness as issues arise, good will on all sides.

These areas of strength were flagged as important in themselves, representing areas where CRA has a comparative advantage. Taken together, they provide a constructive context for addressing the challenges identified in the discussion.

KEY CHALLENGES FOR THE RELATIONSHIP WITH CRA

The provinces and territories identified several challenges in their relationship with CRA and in the services it provides. These have been grouped under six general themes, some of which are further broken down.

A. CRA needs to “think” like a province

From the provincial perspective CRA is acting as their agent. In principle, the alternative is for the provinces to carry out the same activity themselves. A basic standard of judgment, therefore, is the extent to which CRA is able to meet the internal needs of the provincial administrations.

This has a number of implications. Of critical importance is meeting the political and program needs of provincial governments and ministers, and especially their obligations to answer to their own legislatures and auditors. There are closely related requirements for governments to communicate with their public and interest groups. Government policies and programs are sensitive to revenue flows and rely on data collected through revenue collection for policy development and program monitoring purposes. The provinces also consider that the revenue collected by CRA is their revenue and the related data are their data, even though held by CRA.

All of these factors highlight the importance of CRA being able to know and understand the needs of its provincial and territorial clients. The challenge is to give the provincial and territorial clients confidence that CRA’s considerable resources are available to them in ways that are useful to them. A closely related requirement is for CRA to give equal weight to issues that are solely of provincial or interprovincial concern and do not affect federal revenues. Two active examples raised by most jurisdictions were the allocation of corporate tax among provinces in cases where firms are doing business in more than one part of the country and determination of residence of individual taxpayers, especially those living and working on different sides of provincial boundaries.

Recommendation:

5. CRA give priority to developing and maintaining an understanding of the needs of its provincial and territorial clients and to maintaining a strong relationship with the provinces as an end in itself.

B. There is scope to strengthening relationship management on both sides

PROVINCIAL CAPACITY

Most provinces do not have a dedicated individual or unit as their “window” on CRA, at least in the revenue collection area. By the same token, provincial revenue officials do not always have a complete picture of the wide range of contacts between CRA and the various parts of provincial administrations that deal with CRA and have a stake in its services.

This raises questions about whether the provinces and territories are as effective as they need to be in articulating their requirements to CRA and in managing their CRA contracts. Related to this is the degree to which the provinces can “think like a tax

administration”, arguably the basis for the provinces to serve as effective clients for CRA’s services and the reciprocal of CRA being asked to think like a province.

CRA HEADQUARTERS CAPACITY

From a provincial and territorial perspective, looking in from the outside, the CRA headquarters machine looks large and daunting. Virtually all provinces cited navigating the Ottawa environment as one of their greater challenges, especially given the differences in scale, where an individual in a province typically has an entire CRA unit as their counterparts, often with no obvious point of contact.

CRA top management, at the level of the Assistant Commissioners individually and the Agency Management Committee as a group, are not as well organized as they could be to focus on provincial requirements and concerns on a sustained basis. There is no strong voice for provincial perspectives or the relationships with the provinces at the Agency management table, notwithstanding the importance of the relationships to both CRA and the provinces and territories. Nor is there a clearly visible senior focal point with the time to maintain a continuing dialogue with CRA’s thirteen client-partners.

The efforts and goodwill of the Assistant Commissioner, Policy and Planning, and of his predecessor were appreciated but he has other major responsibilities and was judged not to have the time to pay attention on a sustained basis to either the provincial/territorial dynamic as a whole or to CRA’s thirteen individual relationships.

The CRA regional offices often provide considerable assistance, and most provinces have developed solid headquarters contacts in areas of continuing importance to them. Some CRA units have assigned staff as contact points with the provinces, but turnover is also an issue.

BOARD OF MANAGEMENT

Both the interviews and the briefing provided to the Governance Committee of the Board of Management suggest that there is scope to broaden contacts between the provinces and the Board of Management, which was structured at least partly with provincial and territorial interests in mind.

In most cases, the interviews found little or no contact between senior provincial revenue officials and the provincial nominee to the Board of Management. In one or two cases, the provincial officials were not aware who the nominee was.

