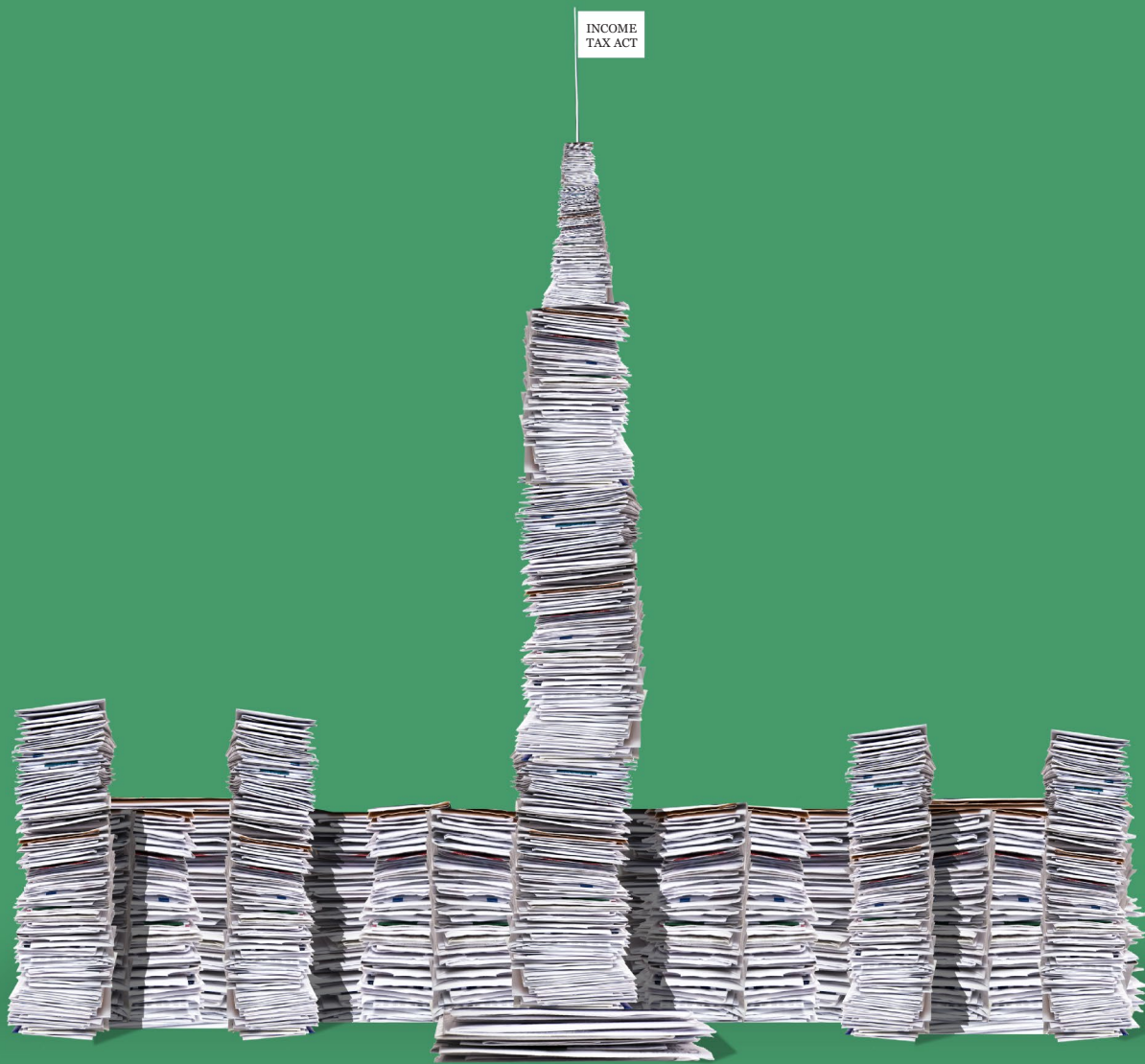


# Tax Complexity in 2019 Can It be Tamed?

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## Executive summary

Tax complexity matters to all Canadians, mostly owing to the considerable resources and time that families and businesses spend on compliance.

Many of us incur substantial costs: time invested and money spent on professional legal and accounting services, and on tax preparers and tax software. Further, the Canadian tax system is recognized as being complex, hard to understand, and in urgent need of reform.

This study uses three broad categories of indicators to measure tax complexity: tax expenditures, tax legislation, and tax guides. Each indicator empirically measures a different aspect of tax complexity, and all three indicate that Canada's tax system has become increasingly complex since 1996.

The number of federal personal income tax (PIT) tax expenditures increased from 111 to 146 (32 percent) from 1996 to 2016. The number of federal corporate income tax (CIT) tax expenditures increased from 66 to 76 (15 percent), and the number of federal goods and services tax (GST) expenditures increased too, but to a lesser degree (9 percent). The dollar value of federal tax expenditures has also markedly increased over the same period. PIT tax expenditures have grown by 55 percent, adjusted for inflation, while corporate income tax expenditures and GST tax expenditures grew by 51 percent and 48 percent respectively.

Tax legislation has steadily grown in size and volume. Between 1990 and 2018, the text area occupied by the *Income Tax Act* and regulations increased 72 percent, from 974,050 cm<sup>2</sup> to 1,673,802 cm<sup>2</sup>. While the number of pages increased by only 2 percent, page size increased by 69 percent over the same period.

Our third indicator of tax complexity is the length of the instructions required to complete a basic personal return. From 2001 to 2016, the length of the federal personal income tax guide for Ontario increased from 48 to 78 pages, for 63 percent growth over the 15-year timeframe.

Perhaps the biggest impact on perceived complexity and compliance costs in the past few decades is the popularity of personal and business tax form completion tools, coupled with the software's subsequent internet enablement, now allowing most Canadians to complete all filing steps electronically. This is a profound change, and paper is now disappearing as a major tax filing mechanism.

As paper filings have shrunk, the number and share of tax returns submitted through Efile and Netfile mechanisms have grown substantially. Efile, the fastest growing mechanism, allows authorized tax preparers to electronically file returns, while Netfile enables taxpayers to file their own returns using readily available internet-enabled tax software.

Canadian taxpayers have also had access to an “Auto-fill” option since 2015. This enables tax filers to download information from their income tax slips after obtaining data access through the Canada Revenue Agency. The use of Auto-fill went up sharply between the 2015 and 2016 tax years (468 percent), and increased again for the 2017 tax year. Usage is above 18 percent for all age groups over 20, tends to rise with income, and varies among the provinces.

While the introduction and growth in Auto-fill, Netfile, and Efile mechanisms may be productive in reducing the time and cost of compliance, these changes do not address the underlying complexity of the tax system, nor necessarily help taxpayers understand the tax system. The risks are that Canadians may not be fully aware of their tax obligations, or understand how to make better choices to reduce their liabilities, and they may become complacent.

Unlike countries such as the United Kingdom, Canada has not recently tried to simplify the tax system and has demonstrated little concerted effort at regulatory reduction or simplification.

What is clear is that our indicators suggest an increase in federal tax complexity since the turn of the century: the number of credits, deductions, exemptions, exclusions, and other preferences, the text length of tax legislation, and the size of the federal personal income tax guide all increased by double-digit percentages. Federal tax complexity is clearly increasing in Canada over time.

## Introduction

While empirical assessments of complexity are rare, observers often describe the Canadian tax system as complex. For example, the Canadian Council of Chief Executives (CCCE) reported that: “The Canadian tax system is complex and costly for business to comply with, mainly due to the complexity of Canadian tax legislation, the number of taxes companies are subject to, and the multi-jurisdictional tax system” (PWC, 2014: 16). The Canadian Chamber of Commerce (CCC) argued that “Canada’s tax system is in urgent need of reform. It has become increasingly complex, multi-layered, and a costly challenge for Canadian businesses of all sizes” (CCC, 2015: 1). The Conference Board of Canada said that the “Canadian tax system is known to be complex” (2017: 11), and attributes part of the gap between what the tax system collects, and what the law might intend, to that degree of complexity.

