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Quantitative and Qualitative Research on Tax Scheme Promoters

Executive Summary

Prepared for the Canada Revenue Agency

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This public opinion research report presents the results of an online survey and focus groups conducted by Earncliffe Strategy Group on behalf of the Canada Revenue Agency. The research was conducted in February 2019.

Cette publication est aussi disponible en français sous le titre : Recherche quantitative et qualitative sur les promoteurs de stratagèmes fiscaux.

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EXECUTIVE SUMMARY

Earnscliffe Strategy Group (Earnscliffe) is pleased to present this report to the Canada Revenue Agency (CRA or The Agency) summarizing the results of the quantitative and qualitative research conducted to help the CRA better understand the issue of tax schemes.

Tax schemes and plans aim to deceive taxpayers by promising to reduce the taxes they owe and are often positioned to appear as legitimate financial products or business opportunities. They are directly advertised to Canadians through direct mail and social media and seem “too good to be true”. Promoters (individuals or corporations) who sell these schemes seek to break or bend the Canadian tax laws, deliberately making false claims to assist their clients in tax cheating, all while obtaining a financial benefit for themselves and their clients.

Research was required to help the CRA address the issue of tax schemes, develop strategies to combat tax avoidance and investigate the effectiveness of current promoter compliance measures, tools, and initiatives. More specifically, this study investigated taxpayers’ awareness and expectations of the Promoter Compliance Program. The CRA believes its ability to communicate about this program and its results in the detection and correction of promoter non-compliance will have an impact on future compliance.

Feedback from this research will help the CRA develop relevant and meaningful communication material with the goal of increasing awareness of tax schemes in general and to enhance the CRA’s Promoter Compliance Program. This study will also help to determine the effectiveness of other compliance tools, measures and initiatives, including Dedicated Promoter Auditors, Tax Alerts and public education ad campaigns. The total cost to conduct this research was \$73,413.03 including HST.

To meet these objectives, Earnscliffe conducted a two-part research program.

The research began with the quantitative phase, an online survey of 1,005 Canadians aged 18 years or older. The survey was conducted using our quantitative subcontractor, Leger’s online proprietary panel. The research was conducted from February 4-10, 2019 and the survey took respondents an average of 13 minutes to complete. The data was weighted by age, gender and region.

Following the survey, we conducted a qualitative phase involving a series of six focus groups with two segments of the Canadian population: those with a household income of less than \$150,000 and those with a household income of \$150,000 or more. The sessions were conducted in: Toronto (February 26); Montreal (February 27); and, Vancouver (February 28). The groups in Montreal were conducted in French.

It is important to note that qualitative research is a form of scientific, social, policy and public opinion research. Focus group research is not designed to help a group reach a consensus or to make decisions, but rather to elicit the full range of ideas, attitudes, experiences and opinions of a selected sample of participants on a defined topic. Because of the small numbers involved the participants cannot be expected to be thoroughly representative in a statistical sense of the larger population from which they are drawn and findings cannot reliably be generalized beyond their number.

Current Behaviours Related to Taxes

- **Almost all respondents (91%) have sought advice from someone when it comes to ensuring they pay no more federal tax than necessary. Family and friends are the most common source of tax information or advice (63% have relied on them), followed by the CRA (57%).**
 - Fewer have relied on accounting firms (48%), their own financial institution or bank (49%) or a person/firm focused on tax preparation or reduction (49%).
 - Under half have relied on a financial planner (40%), though both the quantitative and qualitative research suggest that higher income individuals are more likely to have done so.
- **Over half (56%) have paid someone else to help them prepare or find ways to reduce their taxes.**
 - Both the qualitative and quantitative research found that higher income individuals were more likely to rely on a professional to help them with their taxes. Those who had sought professional help explained that having a professional deal with their taxes, which can be complicated, was reassuring.
- **Over half of respondents would rely on the sources of information about taxes that they have used in the past, with the exception of news media (39% would rely on media as a source again).**
- Respondents believe that they are more knowledgeable about determining the taxes they owe (63%) than minimizing the taxes they owe (49%).
 - Over two-thirds (68%) are concerned about paying more in federal taxes than they have to.

Impressions of Tax Schemes

- **Awareness and familiarity with tax schemes is low. Few (14%) clearly recall hearing about financial products or opportunities aimed at helping them reduce the amount of federal tax they pay.**
 - Few survey respondents are very confident (13%) in their ability to recognize an illegal scheme, but over three-quarters (77%) are confident that they have not been invited to participate in one.
 - Most participants in the focus groups were not even familiar with the term “tax schemes” and not all felt the term connoted something negative. Their interpretation largely depended on the language they speak and where they are from. For example, most English-speaking participants tended to view the term negative in its connotation, as in “fraud”, “tax evasion”, “scam”, “illegal”, etc; although, some from other English-speaking parts of the world did view the term positively, as in “strategy”, “plan”, etc. Conversely, French speakers likened the term “stratagème fiscal” to: “optimization”, “maximization”, and, “planning”.
- **Almost two-thirds of survey respondents would be interested in hearing about tax reduction opportunities, but most (80%) would be skeptical or at least unsure of an offer to buy a financial product or make an investment that could reduce their federal taxes.**
 - Participants in the focus groups echoed this hesitation. When provided with an example, they indicated that they were generally skeptical of anything that looks too good to be true. Language such as “guaranteed”, “we do all the work”, “the numbers speak for themselves” and the financials all contributed to their skepticism.