Part of the challenge may be that the activities of the Board are not visible to the provinces, and provincial officials generally considered that the Board is not engaged in matters of interest to the provinces and territories. A related factor is that there is limited reflection of provincial interests and agendas in the CRA Corporate Business Plan and the Agency’s Annual Report to Parliament, CRA’s two major Board-approved management instruments. Nor is there anything to link the instruments of CRA’s relationship with the provinces – such as the Service Management Frameworks and the annual reports to the provinces – to the CRA Corporate Business Plan.

INTERGOVERNMENTAL RELATIONS MACHINERY

The provinces and territories expressed considerable appreciation for the efforts of the Intergovernmental Relations Directorate in CRA headquarters and the senior managers they report to. There was also strong support for the role played by the regional Assistant Commissioners and by the Intergovernmental Directors in the regional offices, especially in the Atlantic and Prairie regions. In the three Atlantic capitals other than Halifax (where the CRA regional office is located), there are also provincial liaison officers in the local CRA Tax Services Offices, and these positions were also seen as valuable.

TERRITORIAL PERSPECTIVE

The interviews with the three territorial governments suggest that they have circumstances and requirements that merit focused discussion. The territories share the particular challenge of widely dispersed populations that do not have the same access to technology and infrastructure as southern Canada. This challenge is compounded by the very limited institutional capacities of the territorial governments, which creates a high level of dependency on CRA and on occasion draws CRA into a wider range of roles than is the case with other jurisdictions (e.g., assisting with legislative drafting).

QUEBEC GST EXPERIENCE

The Ministère du Revenu du Québec (MRQ) collects GST on behalf of CRA, and the two collaborate on areas of common interest, including measures to address the underground economy and taxpayer education.

In dealing with MRQ, the shoe is effectively on the other foot for CRA in comparison to its relationship with the other provinces and the territories. Consideration should be given to whether this experience as a client for the services of another administration – in another jurisdiction – might be useful in looking at managing the relationships where CRA is the service provider.

THE INTERSECTION OF AUDIT REGIMES

A few provinces commented on the fact that there was some risk of being put under conflicting pressures by the federal and provincial auditors general and, by extension, by their respective legislative overseers. The perception was that the federal Auditor General is encouraging CRA to put its efforts into larger files, which are presumed to be more cost-effective, at least from the perspective of federal revenues. This has led to a lower priority for smaller files, which are of greater interest to the provinces, if only because their over-all revenues are smaller.

Recommendations:

6. CRA address whether it has the internal organization and procedures that are best suited to managing its relationship with the provinces and territories.
7. CRA and the provincial/territorial governments discuss means of maintaining a successful working relationship, including the elements of CRA “thinking like a province” and the provinces “thinking like a tax administration”.
8. Consideration be given to ways of ensuring that CRA top management, at the level of the Assistant Commissioners individually and the Agency Management Committee as

- a group, are organized to focus on provincial requirements and concerns on a sustained basis.
9. A review be undertaken of CRA's on-going mechanisms for keeping the provinces informed about responsibilities and procedures in CRA and for sensitizing CRA headquarters units to provincial/territorial relationships and current issues.
 10. Provincial revenue ministries and the CRA Board of Management explore means of broadening contact between them.
 11. CRA and the three territorial governments address together the particular circumstances and requirements of the territorial governments in order to make their working relationship with CRA as effective as possible.
 12. CRA draw on its experience as a client for the services of another administration in another jurisdiction, i.e., Quebec collection of GST, to provide insights for managing the client relationships where CRA is the service provider.
 13. The relationship between the federal and provincial/territorial legislative audit regimes be monitored on an on-going basis, including periodic discussions with the respective auditors.

C. The shared management instruments need to be better aligned

ANNUAL REPORT TO THE PROVINCIAL AND TERRITORIAL GOVERNMENTS

The annual reports are required by the *CCRA Act*, although the statute does not offer any guidance on the content of the reports nor on what should be done with them. The provinces considered that the annual reports are an important innovation, in particular useful for briefing Ministers and the public. They were complimentary about CRA's efforts to solicit provincial comments on draft reports. However, it was also commented that the reports appear to be written for public release and not as a shared management tool. A number of provinces suggested that they need to be rethought to be more useful, both to the provincial government and to managing the CRA/provincial relationship.