Further, the Chartered Professional Accountants of Canada association argues that:

Fifty years have passed since the tax system last underwent a thorough review. Since then it has accumulated a patchwork of credits, incentives and narrow fixes – many with noble aims when introduced – but that together have created a bloated, complex and inefficient system that is holding Canada back. (CPA, 2018: 13)<sup>1</sup>

Finally, the Canadian Chamber of Commerce observes that the “IMF executive board of directors points out that targeted domestic tax changes in Canada over the years have added complexity to Canada’s overall tax system” (2019: 17).

Notwithstanding these pronouncements, none of these reports or studies presents measures of tax complexity. The first study to provide intertemporal estimates of tax complexity for Canada is that of Vaillancourt et al. (2015), who examine the complexity of the personal income

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<sup>1</sup> Referring to 50 years since the Royal Commission on Taxation and the 1966 “Carter Commission” report thereof.

tax (PIT), the corporate income tax (CIT), and the goods and services tax (GST). A second study by Vaillancourt et al., (2016) focuses on the PIT and adds an inter-provincial dimension, while Bird and Vaillancourt (2016) discusses the issues in the context of international comparisons.<sup>2</sup>

This study is the third that examines the issue of tax complexity in Canada using quantitative indicators. We briefly review the literature on measuring tax complexity and examine different empirical measurements of tax complexity for Canada to see how they have evolved.

We focus on the federal level, given its dominant role in tax system design, its function in collecting provincial tax revenues, and the ease of access to information at that level. Using a range of empirical measurements, we find that Canada's federal tax system has continued since 2014 to become more complex.

The complexity of the tax system is important to all Canadians owing to the considerable resources and time that families and businesses spend on compliance; governments also incur costs to administer and collect taxes.

These costs matter. As O'Riordan put it:

administrative complexity may be contributing to increased compliance costs to taxpayers and administrative costs to government. These collectively could be characterized as a significant opportunity cost to the Canadian economy, consuming resources and talent that could have been used more productively in other ways or in other areas of the economy. (2018: 357)

Compliance costs include direct spending on items such as accountants, lawyers, and information systems, as well as the cost of the time it takes to compile the materials and complete the forms. In 2012, the total cost of complying with the personal income tax system alone ranged from \$5.84 billion to \$6.96 billion (Speer et al., 2014). These costs extend beyond personal taxes, and include business and property taxes. Altogether, these costs in 2011 (the latest year for which a comprehensive estimate is available) were between \$25.8 billion and \$31.4 billion (Vaillancourt et al., 2013).

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<sup>2</sup> See a summary of the issues in Simon, Sawyer, and Budak (2016).



## The causes of complexity

Governments do not generally intend to create complex tax systems. Were a government to start from a blank legislative slate as Canada's did in 1917,<sup>3</sup> it would nonetheless need to define what is income, when and where it should be recognized as taxable income, when and where deductions or credits may be claimed against it, what activities generate specific exemptions or credits, and only then contemplate the calculation of the tax liability and when and to whom it must be paid. Governments do not operate in a vacuum, and must contemplate the constellation of income earning activities and business structures that private agents undertake or create, and the tax policies and practices in jurisdictions that host Canadian business activities or do business here.

Neither do private agents operate in a vacuum. The tax system influences their choices about the activities they undertake and the business arrangements they create, and the timing of their recognition of income and the timing of when they undertake or report activities that generate deductions, credits, or exemptions, and whether, in what form, and when they choose to save.

In turn, governments react to what private agents do, and write legislation and regulation aimed at clarifying which activities constitute legitimate tax avoidance. The rules try to set limits or circumscribe the unproductive activities that people and businesses undertake to avoid taxation, and include prophylactic measures intended to clarify what activities constitute evasion and are legally out of bounds.

At each stage, taxpayers and governments may be motivated to take legal action to establish where the bounds are, and the subsequent jurisprudence generates new rules that influence ensuing legislation and regulation and the interpretation thereof.

Government policy also creates complexity. Tax policy choices are intended to encourage or discourage certain behavior, and may generate costly economic distortions. And when taxpayers understand the incentives that preferences create and respond as policy intends, they must establish compliance by way of their tax reporting and governments spend resources in assessing the activities. A Canadian example is the Scientific

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<sup>3</sup> Personal income taxation in Canada was authorized by *The Income War Tax Act, 1917*. The first T1 tax return comprised four pages, including instructions, and 34 lines. The last 11 lines, the tax liability calculation, were to be completed by an officer of the taxation branch (Watson and Clemens, 2017). The first US return and instructions in 1913 also comprised four pages, and 27 lines.

Research and Experimental Development credit: compliance and reporting for the credit is its own industry.<sup>4</sup>

Complexity is at least to these extents inevitable. Seeking to measure it helps us understand the scope of the issue, and potentially to take measures to reduce the costs of economically unproductive complexity.

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<sup>4</sup> For example, see <https://www.scientificresearch.ca/index.php?sred=about&t661=sred>. Compliance costs are likely in the range of 5 to 14 percent of the value of the credits (see Canada, Public Works and Government Services [2011]: 6-8).

## How to Measure Tax Complexity

This paper primarily focuses on empirical measurement of tax complexity.<sup>5</sup> The indicators of tax complexity can be ranked by their degree of sophistication in establishing what complexity is, what the costs are, and how they are linked.

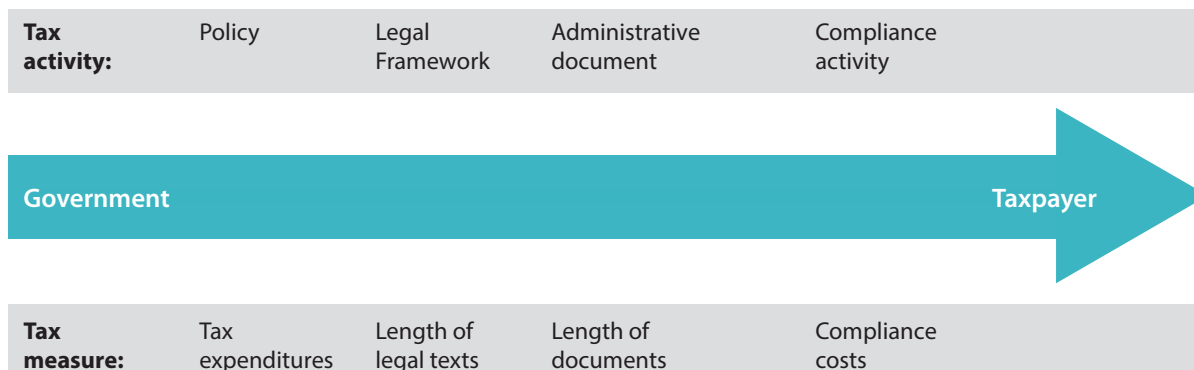
Laffer et al. (2011) argue that because it is very costly to comply with the tax code, the tax code is too complex. They use an extensive definition of costs including the sum of administrative costs, compliance costs, deadweight loss, and revenue collected. But they do not offer a definition of tax complexity; it is assumed to be directly linked to compliance costs through some unknown functional relationship. Ulph warns against such an approach:

In thinking about the complexity of the tax system per se it would seem to be really quite important to separately measure tax design complexity from operational complexity, and to measure the costs of tax complexity separately from the measure of tax complexity per se. That way one can tell not just whether tax complexity is high but also whether this is imposing a considerable cost, and whether to direct efforts to reforming the design of the tax system or the guidance/information that is given to taxpayers. (2013: 10)

Among past reports, the Tax Foundation (Moody et al., 2005), Slemrod (2005), and the Progressive Policy Institute (Weinstein, 2014) each use a different measure of tax complexity. The Tax Foundation measures complexity by the number of words in the US federal tax code and the volume of income tax regulations. The Tax Foundation reported that, “the number of words detailing income tax law has grown from 172,000 in 1955 to 1,286,000 in 2005,” and, “Federal income tax regulations have grown from 547,000 words in 1955 to 5,778,000 words, an increase of 956%” (Moody et al., 2005: 5). Recent work by Brady (2017) for the United States uses the

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<sup>5</sup> This section draws in part on Vaillancourt et al. (2015). For general theoretical contributions on tax complexity, see Kopczuk (2006) and Barton (2008).

