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Enforcement Letter Qualitative Research

Executive Summary

Prepared for the Canada Revenue Agency

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Canada 

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November 2019

The Canada Revenue Agency (CRA) commissioned Sage Research Corporation to conduct a qualitative public opinion research study on reactions to various letters and messaging intended to encourage filing by a person or business that has not filed a tax return. The CRA will use this research to review its policies, procedures, and communication to the non-filer target audience. Eight focus groups were conducted between August 22 and August 29, 2019, with two groups in each of Vancouver, Calgary, Toronto and Montreal. Four focus groups were conducted with individual non-filers for the 2017 tax year, and four focus groups with small business corporation non-filers for the 2017 tax year.

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The Canada Revenue Agency (CRA) commissioned Sage Research Corporation to conduct a qualitative public opinion research study regarding reactions to various letters intended to encourage filing by a person or business that has not filed a tax return. The CRA has found that its series of letters and notices sent to non-filers have different rates of compliance, and would like to get a better understanding of why first filing notices and subsequent follow-up rates differ.

One purpose of the research was to get feedback from non-filers on automated letter verses (TX-11, TX-14 and TX-14D notices) that are sent to non-filers to encourage filing compliance. The research also obtained feedback on some customized non-filer letters that might be sent by CRA agents, and on message concepts to encourage filing that might be used on social media and other venues.

The research objectives included exploring the following:

- Participant reactions to receiving correspondence from the CRA, and their understanding of filing requirements, and how the CRA might communicate these requirements to them outside of written correspondence,
- Participant reactions to various letters, regarding clarity, anything unclear or confusing, perceived impact of various elements in the letter on likelihood of filing, tone, suggestions for changes to automated letters (TX-11 “reminder” letter, and follow-up “request”/“demand” TX-14 and TX-14D letters) and select customized letters,
- Testing a variety of messaging that could help motivate compliance

The research will help the CRA understand why some individuals and small businesses do not respond to initial requests to file and how best to notify them to do so in a way that motivates voluntary (if late) compliance. The CRA will use this research to review its policies, procedures, and communication to non-filers. It will help to determine what changes can be made to increase the rate of compliance among non-filers in response to a letter before the CRA engages in more costly compliance activities.

Eight focus groups were conducted between August 22 and August 29, 2019, with two groups in each of Vancouver, Calgary, Toronto and Montreal. Four focus groups were conducted with Individual non-filers for the 2017 tax year, and four focus groups with Small Business corporation non-filers for the 2017 tax year.

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 represent 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 participants’ opinions and their reactions to the communication materials.

Tax Filing: Knowledge and Opinions

Awareness of the tax return filing due date: The majority of Small Business participants knew that Corporate tax returns are due six months after the fiscal year-end, and almost all Individual participants knew that the filing deadline for an Individual tax return is April 30.

Perceived circumstances that do not require a tax return to be filed: Almost all Small Business participants said they thought corporations always had to file a tax return. Among Individual participants there were mixed responses: some said they did not know if there were any circumstances when an individual is not required to file a tax return. Some participants stated they believed everyone is required to file, and some participants stated that no return is required if the person does not owe any tax amount.

Perception of prevalence of late filing: In both target groups, most participants felt late filing was quite to very common, essentially substantially overestimating the prevalence of late filing. It should be kept in mind that all of the participants were themselves late filers, suggesting they may have been projecting their own behaviour/experience onto the larger population.

Circumstances resulting in a return not being filed on time: Among Small Business participants, a frequent theme in participants' responses is that the business owner is busy and focused on the success of the business, with the result that the business may not be able to file the corporate return on time. In this rationale, the business has not deliberately decided to avoid filing for tax-related reasons; rather, the failure to file by the deadline is a result of lack of timely preparation. Some participants said new businesses may not understand what their tax filing obligations are, and/or what they need to do to be in position to file a return on time.

There were two circumstances mentioned in which a business deliberately decides not to file a tax return for tax-related reasons:

- The more common one was that the business owes tax, but does not have the money to pay the amount owed. Not filing a return can be perceived as a way of avoiding attracting the attention of the CRA.
- Another circumstance several mentioned is that the business does not have any outstanding tax owing at the filing deadline. The business owner may think that in this circumstance there is no penalty or interest associated with not filing, or that the amount would be small and therefore not a priority.

Among Individual participants, the two most common reasons mentioned for not filing by the deadline were:

- The person has outstanding tax owing, but does not have the money to pay.
- Preparing a tax return can be difficult or expensive.

Other ways to communicate filing requirements: Participants had difficulty coming up with ideas, but some suggestions included:

- Some Small Business participants said a mobile app could be useful. For example, one participant said the app could show the status of their CRA account, and give reminders on due dates.
- Some suggested providing courses or information on tax filing in schools or online courses.
- A few Individual participants suggested attaching some information about tax filing to T4 slips.