- **Large majorities agree it is important everyone pays their fair share of taxes (84%), but also that it is acceptable to do what one can to legally reduce taxes owed (77%).** Most respondents hold both views concurrently - 83% of those who agree it is important everyone pays their fair share of taxes also agree people should be allowed to do whatever is possible within the confines of the law to reduce their taxes.
- **The quantitative research indicated that respondents have confidence in the CRA to notice when someone is trying to get away with a tax scheme (70% agree) and that penalties are severe (78%).**
 - The discussion groups added nuance to this finding – participants felt it is likely easier for the CRA to catch participants in an illegal tax scheme than apprehend the individuals running the operation.
 - Participants were fairly comfortable with the consequences facing those who knowingly choose to participate in or promote a tax scheme. However, there was a clear sense that the severity of the repercussions should be dependent on their prior knowledge/understanding of their crime.
- Most respondents like to keep their taxes as simple as possible (80%) and almost two-thirds (63%) expect the ways to minimize their taxes are probably complicated.
 - However, the assumption that these methods may be complicated is not a deterrent to hearing more about them – three-quarters of respondents (76%) are always willing to hear about the ways they can minimize the federal taxes they pay.
- Opinion is more divided when it comes to determining whether a product or business opportunity to help reduce federal taxes is too good to be true. **While the plurality (46%) agree the offer may be too good to be true, 36% neither agree nor disagree, and 12% disagree.**
 - Respondents are also split over their confidence in knowing what they are and are not allowed to do to reduce the amount of federal tax that they owe. The plurality (42%) agree that they are confident, but 23% disagree, and 29% neither agree nor disagree.

Testing Video Messages & Alerts

- **Response to all three videos tested in the quantitative phase was overall positive. The majority provided a favourable assessment of each video, found them easy to understand and the messages helpful.**
 - One of the videos was also shown to focus group participants, who provided similarly positive reviews. They described the video as simple, direct, credible and effective at communicating the main messages: to be aware of tax schemes; to get a second opinion; and, for more information about tax schemes, to go to the Government of Canada's, the CRA's website, specifically.
 - After seeing the videos, over half of survey respondents (61%) were more confident in their ability to recognize illegal tax schemes, including among those who were previously not confident in their ability to do so (60%).
- Focus group participants were shown an additional video about the CRA's criminal investigations program. Reactions were mixed but leaned negative.
 - The most troubling aspect seemed to be tied to the production value of the video – it was described as “corny”, “outdated”, and “melodramatic” which caused most to question its credibility.
 - Most found the message contradictory and unclear. Participants questioned to whom the ad was directed – was it directed at Canadians to encourage whistle blower behaviour or was it directed at tax scheme promoters to advise them of the legal ramifications associated with their behaviour?

- Reactions to the alerts tested in the focus groups were overwhelmingly positive. Participants felt that the information was clear, easy to understand, well-presented, and credible. Most really appreciated the examples of tax schemes and felt it was appropriate and important for the CRA to alert Canadians.
 - Some questioned how they would receive these alerts. If only available on the website, many worried they would not see them. As a result, there were suggestions that the CRA’s homepage should feature alerts prominently but that it may also be good to email them or release them to the media or include them with tax forms and tax filing software.

CRA Communications

- The CRA is widely viewed as credible and the appropriate source to communicate with Canadians about tax schemes. Over half of respondents say the Agency is very credible (53%) while a third say it is somewhat credible. Almost three-quarters (73%) feel education from the CRA about tax schemes is very appropriate.
- When asked how they would prefer the CRA communicate with them about tax schemes, those in the lower income focus groups preferred traditional forms of communication (i.e. TV, radio, public transportation) and social media. Those in the higher income groups preferred more direct contact (i.e., mail, email) which they felt was more official because the CRA could use identifiable information that they would see as legitimate.
- There was a sense among participants that connecting with new Canadians needs to be deliberate and targeted. Communications should also be in the target population’s language. Respondents suggested that reaching out to local community centres (including post offices, libraries) and community groups could be more effective.

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Statement of Political Neutrality

I hereby certify as a Representative of Earnscliffe Strategy Group that the final deliverables fully comply with the Government of Canada political neutrality requirements outlined in the Communications Policy of the Government of Canada and Procedures for Planning and Contracting Public Opinion Research. Specifically, the deliverables do not include information on electoral voting intentions, political party preferences, standings with the electorate or ratings of the performance of a political party or its leaders.

Signed:



Date: March 13, 2019

Stephanie Constable
Principal, Earnscliffe