**Figure 1: Tax Activity-Complexity Measurement Continuum**

length of the tax code and of tax forms and instructions as indicators of tax complexity.

Slemrod (2005) measures tax complexity by the number of lines on the income tax form and the number of pages in the instruction booklet; in both cases, the measures are modified slightly to ensure comparability among states. Meanwhile, the Progressive Policy Institute uses the number of tax expenditures by state, including credits, deductions, exemptions, exclusions, and other tax preferences, as an indicator of tax complexity (Weinstein, 2014). For the 43 states for which information is available, their score ranges from 550–600 for Washington State to 0–50 for Alaska, with the most common range, covering 11 states, being 100–150.

Are these three measures good indicators of tax complexity? Studies from Slemrod (2005) and Turnbull-Hall and Thomas (2012) note that longer legislation or text in an information booklet may reduce complexity if, for example, it covers several possible types of taxpayers or situations, or it is driven by the use of simpler language, as in some jurisdictions' plain-English initiatives. These positive possibilities, however, may not mean gains for taxpayers. Blank and Osofsky (2017) introduce the concept of "simplicity," using as an example United States Internal Revenue Service taxpayer publications that:

[transform] complex, often ambiguous tax law into seemingly simple statements that: (1) present contested tax law as clear tax rules, (2) add administrative gloss to the tax law, and (3) fail to fully explain the tax law, including possible exceptions. While IRS simplifications often result in restatements of the

tax law that benefit the government, at other times they appear as recharacterizations that benefit taxpayers.

Our three measures of tax complexity may be expressed along a continuum, from government policy to tax filer (figure 1). Governments choose to favour a specific behaviour by introducing or removing a tax preference in a policy declaration such as a budget speech, which in turn will result in an expected tax expenditure. That tax preference must then be transformed into a law or regulation for it to be implemented. Tax filers interact with the law and legal framework through lines in the tax form and instructions in the tax booklet (administrative documents). Their efforts ultimately lead to tax compliance activities, which incur compliance costs.<sup>6</sup> The relationship among these actions and our indicators is influenced by government actions or policies that shift costs between administration and compliance.

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<sup>6</sup> Readers interested in the measurement of tax compliance costs are encouraged to see Speer et al. (2014) and Vaillancourt et al. (2013).

## Tax Complexity: Measurement for Canada

This section moves away from the conceptual framework and presents data for Canada (federally) on the three measures of tax complexity discussed above.<sup>7</sup>

### The evolution of Canadian tax expenditures since 1996

The number of federal personal income tax (PIT) tax expenditures increased from 111 to 146 from 1996<sup>8</sup> to 2016, representing a total growth of 32 percent (figure 2). The number of federal corporate income tax (CIT) tax expenditures increased from 66 to 76, representing a total growth of 15 percent, and the number of federal goods and services tax (GST) expenditures increased as well, but to a lesser degree (9 percent).

The number of tax expenditures may have little bearing on tax complexity if they touch few taxpayers, or if the dollar amounts involved are small. To address this multi-dimensionality, we look at the number of expenditures and the value of them, and where possible adjust by the number of affected taxpayers.

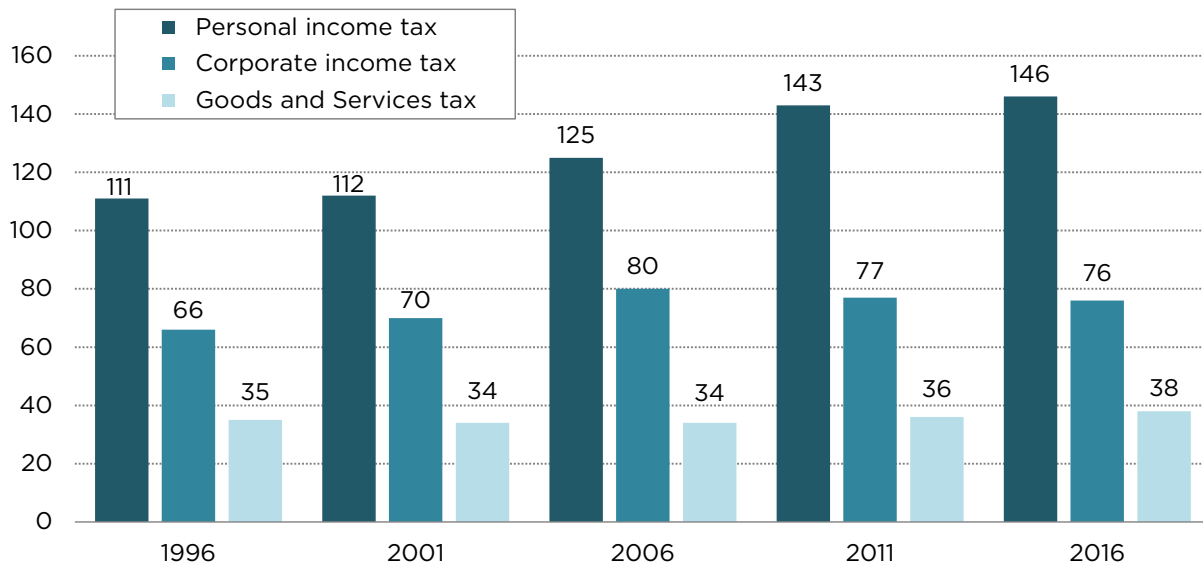
The value of federal PIT tax expenditures over the same 1996 to 2016 period (figure 3a) grew by 123 percent in nominal terms and 55

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<sup>7</sup> There are several other possible measures of tax complexity that the authors considered but ultimately excluded. This paper focuses on the most robust measures and those used in published studies.

<sup>8</sup> The starting year is dictated by data availability. Some tax expenditures shown in the federal Department of Finance's annual *Report on Federal Tax Expenditures* do not present an estimate of the foregone revenue. For instance, tax expenditures with an estimate under \$500,000 are reported as "s"; others do not show their costs for confidentiality reasons; and there are some circumstances where the data are not available to support a meaningful estimate. These cases were included in our calculation of the number of tax expenditures, and the numbers and dollar amounts of tax expenditures may not coincide with those of Vaillancourt et al. (2015, 2016).