CRA Envelope

Letters sent by the CRA to individuals and businesses typically come in a brown envelope, with the Canada Revenue Agency identified as the sender. Participants were asked why a person or business receiving a letter from the CRA might not open it.

Among both Individual and Small Business participants, the primary reason mentioned for not opening the letter was avoidance of suspected stressful content. By not opening and reading the letter, psychological distress is reduced. A specific stressful scenario often mentioned was a recipient who knows they owe money to the CRA, but also knows they are unable to pay.

Participants were asked if they had any suggestions to address reluctance to open an envelope from the CRA. There were two sorts of suggestions for changes to the envelope: (1) to change the colour of envelope to a more “friendly” colour or to colour code envelopes based on the content, and (2) to write something on the outside of the envelope that is in some way pertinent to the contents. The benefits and challenges of these suggestions were further discussed.

TX Letters

Participants viewed and discussed three TX letters in the following order:

1. TX-11 “reminder” letter: Person or business has not filed a tax return, and receives this letter
2. TX-14 “request” letter: After receiving the TX-11 letter, the person or business has still not filed a tax return
3. TX-14D “demand” letter: The person or business had been charged a penalty for late filing in a previous year, and still has not filed after receiving the TX-11 letter

Individual participants were shown the T1 versions of these letters, and Small Business participants were shown the T2 versions.

Because of similarities in verses and structure, there are results that are common across some of the different letters and some that apply across the two target groups (Individuals and Small Business). Due to the similarities across letters, the summary below is organized by topic rather than by letter.

Overall impact: All of the TX letters clearly convey that they are about encouraging the recipient to file a tax return, however they differ in perceived likelihood of motivating filing:

- The TX-11 is perceived to have some likelihood to motivate filing, primarily as a result of the perceived “gentle” penalties and interest reminder.
- The TX-14 letter is perceived to be more likely to motivate filing than the TX-11 letter, because of the addition of a 30 day deadline for filing, and a statement that the CRA may assess the tax payable.
- The TX-14D letter was perceived by a majority of participants in both target groups to be more forceful than the TX-14 letter, particularly because of several uses of the word “demand” (“*demande formelle*” in French), and also the use of the word “*must*” in bold font. Some participants suggested the TX-14D letter replace the TX-14 letter.

All TX letters – Penalties and interest: This was perceived to be a motivating element. However, some participants commented that if the recipient thinks they do not owe any tax, the impact of the section can be considerably reduced. This is because the verse notes that penalties and interest are contingent on owing tax.

All TX letters – Revise the order of the verses: Quite a few participants in both target groups suggested the impact of all of the TX letters could be increased by revising the order of the verses. Basically, the suggestion was that the clarity and impact of the letters could be improved by focusing the first part of the letter on the purpose of the letter and the consequences of not filing, and putting the “information” portions of the letter after this. In the current letters, there are some “information” sections in between the statement of purpose and some statements of the consequences of not filing.

All TX letters, but particularly TX-11 – Should offer help: Many participants in both target groups suggested the TX-11 letter should offer help to the recipient. As currently worded, the letter is not perceived to offer help. The premise behind the suggestion is the view that often the reason for not filing is circumstantial, and not based on the determination to avoid filing. In terms of the type of help a recipient might want, help working out how to pay an amount owing was often mentioned, and some talked about difficulty with preparing a tax return. The overall suggestion was for the letter to convey that the CRA will work with and help the recipient to address their reasons for not filing. This suggestion was also made to some extent for the TX-14 and TX-14D letters, but participants also noted that these subsequent letters should have a “tougher” tone.

All TX letters – Clarify *Call us at*: Some participants in both target groups said the CRA’s intent behind saying *Call us at* is unclear: the comment was, “why would I call?” Some also said it is confusing as to whether or not this is a command to the recipient – i.e. that they must call. Participants suggested this be revised to clarify why or under what circumstances a recipient would call the CRA.

T1 TX-11 & TX-14 – Filing a tax return is key to getting your benefits and credits: Almost none of the participants in the Individuals focus groups spontaneously mentioned this as encouraging a person to file. Part of the issue is that the reference to *benefits and credits* may be too abstract, as some participants suggested that the impact could be increased by giving examples. A few participants were skeptical that a person getting the TX-11 would actually receive benefits, because

of an assumption they were sent the letter because they owe tax, and/or the amount owing might be greater than any benefits or credits they may be entitled to.

T2 TX letters - *Our online services make it faster and easier to handle your company's tax matters:*

Several participants said they thought this is essentially an over-promise, and can make preparing a tax return seem easier and faster than it really is. The concern was that this could lead a business facing a filing deadline to put off doing the preparation until it is too late to meet the deadline.