Several provinces commented that , in contrast to the CRA annual report to Parliament, the reports to the provinces and territories contain no costing or performance measures, nor are there links to shared goals (e.g., to the Service Management Frameworks) or to CRA or provincial business planning. In addition, the data are not always very accessible for provincial purposes or province-specific. In this regard, there was a contrast with the MRQ annual report on GST administration, which is tied to the CRA corporate business plan.

SERVICE MANAGEMENT FRAMEWORKS (SMF)

CRA set out, when it was first established, to negotiate SMFs with its twelve client provinces and territories. Eleven have been negotiated to date (all except Ontario and Québec). The agreements with Manitoba and British Columbia have lapsed, but are being renegotiated, and the remainder range from very active to moribund. The SMFs provide for a senior steering committee, and most provinces have at least an annual senior-level meeting with CRA – typically involving the provincial deputy minister of revenue and the CRA regional Assistant Commissioner, and occasionally a headquarters Assistant Commissioner – even where there is not an active SMF. Some provinces use the SMF as an umbrella for a number of joint activities. Even so,

it is only rarely that a link is made between the SMFs and other instruments – for example the steering committees usually do not discuss the annual CRA report to the province, although their meetings are sometimes linked to the Commissioner's annual visit.

COMMISSIONER'S VISITS

The CRA Commissioner is required by the *CCRA Act* to offer each province an annual visit, and the Agency has been seen to be assiduous in making the offer to all provinces and territories, with visits carried out to most jurisdictions in most years. The personal contact and interest taken by the current Commissioner and his predecessor was appreciated and seen as important in setting the tone for day-to-day interaction. However, the visits tend to be regarded by the provinces as ceremonial in nature rather than for strategic or work planning discussions. In a number of cases there was puzzlement as to why the offer to meet is made to the Minister, rather than the Deputy Minister – the inference being that the Commissioner is on a par with the Minister.

Recommendations:

14. Provincial interests and agendas be appropriately reflected in the CRA Corporate Business Plan and the Agency's Annual Report to Parliament; and the instruments of CRA's relationship with the provinces, such as the Service Management Frameworks and the annual reports to the provinces, be appropriately linked to the CRA Corporate Business Plan.
15. CRA and the provincial/territorial governments take steps to link systematically the shared instruments for managing their relationships, notably CRA's annual reports to the provincial and territorial governments, the Service Management Frameworks and related instruments, and the Commissioner's annual meetings with the provincial and territorial governments.
16. CRA's annual reports to the provinces and territories be rethought to be made more useful, both to the receiving governments and to managing the CRA/provincial/territorial relationships.
17. The SMFs be kept up to date and structured to provide a reference point for joint planning and reporting, including appropriate links to the CRA corporate business plan and its annual report to Parliament. In addition, that steps be taken to develop better performance and costing information.

D. There is room for better consultation and advance notice on major issues affecting the provinces and territories

CONSULTATION ON MATTERS AFFECTING PROVINCIAL INTERESTS

CRA was given considerable credit for improvements and good will in this area, but the general view was that there is still a distance to go in consulting with provinces and giving them advance notice of relevant CRA actions and announcements.

All provinces cited cases where CRA had not consulted adequately, usually involving the federal government taking unilateral action without giving the provinces advance notice. The universal example was the T3 mutual fund case, where CRA discovered an accounting error that required adjusting payments made to the provinces for over

30 years, in some cases leading to CRA seeking to recover substantial sums from the provinces. The strongest criticism in this case was for the fact that CRA chose to consult the Department of Finance first, once the error was discovered, and only advised the provinces very late in the day and in any case with insufficient time for them to brief their ministers before the matter became public. While it was generally considered that the negative effects of that particular episode had been dealt with, there was considerable wariness about the possibility that something similar could happen again.