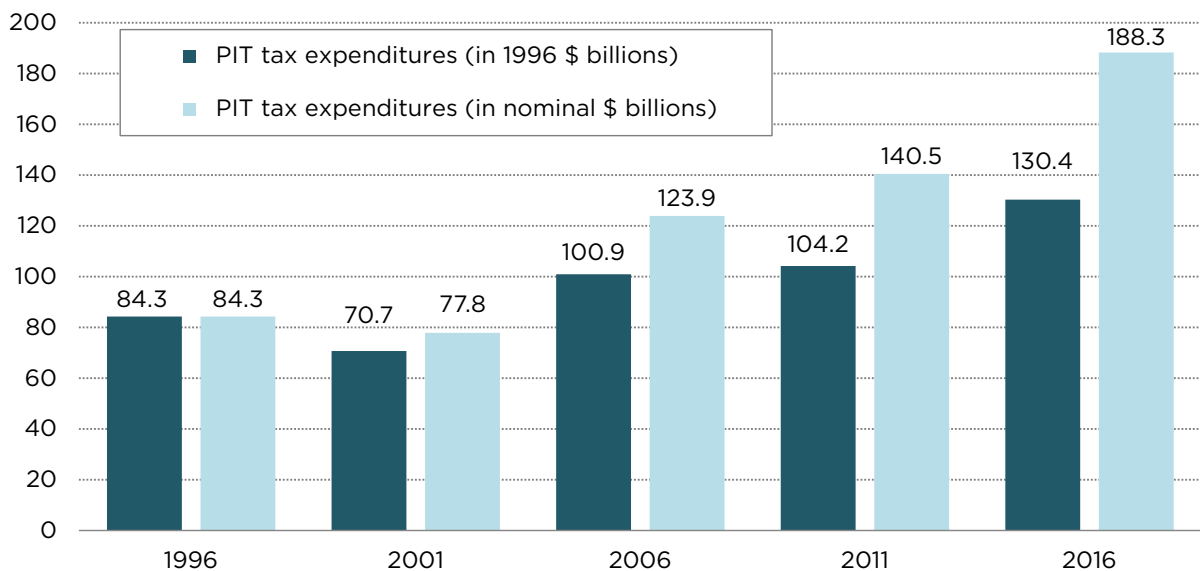
**Figure 2: Number of Federal Personal Income Tax and Corporate Income Tax Expenditures in Canada, selected years, 1996-2016**



Note: The number of tax expenditures has been revised from the 2015 edition of this paper.

Source: Canada, Department of Finance (various years).

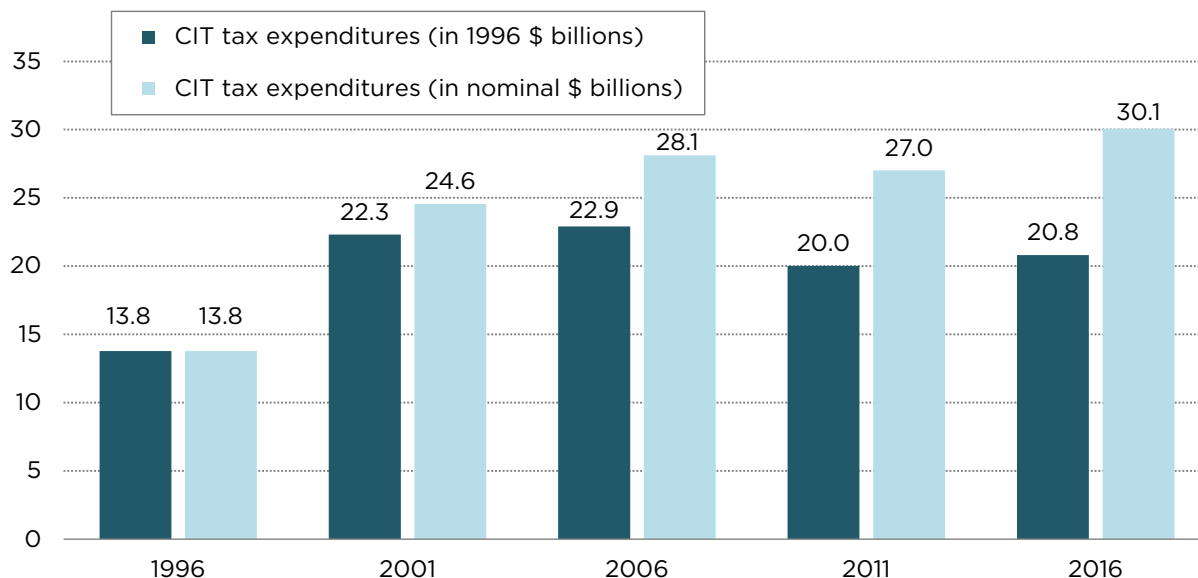
**Figure 3a: Value of Federal Personal Income Tax Expenditures in Canada (in billions of \$), selected years, 1996-2016**



Sources: Canada, Department of Finance (various years); Statistics Canada (2018).

Notes: The deflator used is the Canada-wide consumer price index (CPI) and the dollar amounts of PIT tax expenditures have been revised from the 2015 edition of this paper.

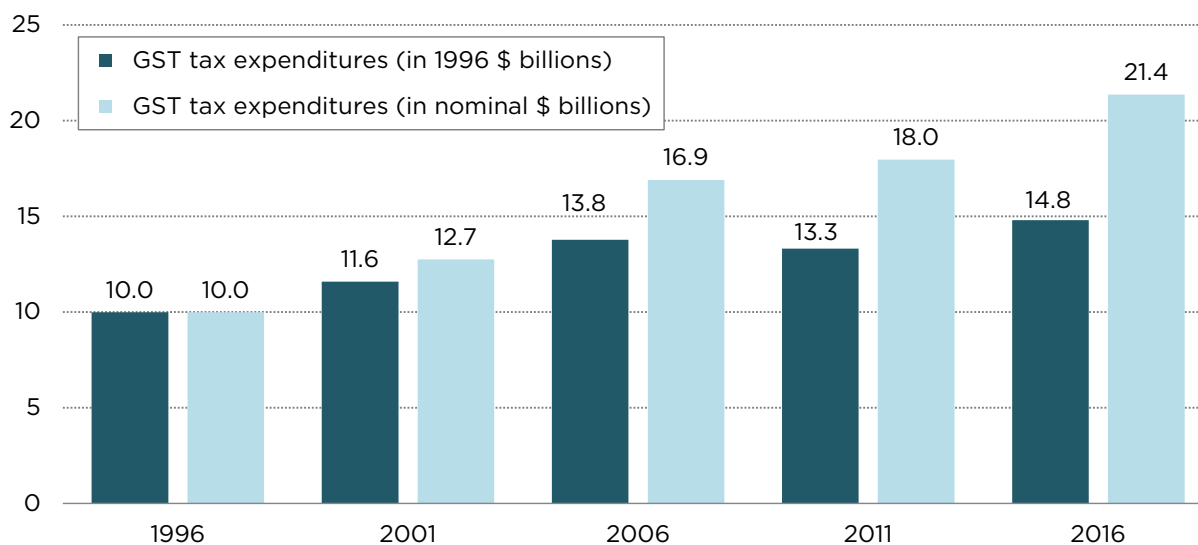
**Figure 3b: Value of Federal Corporate Income Tax Expenditures in Canada (in billions of \$), selected years, 1996-2016**



Sources: Canada, Department of Finance (various years); Statistics Canada (2018).

Notes: The deflator used is the Canada-wide consumer price index (CPI) and the dollar amounts of PIT tax expenditures have been revised from the 2015 edition of this paper.

