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## **SELF-EMPLOYED TAXPAYER ATTITUDES ON PAYMENT OF DEBT AND COMPLIANCE - Summary-**

**Prepared for:  
Canada Revenue Agency  
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**Ce sommaire est aussi disponible en français.**

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## SUMMARY

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In 2009, the Canada Revenue Agency (CRA) conducted public opinion qualitative research with taxpayers that resulted in a report titled *Attitudes Towards Payment of Debt and Compliance*. The target groups for that research consisted of (a) taxpayers who had been late making a payment at the tax filing deadline, (b) taxpayers who paid tax by instalments and had paid instalment interest, and (c) late filers. The research identified a number of factors related to knowledge and attitudes about payment of debt and compliance. Subsequent research by the CRA on people who are noncompliant with income tax payment at the time of their initial assessment has shown that taxpayers with self-employment income are at higher risk of creating a debt on filing, as well as a higher risk of overall noncompliance.

To update the 2009 study the Canada Revenue Agency (CRA) has identified a need to understand the factors that influence specifically self-employed taxpayer's payment and filing compliance and their impact on accounts receivable. Those self-employed people who have been late making a payment at the tax filing deadline or late filing their tax return are the focus of this study.

The research objectives included:

- Obtaining greater in-depth understanding of the self-employed with positive tax at risk (i.e. typically owe money when filing their tax return), and explore what qualitative factors influence whether an individual will be compliant or noncompliant with the requirements to file on time and to pay their tax liability to the Government.
- Exploring the role the CRA website played as a source of information about late payment or late filing.
- Determining the efficacy of penalties and interest as this relates to filing a T1 return and paying balances due, and to determine what other factors (communications, payment arrangements, etc.) could influence whether and when people pay the taxes they owe the Government.

This research will help the CRA better understand the motivations of self-employed taxpayers regarding their tax debts, and the impact of the CRA's collections-related information efforts on the awareness and impressions of self-employed taxpayers about these matters, thereby aiding the Agency in developing strategies and communications to help Canadians voluntarily comply with their tax obligations.

Eight focus groups were conducted between February 2 to 10, 2017, in Halifax, Montreal, Toronto and Calgary. All participants met the following qualifications: (a) identified themselves as self-employed, (b) owed a tax payment at tax return filing time more than once in the past five years, and (c) have been charged interest on overdue taxes. About half the participants had filed a tax return late and been charged a penalty as a result.

This research was qualitative in nature, not quantitative. As such, the results provide an indication of participants' views about the topics explored, but cannot be statistically generalized to the full population. Qualitative research does, however, produce a richness and depth of response not readily available through other methods of research. It is the insight and direction provided by qualitative research that makes it an appropriate tool for exploring the factors that influence self-employed taxpayers' payment and filing compliance.

## KEY FINDINGS

- Main reasons for late filing are related to lack of money, lack of awareness, and/or amount of work involved/procrastination.
- Most of the time, late payments are due to lack of money.
- Many participants criticized the order of the two deadlines – one for payment (April 30) and another for filing (June 15).
- They consider the CRA's written communications to be clear.
- Majority of participants who called the CRA had a positive experience.
- Most of participants do not believe they can easily find the information that they need on the CRA website.

## LATE PAYMENT

Virtually all participants identified the most common reason self-employed people might be late paying income tax as being lack of money at the payment deadline. Other significant factors for some include lack of awareness of the payment deadline, waiting for the Notice of Assessment (NOA) before paying, and the availability of late payment options. Overall, the main factors were:

*Lack of money (#1 reason)*

*Not aware of the payment deadline date*

*Don't pay until receive the Notice of Assessment*

*Availability of late payment options*

**Lack of money:** Participants indicated that the nature of self-employment is such that there is a risk that there is a lack of money at the payment deadline. The frequently mentioned reasons for this included:

- Income fluctuates due to lack of steady work
- Cash flow problems related to collecting receivables
- Unplanned high priority expenses – both personal and business
- Do not set aside enough money during the year to pay the tax bill

When participants talked about lack of money as a reason for paying income tax late, they did not literally mean there was “no money.” Rather, what they meant is that there are other expenses that have higher priority for payment than income tax, and after covering those other expenses there is not enough money to pay the income tax bill.