Other examples concerned cases where provincial officials said they had not been able to brief their ministers before CRA made public matters affecting them – for example, announcement of the theft of a hard drive containing taxpayer data or of tax relief for military personnel in danger zones (which affected the calculation of taxable income). The establishment of the Canadian Border Services Agency also caught the provinces by surprise.

INFORMATION TO EVALUATE CRA ACTIVITY

There was considerable frustration with a lack of useful performance and costing information about CRA's services on behalf of the provinces, including that undertakings in the SMFs to develop performance measures have generally not been acted upon. Similarly, information in the Annual Reports to the provinces is not linked to provincial objectives or SMF goals or to related benchmarks. On the other hand, CRA requires the Quebec MRQ to link its annual report to CRA business plan elements.

Recommendations:

18. More systematic efforts be made to consult with provinces and territories on CRA and federal government decisions that significantly affect them and to give them advance notice of CRA actions and announcements affecting them, especially where there is a requirement to brief provincial ministers and legislatures.
19. CRA parliamentary and media relations units consider means of keeping provincial and territorial interests and briefing requirements in mind on a routine basis.

E. Data are becoming as important to the provinces as the revenue collected by CRA

The provinces attach growing importance to data from CRA relating both to tax collection on their behalf and more generally. Data are used to meet a variety of needs: tracking provincial revenue streams and monitoring CRA performance are the core uses, but data are increasingly important for fiscal, economic and social policy development and for general government management purposes. For smaller and less wealthy provinces, there is also a critical link between tax revenue data and the calculation of equalization payments to the province.

The provinces regard data on taxes collected on their behalf as “their” data and are increasingly impatient about real and perceived difficulties in timely access, data quality and restrictions on data re-use. For them, the comparison is with the timeliness and availability of data from the province's own tax collection, which can be a difference between months and days.

Data sharing, which is inherent in the CRA contracts with the provinces, also raises issues about the intersection of federal and provincial privacy regimes. In many cases the federal Privacy Act is more stringent than its provincial counterparts, and provinces are concerned about resulting restrictions on sharing CRA-collected data within the provincial government, in particular in the area of social policy and programs. This is particularly a concern where the province's "own" data are involved. In a smaller number of cases, provincial privacy rules are more stringent than the federal, creating data sharing problems for CRA.

Recommendations:

20. CRA and the provinces and territories consider ways of improving provincial/territorial access to tax data, in particular as it relates to taxes collected by CRA on behalf of the provinces and territories.
21. Issues relating to the intersection of federal and provincial privacy regimes be addressed to ensure appropriate two-way flows of information in support of CRA and provincial/territorial requirements.

F. The relationships involving Finance Canada need continuing attention

THE FINANCE RELATIONSHIP

Finance's role is rooted in its responsibility for fiscal and tax policy and its concern for a national tax system. CRA, as an operational agency, necessarily acts within the policy framework established by Finance; by assuming a role of provincial tax collector it enters into a similar relationship with Finance Canada's provincial counterparts. This creates a four-cornered relationship between CRA, Finance, the provincial revenue collection authorities and provincial fiscal and tax policy authorities. The management of such relationships is a challenge under any circumstances, made more difficult by the number of jurisdictions involved and the fact that fiscal and tax policy are frequently at the front line of the larger federal-provincial-territorial relationship, with significant political, policy and administrative dimensions.

IMPLICATIONS OF THE CUSTOMS REORGANIZATION

The inclusion of the CCRA Customs Branch in the Canada Border Services Agency (CBSA) has created another revenue collection player in the federal government. Customs provides tax collection services at the border to all provinces, so all are affected by the separation from CRA. The government's decision to create CBSA – without advance notice to the provinces – was cited by several provinces as another example of unilateral federal action on a matter of direct interest to the provinces. The provinces generally considered that established relationships with Customs are working for now, but there was some concern about how these will develop in the future, especially in light of CBSA's focus on law enforcement. The interviews indicated that there is no mechanism for addressing the implications of the establishment of CBSA for provincial tax collection at the border.