**Figure 3c: Value of Federal GST Expenditures in Canada (in billions of \$), selected years, 1996-2016**

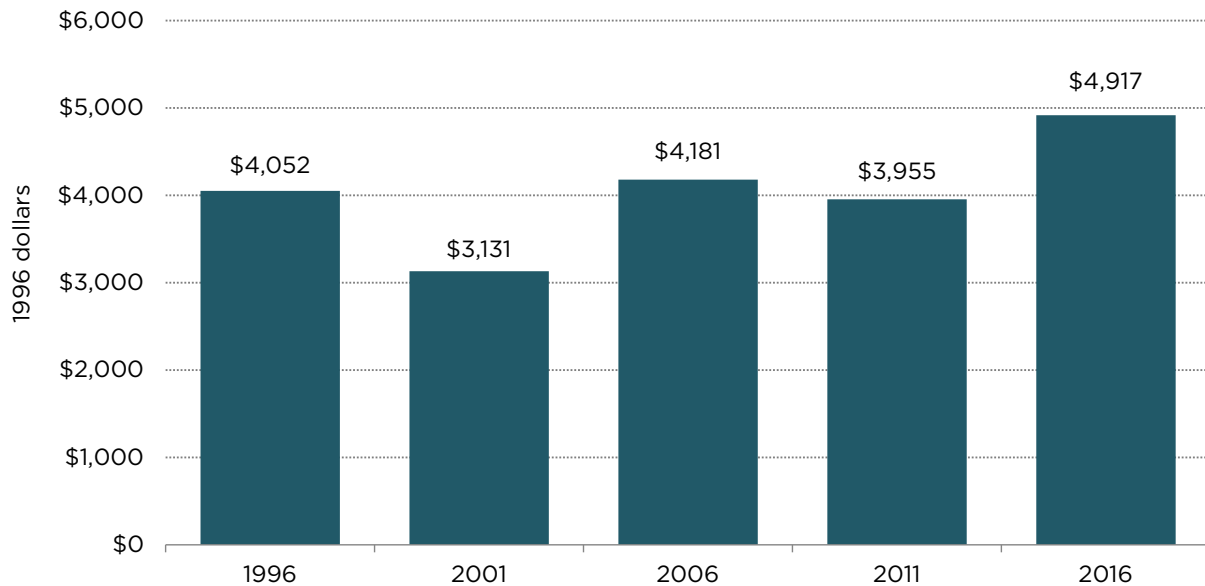


Sources: Canada, Department of Finance (various years); Statistics Canada (2018).

Notes: The deflator used is the Canada-wide consumer price index (CPI) and the dollar amounts of PIT tax expenditures have been revised from the 2015 edition of this paper.



**Figure 4: Federal Personal Income Tax Expenditures Per Tax Filer in Canada (inflation-adjusted), selected years, 1996-2016**



Sources: Figure 3; Canada Revenue Agency (2008, 2013, and 2018a).

percent in real terms. Corporate income tax expenditures grew 118 percent nominally and 51 percent after adjusting for inflation (figure 3b), and GST tax expenditures grew by 114 percent and 48 percent respectively (figure 3c).

To account for the extent to which a growing economy and population increases the value of personal income tax expenditures, we measure the inflation-adjusted value of federal PIT tax expenditures per tax filer (figure 4). Over the period, the number of filers increased from 20.8 million to 26.5 million, or 27 percent, but the inflation-adjusted value of PIT tax expenditures per tax filer also increased by 21 percent. Alongside growth in dollars of tax expenditure per tax filer is growth in dollars per tax expenditure and, as above, the number of personal tax expenditures, suggesting that the operational complexity of the federal tax system increased in Canada from 1996 through 2016.

## Canadian tax legislation

A second measure of tax complexity is the size of the federal *Income Tax Act*, including its associated regulations (table 1), which covers personal and corporate income taxes. We report data from 1990 to 2018 on the number of pages in the English language edition, the book's page size in

**Table 1: Page Count, Page Size, and Text Size of Federal Income Tax Act and Regulations, Canada, selected years, 1990-2018**

Year	Number of pages	Page size (cm <sup>2</sup> )	Text area (cm <sup>2</sup> )
1990	2,750	354	974,050
2004	3,098	456	1,413,617
2018	2,799	598	1,673,802

Note: Size of text is simply number of pages multiplied by page size. The years used represent a choice that takes into account availability of information and the use of a 14-year span.

Sources: Commerce Clearing House [CCH] (2018); calculations by authors.

square centimetres,<sup>9</sup> and the area the text takes up, also in square centimetres.<sup>10</sup> This may be expressed as an index capturing comparative changes in each variable (figure 5). By giving each variable an index value of 1.0 in the starting year (1990), we can more clearly see subsequent changes in relation to the initial year's value.

From 1990 to 2018, the text area, or overall space occupied by the *Income Tax Act* and regulations, grew from 974,050 cm<sup>2</sup> to 1,673,802 cm<sup>2</sup>, meaning that the text area increased by 72 percent. While the number of pages increased by 2 percent, page size increased from 354 cm<sup>2</sup> to 598 cm<sup>2</sup>, or 69 percent.<sup>11</sup>

## Administrative documents

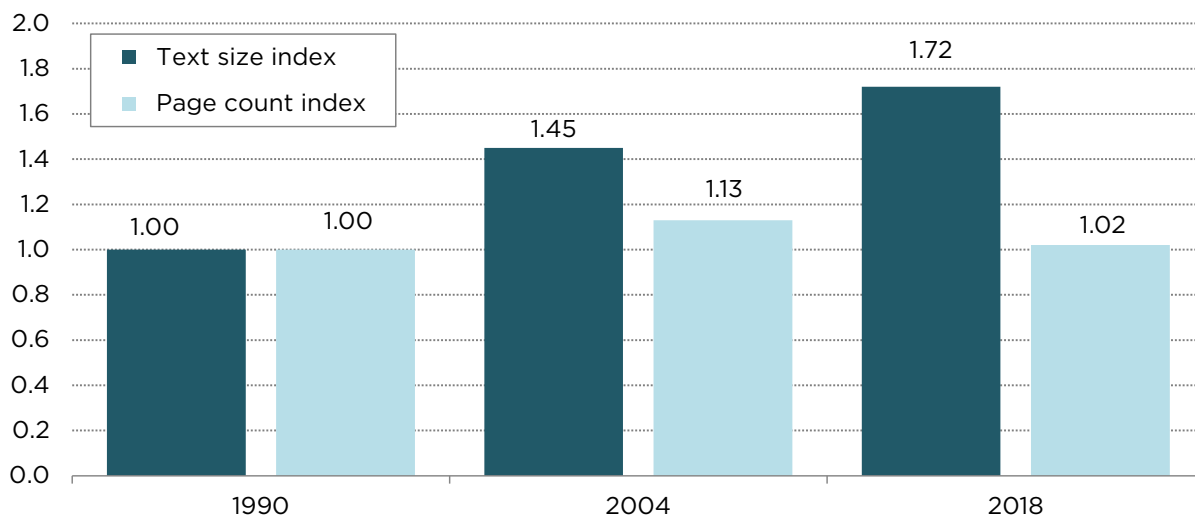
A third indicator of tax complexity is the length of the instructions required to complete a basic personal return. By way of example, the length of the federal personal income tax guide for Ontario, for selected years from 2001 to 2016, based on an unchanged portable document (PDF) size format increased from 48 to 78 pages, representing 63 percent growth over the period (figure 6).

<sup>9</sup> Adjusting page counts for size of page is necessary as the Commerce Clearing House print version format has changed over time.

<sup>10</sup> Text area is page count multiplied by the page size; the text area measures the area that the legislation would take up were we to lay out all the pages side by side.

<sup>11</sup> Word count calculations from the Canadian Taxpayers Federation show a similar increase, from about 800,000 words in 2005 to about 1,100,000 words in 2018 (see various years at <https://www.taxpayer.com/>).