The following are types of expenses that may be given higher priority than income tax, listed in rough order of priority based on comments from participants:

1. *Basic living expenses*
2. *Costs to keep the business running*
3. *GST/HST remittances*
4. *Debt that charges a higher rate of interest*

Virtually all participants ranked income tax below basic living expenses. Some participants ranked income tax just below basic living expenses, but the majority ranked keeping the business running ahead of paying income tax. Some also ranked income tax below either GST/HST remittances or debt that charges a higher rate of interest.

**Not aware of the income tax payment deadline:** A minority of participants were aware that, for self-employed people, the income tax payment deadline is April 30, and the tax filing deadline is June 15. Most participants were unsure about the exact dates. Compared to the actual April 30 deadline, participants were more likely to guess or believe that the payment deadline is sometime in or around June. It seems that people tended to assume that – as is the case with regular personal tax returns – tax filing and tax payment are linked. There was some awareness that self-employed people can file their tax return in June, and this appears to lead to an assumption that the payment deadline is also in June.

**Don't pay until receive the Notice of Assessment:** Some participants mentioned they do not pay income tax owing until they receive their Notice of Assessment (NOA) from the CRA. However, if someone files close to April 30, or certainly if they file after April 30 – as self-employed people are allowed to do, the CRA would then treat it as late payment of income tax.

**Availability of late payment options:** The CRA allows people to set up a payment plan to pay taxes owing, together with any interest that accrues throughout the duration of the payment plan. Participant input indicated that late payment options can cause late payment in two different ways:

- If the taxpayer is not aware that there are late payment options and is unable to pay, they may avoid contacting the CRA because of fear of being pressured to pay the full amount right away
- If the taxpayer is aware of the option to set up a payment plan, they may find setting up a payment plan preferable to paying all at once – i.e. it enables dropping payment of income tax to a lower priority relative to payment of other, higher priority expenses.

## REASONS FOR PAYING ON TIME

The fundamental value mentioned by participants for filing on time is that “paying your debts is the right thing to do.” They perceived themselves to be law-abiding, responsible citizens, and paying one’s debts is part of that.

In addition, participants cited both avoiding interest charges and future attention from the CRA as reasons for paying on time:

- *Avoiding interest charges:* Actual knowledge of the interest charged by the CRA was rather low. So, while “avoiding interest charges” is given as a reason for paying on time, this rationale is often not accompanied by a concrete understanding of what those charges are likely to be.
- *Avoiding future attention from the CRA:* This tended to be perceived as a stronger reason to pay income tax on time. It’s better not to pay interest, but once it’s paid the matter is done. However, failure to pay is perceived to potentially be used by the CRA to flag a business for closer attention in the future. This is perceived to be a more open-ended liability, and not something one can easily make go away.

When asked if they were aware of the financial consequences of late payment the first time they were late, some participants knew, but the majority said they did not know the specific consequences. They were aware there would be financial consequences, but they did not know the actual interest rate and most did not attempt to find out. Generally, if a person was going to do something to deal with not paying income tax, they were unlikely to research this on their own, and more likely to call the CRA directly to work out how to handle the situation.

## LATE FILING

The main reasons participants gave for why a self-employed person might be late filing were:

*Lack of money to pay the tax owing*

*Lack of awareness of the late filing penalty*

*Amount of work involved/Procrastination*

***Lack of money to pay the tax owing:*** This was a frequently cited reason for late filing. The person chooses not to file until they can pay the amount owing in order to avoid both internal stress (“out of sight, out of mind”) and the external stress of potentially receiving follow-up contact from the CRA to pay the amount owing.

***Lack of awareness of the late filing penalty:*** Many participants were either not aware there is a late filing penalty, or assumed there is a penalty of some sort but were unable to provide details. When subsequently informed of the penalties for late filing and repeated late filing, participants were surprised at how large the penalties are.

***Amount of work involved/Procrastination:*** Some participants said that doing the tax return takes a lot of time, particularly for self-employed people who cannot afford to pay someone to do it. It is also not an enjoyable activity, and this combined with the level of work required can result in putting off tax return preparation until it is too late to meet the filing deadline.

## CRA WEBSITE

Only a small number of participants went to the CRA website to get information related to late payment or late filing. Most had not looked for this information on the CRA website.