Recommendations:

22. CRA give sustained attention to ensuring that its relationships with the federal Department of Finance are sensitive to the needs of CRA services to and partnerships with the provinces and territories.
23. CRA, CBSA and the Department of Finance address the implications of the establishment of CBSA for the management of CBSA's revenue collection activities on behalf of the provinces and territories. This should include examining whether existing instruments such as the SMFs and CRA annual reports to the provincial/territorial governments should include CBSA.

BROADENING AND DEEPENING THE RELATIONSHIP

The starting point in judging future prospects is the already extensive range of services and relationships that CRA is managing. It was useful in the project discussions to distinguish between two types of relationships, each of which carries its own potential and requires its own strategy:

1. ***Service relationships***, where CRA is acting on behalf of a province or territory, underpinned by some sort of contractual arrangement – this encompasses CRA's revenue collection and tax expenditure activities and related work. The profile of these relationships varies from province to province, but taken together they represent the bulk of CRA's work on behalf of other jurisdictions. The potential for expanding CRA's service relationships is discussed below.
2. ***Partnerships***, where CRA and all provinces have a common interest (including parallel or complementary taxes on the same groups such as small and medium business, measures to promote voluntary compliance, measures to address the underground economy, taxpayer education). These provide the basis for a range of collaborative relationships with all provinces and territories and offer prospects of continued growth. This was an area where Quebec officials indicated that increased collaboration, in areas of joint interest, was possible.

There were few if any objections in principle to CRA providing a wider range of services on behalf of the provinces and territories. (The one exception was Quebec, which made it clear that this was not an option.) CRA is known by the provinces to be interested in expanding its range of services, although this appeared to be actively under discussion only in a few cases. Most of the provinces that currently contract with CRA also foresaw opportunities for expansion, at least in principle, in two general circumstances:

- Transferring experience and CRA best practices between provinces and program areas, and
- Introducing new program initiatives and technologies on behalf of provinces *where CRA has cost-effective capacity*.

There was, however, a widespread view that challenges in the current relationships need to be addressed first before a substantial increase in provincial use of CRA can be considered. A growing consideration is that the provinces are reluctant to give up their emerging internal capacity, especially in support of policy development.

A different perspective on the question of expansion of CRA services is provided by Nova Scotia and one or two other jurisdictions that have begun to pursue the implications

of client-centred service delivery in a more systematic way. Nova Scotia has contracted its tax collection activities to CRA to a very high degree, and it has integrated the remainder of its tax collection into Service Nova Scotia, the provincial agency that provides physical and virtual over-the-counter service to the public, and increasingly to business, on behalf of all government departments.

At the same time, the Nova Scotia Workers Compensation Board and Service Nova Scotia are building on CRA's electronic system for employer remittances of HST and CPP/EI, combined with extensive use of CRA's common Business Number, to create a single, integrated vehicle for a growing range of transactions between employers and corporations and the provincial government.

Recommendations:

24. Opportunities for collaborative partnerships between CRA and provincial/territorial tax authorities be explored in areas of joint interest, including mechanisms to ensure appropriate division of labour and co-ordination of effort.
25. CRA and the provinces and territories to which it provides services develop means of expanding awareness of and opportunities to adopt CRA best practices in meeting provincial/territorial revenue collection and program delivery requirements.
26. CRA work with the intergovernmental network of workers compensation commissions and with provincial and territorial governments to determine whether its experience with Nova Scotia in supporting various kinds of employer and business financial and information remittances to government can be usefully applied in other jurisdictions.

INPUT TO THE PARLIAMENTARY REVIEW OF THE *CCRA Act*

There was agreement that CRA has been a success and should be retained in its current form, i.e., there is no call from either the provinces and territories or the independent experts for major change in CRA's current institutional and governance arrangements, such as reverting to departmental status.

There were no formal or concrete proposals for legislative change. The provincial and territorial feedback was primarily concerned with how current provisions work individually and how they interact. From the discussions with the provinces, two or possibly three areas for exploration suggest themselves, although no detailed proposals were made:

- a) A provision in either the *CCRA Act* or the *Privacy Act* to provide better tools for managing the intersection of provisions respecting the treatment of taxpayer data under the various privacy regimes. This would also require consultation with the federal and provincial privacy commissioners.
- b) At least some provinces would advocate consideration of an amendment to s. 63 (1) of the *CCRA Act* to remove the requirement that the Minister of Finance approve procedures for CRA agreements with the provinces. The case for such an amendment would be based on the argument that the current provision is in fact not needed, given the broader leverage that the government has under the Act, including the Minister of National Revenue's directive power. It would also be an important symbolic step.