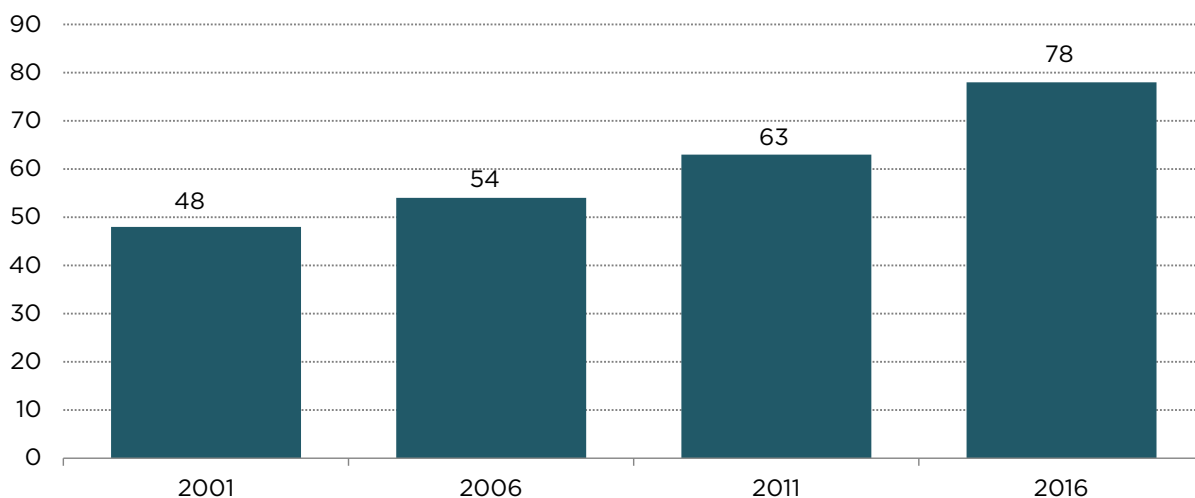
**Figure 5: Index of Page Count and Text Size of Federal Income Tax Act and Regulations (where 1.0 = index value in 1990), Canada, selected years, 1990-2018**



Note: The years used represent a choice that takes into account availability of information and the use of a 14-year span.

Sources: Commerce Clearing House [CCH] (2018); calculations by authors.

**Figure 6: Number of Pages in the Federal PIT Guide (for Ontario), selected years, 2001-2016**



Note: These values include all pages in the *General Income Tax and Benefit Guides*. If the miscellaneous pages were excluded, the number of pages would still show a substantial increase between 2001 and 2016.

Sources: Canada Revenue Agency (2001, 2006, 2011, 2016); calculation by authors.

## Tax Complexity, Policy Responses, and Electronic Filings

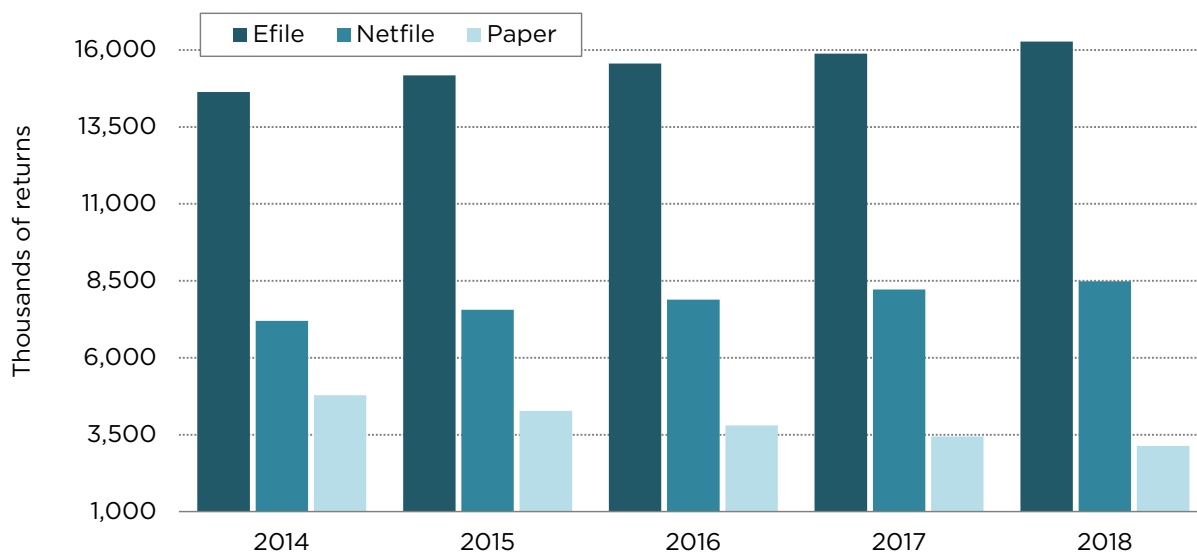
Governments can take steps to simplify the tax system through legislative policy choices. Removing a tax preference (a tax expenditure) is one example, and may often be the best route. Removing a preference eliminates an economic distortion and reduces the social costs of taxation, and it reduces the costs of compliance and assessment, freeing resources for some more productive activity.

More fundamental reforms can reduce operational complexity by reducing the incentive for taxpayers to shift or recharacterize income or expenses to reduce tax liability. Flattening of personal income tax rates across the income spectrum reduces the taxpayer's incentive to arbitrage, across tax years, the recognition of taxable income and deductible expenses, or to split small business income across family members. Steps to equalize the tax treatment of income from employment, interest, dividends, and capital gains would also reduce the rationale for tax planning, and with it the need for legislation and regulation to circumscribe it. In business taxation, treating payments and receipts of interest and dividends on an equal basis would also affect incentives and simplify filings, especially with respect to international taxation.

Barring fundamental reforms, governments may also change legislation by raising reporting thresholds, for example, so that fewer tax filers need claim a deduction or pay a tax, as in the recent US tax reform case discussed below. Such changes, if they affect many people, are likely to be quite costly to tax revenue. Further, following Ulph (2011), such changes do not necessarily reduce tax design complexity at all, but reduce the number of people who are exposed to it, and thus tax operational complexity.

Likewise, governments may also take administrative steps to reduce taxpayers' compliance burden, which also does not simplify the tax system, but eases and lowers the cost of compliance. For instance, a tax filer may not be required to submit completed forms or receipts to claim tuition credits or employment expenses, but may be asked to produce them at some later date if the revenue agency has questions.

**Figure 7: Total Number of Individual Income Tax Returns Processed, by Filing Method, 2014-2018**



Source: Canada Revenue Agency (2019b).

### E-File, Netfile, Paper, and Autofill

The biggest impact on apparent complexity and compliance costs in the past few decades is the increase in the range of personal and business tax form completion tools, coupled with the software's subsequent internet enablement. The software now allows most Canadian taxpayers to electronically complete all filing steps, from the collection of input data through to the receipt of a tax refund or payment of an amount due.

The change has been profound, and paper is disappearing as a tax filing mechanism (figure 7). The largest and growing filing mechanism in Canada is Efile, which allows authorized tax preparers and discounters to electronically file returns with the Canada Revenue Agency (CRA). This implies that the majority of Canadian individuals pay someone else to file their returns; the use of paid preparers has increased significantly over the decades: 39 percent of tax filers did so in 1986; 51 percent in 2007 (Vailancourt, 2010:2)

As paper filings have shrunk, the number and share of returns submitted through Netfile has also grown. Netfile allows taxpayers to file

**Table 2: Distribution of Individual Income Tax Returns 2015, by Age and Filing Method**

	<b>Efile</b>	<b>Netfile</b>	<b>Paper</b>
18 and under	57.5%	22.7%	19.8%
19–25	56.5%	33.1%	10.4%
26–64	56.6%	31.7%	11.7%
65 and older	60.3%	21.1%	18.7%
<b>Grand total</b>	<b>57.4%</b>	<b>29.3%</b>	<b>13.3%</b>

Source: Canada Revenue Agency (2018b).

their own returns electronically, using readily available internet-enabled tax preparation software. This requires some small degree of computer literacy and confidence, if not competence in understanding the requirements of the tax system and in supplying required input data for the tax form completion software. Tax filers aged 65 or older, as of 2015, are the least likely among age groups to use Netfile, and the most likely to use Efile (table 2).