The reasons given for not going to the CRA website for this purpose included:

- *They prefer to call the CRA to work out a payment plan:* Participants did not think they could do this on the CRA website, and as a result did not see value in going to the CRA website.
- *They perceive the CRA website to be difficult to navigate and understand:* This perception should be interpreted cautiously. Most participants did not actually try to get any information related to late payment or late filing from the website, so the negative attitude is based more on prior beliefs or some experience in the past than on specific experience with the current website on this topic.
- *They rely on accountant/bookkeeper for information*
- *Not worth the effort – “it is what it is”:* Some participants said they would have to pay whatever interest and penalties the CRA might charge, and there is nothing they can do about this. Given this, they did not feel that it was worth the effort to research what these amounts might be. They prefer to wait and see what the amount is, and then pay it if they can.

## CRA COMMUNICATIONS

***Written communications:*** Participants were asked for their recollection of the ease of understanding any written communications they received from the CRA associated with late payment. The specific letters cannot be identified with certainty, but mostly they appear to be reminder and/or statement of account letters that stated the amount owing.

Almost all participants said the letters were clear: it was clear that they were being told they had an amount owing, the amount they owed was clear, and often they said it showed the interest

charges. Most had no suggestions for changes to these letters, and overall it appears the letters communicate the key intended information.

**Telephone communications:** The majority of participants called the CRA to work out a payment arrangement. These participants said this was a positive experience (with the exception of complaints about busy signals and wait time). They were able to work out an acceptable payment arrangement, and they said the CRA agent was helpful and neither accusatory or threatening.

In the 2009 study, it was found that a majority of participants calling to make payment arrangements were satisfied with the experience. However, as noted in the report there were also some “who said it was a bit of a struggle either to find an agent willing to discuss alternative payment arrangements or to convince an agent to accept an alternative arrangement.” Our impression is that in this 2017 study participants’ comments on the telephone service were more consistently and strongly positive than in 2009. Because both the 2009 study and the current study are qualitative studies, it is not possible to say with certainty whether there has been a change in the telephone experience. However, the results do suggest a hypothesis that callers’ experiences have become even more positive since 2009.

## REACTIONS TO DESCRIPTION OF INTEREST AND PENALTY CHARGES

Participants reviewed a handout that described the interest and penalties associated with late payment and late filing. There were strong reactions to the following components of the handout:

*Difference between payment deadline and filing deadline*

*Late filing penalties*

*“5% compound daily interest”*

**Difference between payment deadline and filing deadline:** Quite a few participants were surprised to learn from the handout that the payment deadline is April 30, and comes before the filing deadline of June 15. This reaction confirms that lack of awareness of the payment deadline is a cause of late payment.

Many participants criticized the order of the two deadlines, basically saying that it made no sense to them that one has to pay before one even knows how much one owes. This resulted in two alternative suggested changes – either make the filing and payment date the same, or reverse the two dates such that the filing deadline is April 30 and the payment deadline is June 15. The latter was the more frequent suggestion.

**Late filing penalties:** Most participants perceived the late filing penalty, and especially the repeated late filing penalty, to be large. Some participants were not previously aware there is a late filing penalty, and virtually none were aware there is a higher penalty for repeated late filing. While some participants said they knew or assumed there is some sort of penalty for filing late, they did not expect the penalty to be this large. Many participants said the impact of reading the handout was that they would be more careful to file by the deadline even if they are still unable to pay the amount owing.

**“5% compound daily interest”:** The perceived magnitude of this interest rate was polarized: either it was seen as a reasonable interest rate, or it was seen as a very high interest rate. The issue is a person’s understanding of the impact of “compound daily interest”: some had an accurate understanding, while others thought it meant an annual interest rate much higher than 5%.

## LIMITATIONS AND ADVANTAGES OF QUALITATIVE RESEARCH

It is important to note that this research was qualitative in nature, not quantitative. As such, the results provide an indication of participants' views about the topics explored, but cannot be statistically generalized to the full population.

Qualitative research does, however, produce a richness and depth of response not readily available through other methods of research. It is the insight and direction provided by qualitative research that makes it an appropriate tool for exploring the topics included in this research.

**TOTAL CONTRACT VALUE:** \$59,999.61 (HST included)

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