- c) A few provinces also suggested informally that the model of a more autonomous CRA (on the model of a Crown corporation, for example) that was considered in the lead-up to passage of the *CCRA Act* in 1999 might be revisited, providing for greater distance from federal government controls and a more overt provincial role in CRA governance.

CRA's relationship with other Canadian political jurisdictions raises issues that should be of interest to Parliament although they do not require legislation. These include the management of intersecting legislative audit and privacy regimes. A different dynamic is provided by CRA's need to ensure that provincial as well as federal ministers are adequately briefed – and in a timely fashion – to meet their respective legislative accountability needs.

Recommendations:

27. CRA explore two possible areas for amendment to the *CCRA Act*:

- A provision in either the *CCRA Act* or the *Privacy Act* to provide better tools for managing the intersection of provisions respecting the treatment of taxpayer data under the various privacy regimes, including data collected by CRA on behalf of provinces and territories.
- Streamlining the approval procedures for CRA agreements with the provinces.

28. In reporting to Parliament in the context of the five-year review of the *CCRA Act*, CRA advise Parliament of new dynamics growing out of CRA's client service relationships with the provinces and territories:

- CRA's need to support the accountability of provincial Ministers to their legislatures alongside that of the Minister of National Revenue to Parliament, with possible implications for the application of Parliamentary privilege.
- The intersection of parliamentary audit regimes, with the CRA service arrangements drawing in both the federal and provincial Auditors General.
- The intersection of federal and provincial privacy regimes.

CONCLUSIONS

CRA is an important national institution, and the consultations with outside experts and the provinces and territories indicate that it is doing a good job of providing a sustained response to areas of provincial and territorial concern. There are considerable areas of strength in the relationship, as well as significant challenges. There is, however, a substantial reservoir of good will to draw on in addressing the challenges identified in this report.

A focus on improving service and reducing costs to the taxpaying public is the best catalyst for thinking about future directions. A second catalyst is provided by the management of risk in dealing with common taxpayer clients. Significant enhancement of levels of CRA services to the provinces and territories is unlikely without political leadership, underpinned by continuous improvement in the current arrangements and visible action on the existing challenges.

There is considerable scope for partnering in areas of common interest and also for incremental changes in individual service areas. The test will be to position CRA as a

credible, cost-effective agent of both its federal and its provincial/territorial clients and partners.

Flowing from the client perspectives discussed in this report, the Public Policy Forum has made the recommendations presented in earlier sections of this report. In many cases, work along the lines proposed in the recommendations is already under way. The intent in making these recommendations, however, is to ensure that they are given priority by CRA and provincial/territorial senior management and to situate them as a range of inter-related issues that need to be addressed together in order to ensure that the responses cumulatively have a strategic impact.

APPENDIX 1 – PROVINCIAL AND TERRITORIAL PARTICIPANTS

Russ Adams
Workers' Compensation Board
Government of Nova Scotia

Robert Bhatia
Deputy Minister of Revenue
Government of Alberta

Raymond Boisvert
Sous-ministre adjoint
Ministère du Revenu du Québec
Gouvernement du Québec

Ewald Boschman
Assistant Deputy Minister
Department of Finance
Government of Manitoba

Nigel Burns
Senior Analyst
Federal Fiscal Relations
Government of PEI

Robert Constantine
Director, Tax Policy
Department of Finance
Government of Newfoundland and
Labrador

Bernard Cook
Director, Tax Administration
Taxation and Fiscal Policy
Department of Finance
Government of Newfoundland and
Labrador

Marion E. Crane
Assistant Deputy Minister
Department of Finance
Government of Ontario

Barry Draward
Assistant Deputy Minister
Department of Finance
Government of Manitoba