The Canada Revenue Agency has its own complexity measure, not of the tax system but of a tax filing. An individual tax (T1) return is considered complex if it shows any positive gross self-employment, net partnership income, taxable dividends or capital gains, or taxable interest income above \$1,000. By this standard, the CRA considered 30 percent of individual returns in 2015 to be complex, the remainder being simple (table 3). A larger share of complex returns is dealt with through Efile rather than through Netfile.

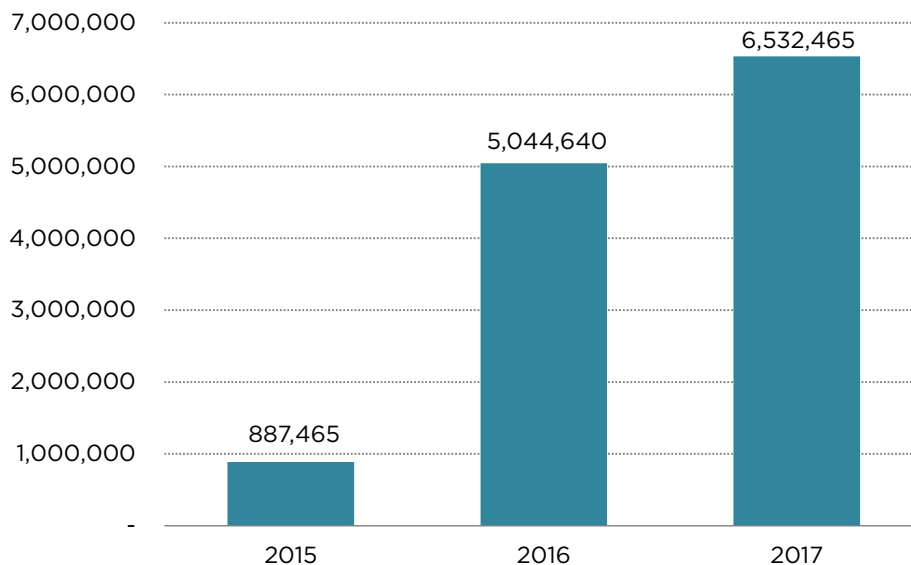
Slicing the universe of tax returns by income group, as in table 3, shows another pattern. In 2015, individual returns with a total assessed income of greater than \$100,000 were more likely to be considered complex than returns below that level. However, despite being complex, about a quarter of those returns were submitted through Netfile, meaning that the tax filers were confident in their capacities to supply required and appropriate data, and the tax preparation software and CRA systems were able to handle it.

As employers and other institutions file more linked electronic data with CRA, and more information slips are available for download and this is understood by tax filers, it would not be surprising to find that Netfile

**Table 3: Individual Income Tax Returns 2015, By Total Assessed Income Group, Filing Method and Complexity**

Income group	Efile	Netfile	Paper	Grand Total
\$100,000 and above	1,383,270	729,790	180,650	2,293,710
Of which: Complex	65.2%	43.4%	57.3%	57.6%
Of which: Simple	34.8%	56.6%	42.7%	42.4%
Between \$50,000 and \$99,999	3,523,810	2,217,010	618,700	6,359,520
Of which: Complex	43.9%	26.6%	34.7%	37.0%
Of which: Simple	56.1%	73.4%	65.3%	63.0%
Between \$25,000 and \$49,999	4,210,240	2,110,660	892,740	7,213,640
Of which: Complex	34.6%	20.8%	27.1%	29.6%
Of which: Simple	65.4%	79.2%	72.9%	70.4%
Less than \$25,000	6,039,390	2,680,030	1,817,320	10,536,740
Of which: Complex	23.9%	15.3%	19.2%	20.9%
Of which: Simple	76.1%	84.7%	80.8%	79.1%
Grand Total	15,156,710	7,737,490	3,509,410	26,403,610
Of which: Complex	35.3%	22.7%	25.9%	30.3%
Of which: Simple	64.7%	77.3%	74.1%	69.7%

Source: Canada Revenue Agency (2018b).

**Figure 8: Number of Autofill Users, By Tax Year**

Note: The numbers in this figure are unpublished and were obtained via an Access to Information Request to the Canada Revenue Agency.

Source: Canada Revenue Agency (2019a).

**Table 4: Percentage of Tax Filers Using Autofill in 2016, By Age Group**

Age	Percent of tax filers
Under 20	4.4%
20-29	20.7%
30-39	21.3%
40-49	20.3%
50-59	18.8%
60-69	18.2%
70-79	18.1%
Above 80	18.5%

Sources: Canada Revenue Agency (2018a, 2019a); calculations by authors.



will come to dominate filing methods. This will, however, be a result of simplifying compliance through electronic means; it does not address the underlying complexity of the tax system and will have an unknown impact on the capacity of taxpayers to understand the tax system.

Meanwhile, Canadian taxpayers have, since the 2015 tax year (calendar 2016), access to an Autofill option.<sup>12</sup> This means that after requesting and obtaining data access from CRA through the MyAccount password-protected service, tax filers may download information from income tax slips such as various T4s (earnings and benefits slips) T3, and T5 slips (capital income), and a few others.<sup>13</sup> Revenu Québec offers a similar service for the data it holds; there are some differences, for example in taxable earnings between the two tax administrations. We have obtained unpublished usage data from CRA through an access to information request.

The use of AutoFill went up sharply between the 2015 and 2016 tax years, and increased again for the 2017 tax year as figure 8 shows.<sup>14</sup> Except for very young tax filers, the take-up rate is of the order of 18 percent for all age groups (table 4); older taxpayers who often are reluctant to embrace new technology appear to be using this system, or at least are allowing their tax preparers to do so. Usage tends to rise with income (figure 9), and varies among provinces (figure 10). It is much lower in Quebec, most likely due to the availability of the similar service from Revenu Québec.

In 2017, the last tax year for which we have data, a total of 41.5 million slips were downloaded. T5008 slips, statements of securities transactions, account for 30 percent of all slips, followed by T4s (14 percent), TFSAs (11 percent), T3s and T5s (9 percent each), and RRSPs (6 percent). In total, these slips account for 79 percent of all slip downloads.

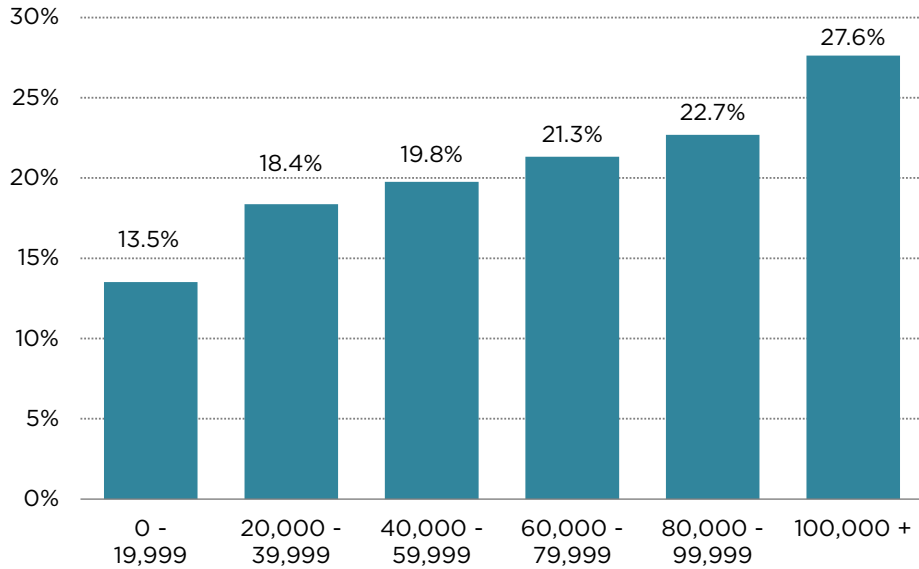
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<sup>12</sup> Tax professionals had experimental access to it for the 2014 tax year.