Ian Forman
Executive Director
Income Taxation Branch
Government of British Columbia

Gerry Gagnon
Manager, Tax Policy
Department of Finance
Government of the Northwest Territories

Paula Harper
Director
Provincial Federal Tax Administration
Government of British Columbia

Bruce Hennebury
Executive Director
Finance and Economic Policy
Department of Finance
Government of Nova Scotia

Lukas Huisman
Assistant Deputy Minister
Ministry of Revenue
Government of Alberta

Karen Johnson
Director of Revenue Services
Department of Finance
Government of Yukon

Greg Keefe
Deputy Minister
Government of Nova Scotia

Richard McCullough
Provincial Tax Commissioner
Department of Finance
Government of New Brunswick

John Monroe
Director of Fiscal Policy
Department of Finance
Government of the Northwest Territories

Scott Stevens
Comptroller
Provincial Treasury
Government of PEI

Michael O'Brien
Deputy Minister
Development and Technology
Government of PEI

Pauloosie Suvega
Assistant Deputy Minister
Fiscal Management
Department of Finance
Government of Nunavut

Pat Parkinson
A/Director
Audit
Government of British Columbia

François Tremblay
Sous-ministre adjoint
Ministère du Revenu du Québec
Gouvernement du Québec

James Ramsay
Provincial Tax Commissioner
Taxation and Property Records
Government of PEI

Greg A. Reimer
Assistant Deputy Minister
Ministry of Provincial Revenues
Government of British Columbia

Andy Robinson
Director
Tax Policy Branch
Government of British Columbia

Len Rog
Assistant Deputy Minister
Revenue Division
Department of Finance
Government of Saskatchewan

Arun Srinivas
Senior Analyst
Taxation and Intergovernmental Affairs
Department of Finance
Government of New Brunswick

Patricia Steeves
Assistant Director, Tax Policy
Department of Finance
Government of New Brunswick

APPENDIX 2 – OUTSIDE EXPERTS ROUNDTABLE PARTICIPANTS

J. Scott Allinson
 Manager of Government Relations and
 Communications
 Canadian Institute of Chartered
 Accountants

Catherine Bennett
 Senior Policy Officer
 Canada Revenue Agency

Patrick J. Boyle
 Tax Partner
 Fraser Milner Casgrain LLP
 (representing the Canadian Bar
 Association)

David Brown
 Director, Special Projects
 Public Policy Forum

Everett Colby, FCGA
 Chair
 Canada Tax and Fiscal Policy
 Committee
 Certified General Accountants of
 Canada

Pamela Cross
 Tax Partner
 Borden Lader Gervais LLP
 (representing the Canadian Bar
 Association)

Michael L. Gourley
 Partner
 Advisory Services
 PricewaterhouseCoopers LLP

Paul B. Hickey
 Partner, National Tax Centre
 KPMG
 (representing the Canadian Institute of
 Chartered Accountants as Chair of the
 Taxation Committee)

William McCloskey
 Special Advisor to the Commissioner
 Canada Revenue Agency

Richard Monk, FCMA, CFE
 Managing Director
 Welch Consulting Group
 (representing CMA Canada)

Robert Plamondon, FCA
 Plamondon & Associates Inc.

Finn Poschman
 Associate Director of Research
 C.D. Howe Institute

Jodi White
 President
 Public Policy Forum

Written Responses to Invitation to Comment

Canadian Home Builders' Association

Canadian Payroll Association

APPENDIX 3 – INTERVIEW PROTOCOL

QUESTIONS

All interviews (telephone, in-person or group discussion) will be structured using a questionnaire drawing on the following list of questions. In-person interviews will be scheduled to last up to one hour, telephone interviews in most cases half an hour and groups sessions up to two hours.

The interviews and group sessions will be used to supplement information that is provided in writing. The focus in all cases will be on changes made since CRA was established in 1999 and on future directions.

1. *CRA Legislation and Administrative Arrangements*

- CRA has made a number of structural and design changes in the past five years (i.e., since the new *CCRA Act* came into effect in November 1999). Please comment on the implementation and effectiveness of provisions in the *Act* and of administrative arrangements in the areas listed below.