<sup>13</sup> For more information, see CRA (2019c).

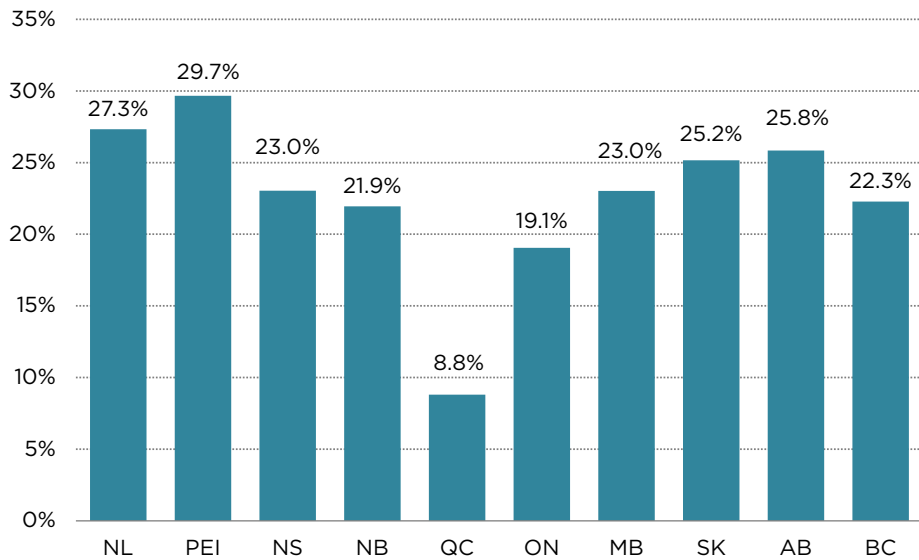
<sup>14</sup> According to data on the number of current-year returns processed (CRA, 2019b), the percentage of tax filers using AutoFill has gone from 3 percent for 2015 to 18 percent for 2016, and 23 percent for 2017.

**Figure 9: Percentage of Tax Filers Using Autofill in 2016, By Income Group**



Sources: Canada Revenue Agency (2018a, 2019a); calculations by authors.

**Figure 10: Percentage of Tax Filers Using Autofill in 2016, By Province**



Sources: Canada Revenue Agency (2018a, 2019a); calculations by authors.

## Observations from Other Jurisdictions

The United Kingdom organized its Office of Tax Simplification (OTS) in 2010, which is intended to give independent advice on simplifying the UK tax system. The OTS subsequently created a toolkit for evaluating tax complexity, but there is little evidence of a major impact on tax simplification.

The risks associated with simplification through compliance automation (such as with the UK's "Making Tax Digital" initiative) have been a focus of the OTS (Office of Tax Simplification, 2019). The key issue is that taxpayers lose touch with the mechanics of the tax system; easier filing may not make it easier to understand tax obligations and opportunities or to understand what is owed and why, especially when things go awry.<sup>15</sup>

In assessing the importance of such risks, one might ask if it is necessary that taxpayers understand the details of why their assessed tax liability is what it is and how that connects to their choices, and whether the compliance stage of taxation is the right point at which to explain it. On political economy grounds, the answer to the first question is yes, taxpayers should understand their tax liabilities and opportunities; on the second question we do not know the answer but do not see another obvious learning point.

In the United States, emphasis in recent years has been placed on deregulation and simplifying regulation. This effort does not much extend to tax legislation and regulation, and their recent major tax overhaul (Tax Cuts and Jobs Act of 2017 (United States Congress, December 22, 2017)) increased complexity for most businesses and some personal tax filers.

For millions of US taxpayers, however, the 2017 legislation significantly reduced the reporting burden. The most important route was through a large increase in the basic personal amounts and a cap on the amount of state and local taxes that taxpayers would otherwise have been

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<sup>15</sup> This point is recognized in Canada as well: "(T)he complexity of the tax system, low literacy and lack of access to available assistance are all barriers to tax filing among low-income individuals that can cause them to miss out on potential tax benefits," (Canada, Department of Finance, 2018).

eligible to deduct if itemized on individual tax returns.<sup>16</sup> With no reason to itemize deductions, tax filers do not make the compliance effort to do so, and the numbers of US taxpayers who do itemize may have dropped by almost 30 million; this should lead to an important reduction in compliance time and cost (Urban-Brookings Tax Policy Centre, 2018a). A concurrent increase in the income threshold above which the US's alternative minimum tax must be paid will remove the burden of the alternative minimum tax for about 5 million tax filers, although some percentage of those will nonetheless need to go through at least part of the calculation to establish their liability or lack thereof (Urban-Brookings Tax Policy Centre, 2018b).

Canada does not have a system whereby tax filers can elect to itemize or not, so some reforms that include simplifying features or policy choices that are available in the US do not apply in this country. However, ensuring that effective tax rates are identical or similar across income types, as mentioned above, would reduce the incentives for tax planning and lower the costs of compliance that are specifically driven by tax planning.

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<sup>16</sup> In the United States, taxpayers may claim either a standard deduction or itemize their deductions in arriving at taxable income. Deductions that might be itemized include medical expenses, property taxes, charitable contributions, mortgage interest within limits, and many others. The standard deduction is a flat-dollar deduction is based on the filing status of the taxpayer, depending on whether filing as a single individual, married, or head-of-household.

## Conclusion

Complexity in the structure of taxation, and in compliance with and the administration of taxation, is a multi-dimensional concept. If simplicity in tax is “ever sought after but ever elusive, always seemingly beyond reach,” (O’Riordan 2018), so too is a simple definition of complexity.

This paper uses three broad indicators to empirically measure tax complexity in Canada: tax expenditures, tax legislation, and tax guides. Each indicator measures a different aspect of tax complexity, which means that each indicator has its weaknesses and strengths. But all indicators clearly point to an increase in federal tax complexity between 1996 and 2016. Of particular note is the similar increase in all the indicators in recent years. From 2001 (or 2004) to 2016 (or 2018), the number of federal personal income tax expenditures increased 30 percent, the text area of tax legislation increased 18 percent, and the size of the federal PIT guide increased 63 percent. Bearing in mind the methodological issues noted above, we can conclude that tax complexity is increasing over time in Canada.

For tax filers, the recent popularity of personal and business tax form completion software, coupled with internet enablement and auto-fill capability, has simplified compliance. But while perhaps productive in reducing the time and cost of compliance, these changes do not address the underlying complexity of the tax system, nor necessarily help taxpayers in their understanding of the tax system.

Canada does not have the equivalent of the United Kingdom’s Office of Tax Simplification, federally or provincially, and has shown little concerted effort to reduce or simplify regulations. That means there is no systematic work under way to measure, let alone reduce, tax complexity in Canada.<sup>17</sup> This study is another addition to the work of Vaillancourt et al. (2015, 2016) in quantifying this complexity for Canada.

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<sup>17</sup> For an example of such work, see United Kingdom (2015b).

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## Acknowledgments

The authors would like to acknowledge the anonymous reviewers for their comments, suggestions, and insights on earlier editions of this report, Charles Lammam for his prior input, Milagros Palacios for project guidance, and Luc Godbout for his comments and advice. Any remaining errors or oversights are the sole responsibility of the authors. As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Directors of the Fraser Institute, the staff, or supporters.

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### Date of issue

April 2019

### ISBN

978-0-88975-549-9

### Citation

Finn Poschmann, François Vaillancourt, and Jake Fuss (2019). *Tax Complexity in 2019: Can It Be Tamed?* Fraser Institute. <http://www.fraserinstitute.org>.

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