Looking at these provisions individually and cumulatively, please comment on whether

- They have contributed to an improved relationship with CRA?
- They have made CRA more transparent and accountable?
- They give you sufficient say in CRA?
- You have improvements to suggest?
- The establishment of a CRA Board of Management, including a provincial/territorial role in nominating candidates for seats on the Board (s. 15 (2) of the *CCRA Act*)
- Statutory accountability and reporting arrangements between CRA and provincial/territorial governments
 - Commissioner’s annual report to each government (s. 41) (Does it provide the information you need?)
 - Annual meeting between the Commissioner and the responsible provincial minister (s. 41)
 - Information to evaluate a tax, program or activity and formulate related policies (s. 40 (1))
 - Consultation on matters that could have a significant impact on a tax, program or activity (s. 40 (2))
- Greater CRA administrative autonomy within the federal government (including independent authority in the areas of human resources and real property management, administrative procedure and contracting)
- Development of service management frameworks between CRA and provincial/territorial governments

- Creation of CRA Regional Directors of Intergovernmental Relations, cross-cutting CRA's "business line"-based organizational structure
- Are there any changes that you would suggest to CRA legislation or organization?

2. Impact on Provincial and Territorial Programs and Administrative Arrangements

- What has been the impact of changes in CRA in the past five years on the following aspects of your government's programs and administrative arrangements:
 - The design and implementation of your government's programs and tax expenditures?
 - Your government's internal administrative arrangements (including how you manage the relationship with CRA)?
 - The balance sheet of costs and savings/benefits to your government?
 - For your government's revenues?
 - For your revenue collection?
 - For your government's programs and services to the public?
 - Your government's capacity to achieve its goals and its accountability to the legislature and the public?

3. Definition and Objectives of the Relationship Between CRA and Provinces and Territories

- What are your objectives in the establishment and management of your relationships with CRA?
- How would you characterize the relationship that you have had in the past five years with CRA? (e.g., "partner relationship", "service relationship", another term?) Is this how you would like to see it in the future?
- In your observation, how has CRA characterized its relationship with your government?
- Does CRA have a clear strategy in place and is it effective?

4. Satisfaction with the Current State of CRA's Relationships With Provinces and Territories

- What is the current state of your relationship with CRA?
- Are you satisfied with the current level of service provided by CRA
 - To the residents of your province/territory?
 - To your government?
- Has the level of service changed since Agency creation in 1999? If so, please explain.

- Is CRA providing the service better than you could yourselves?
- Has there been a change in the capacities of CRA staff working on your behalf in the past five years?
- Are problem areas being identified and resolved?
- What performance measures do you use to assess the CRA relationship and services?
- Are you receiving the information and reporting that you need in order to assess the relationship and services?
- Have you conducted any evaluations of your own? If so, what were the results?
- Are you satisfied with vehicles for conducting your relationship with CRA (e.g., the annual meeting of Senior Revenue Officials, bilateral SMC meetings)?

5. *Dynamics of Change*

- How has your relationship with CRA evolved over the past five years?
- In the past five years, what has been the effect on the relationship of factors such as
 - Social and economic developments in Canada as a whole, internationally or in your jurisdiction?
 - The broader political environment affecting intergovernmental relations?
 - Federal or provincial/territorial tax policy initiatives (such as Tax on Income)?
 - Federal or provincial/territorial tax collection initiatives (such as the new Tax Collection Agreements)?
 - Measures to promote citizen-centred government services?
 - Other factors that you consider relevant?
- What will be the drivers in the next five years?

6. *Potential for Growth*

- What potential do you see for expanding the relationship with CRA? What are the necessary conditions for doing so? Have you identified opportunities for discussion in the future?
- Do the administrative and legislative authorities contained in the *CCRA Act* provide a sufficient basis for expanding the relationship with CRA? Are changes needed?
- What internal and external obstacles or challenges (such as program legislation, technology, political and economic environment) exist that limit CRA's capacity to implement new relationships? Or that limit your capacity to enter into new relationships with CRA?

APPENDIX 4 – REFERENCES

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