TX-14 & TX-14D – Impact of a second letter: Quite a few participants in both target groups said the fact the CRA has sent a second letter requesting filing is impactful and conveys to the recipient that the CRA is serious about wanting the person or business to file a return. In this regard, it was often suggested that the letter should explicitly state that it is a “second letter”, because (a) some may have forgotten the first TX-11 letter by the time they receive the TX-14 letter, and (b) as noted, “second letter” conveys that the CRA is serious.

TX-14 & TX-14D – *Send your return...within 30 days:* Many participants in both target groups perceived the addition of this verse to be impactful for motivating the recipient to file a return. It is a more definitive statement that the CRA wants the recipient to send in a return compared to what is the TX-11 letter, and giving a time frame can convey a sense of urgency and seriousness.

There were some issues with the verse:

- Some participants said the way the letter is structured, it is not clear what the consequences are of not filing within 30 days. The suggestion to revise the order of the verses could help address this issue.
- A few participants suggested giving an actual date, and most participants who subsequently reviewed a customized letter that gave a specific due date said this was more effective than saying 30 days. The perceived issue with 30 days is that there is a vagueness as to precisely when the return is due: the starting point for the 30 days is open to interpretation, and it is up to the recipient to then work out the due date.

TX-14 & TX-14D – *we can assess your tax payable under subsection 152(7) of the Income Tax Act:*

Reaction to this verse was mixed in both target groups, because some understood it while some others were unsure how to interpret it. Among those who felt they understood it, their understanding was that the CRA would calculate an amount owing and would require the person or business to pay it – or, as some participants put it, the CRA would “send you a bill.” Many perceived this to be serious and felt it would motivate filing. However, some were unsure how to interpret the verse. The issue focused on the use of the English word “*assess*.” Note that the French version uses the word “*établir*”, and that word was better understood. The ambiguity associated with “*assess*” is understanding of what comes next: is it “a bill”, or instead is it an amount that the CRA would first discuss with the filer. This perceived ambiguity reduced the overall impact of the verse. Participants suggested revising the text to use plain language to make clear what will happen if the CRA assesses the tax payable.

TX-14D – Suggestion to state the person or business has been late before: Some participants suggested the letter could be more impactful if it stated that the person or business has been late

filing a return in the past and paid a penalty as a result. It was suggested this could add to impact by making the letter appear more personalized to the recipient.

Customized Non-Filer Letters

Learning from the customized non-filer letters includes:

- The fact that the letter is personalized can make it impactful. These letters are signed by a Non-Filer Officer, whereas the TX letters are perceived to have a more impersonal signature by the Commissioner of Revenue. There were suggestions to include information about the recipient where possible to further personalize the letter.
- The letters give a specific due date for the return. As noted earlier, this was perceived to be more effective than giving a “30 day” deadline as is done in the TX letters.
- Some participants said that because the letters do not state anything new about the consequences of not filing that were not in the TX-14/TX-14D letters, they were skeptical whether the letter would have much impact.
- With regard to verse on assessing tax payable that appears in some of the customized letters, several participants suggested the individual receiving the letter might actually prefer that the CRA do this assessment, if the reason they have not filed is due to difficulty doing the return or to the cost of paying a tax preparer.
- As was the case for the TX letters, some participants said the letter should include language offering to help the recipient.
- One of the letters refers to the recipient’s status as a director of the corporation. Most participants believed this letter would be effective because it invokes a personal responsibility – and liability – on the part of the recipient in their role as a director of the corporation.

Messaging

Both positive and negative message concepts were presented to the group for their feedback. Overall, there was no single concept that was predominantly favoured in either the Individual or Small Business focus groups. In this context, some participants commented that different messages are going to appeal to different people, or be appropriate to different contexts.

While preferences were quite diverse, there were some overall trends:

- There was a tendency to prefer the positively framed messages over more negatively framed messages.
- In terms of themes
 - Messages offering help with filing tended to be the most positively perceived overall. This is consistent with the feedback on the TX letters, particularly the TX-11 letter, where participants suggested adding language indicating that the CRA will provide help to non-filers.
 - The other theme that tended to be positively perceived was messages about how taxes support programs. Although, some participants commented that some people or

businesses may be focused on their own financial situation, and not care very much about the broader benefits to society of paying taxes.

- Stating both a problem associated with not filing and a positive statement tended to be seen as effective. The problem part states or implies something negative about not filing, while the positive part provides an offer of help or states a benefit to filing (e.g. taxes support social programs). The following are two of the message concepts that illustrate this approach:

The longer you wait to file, the worse your penalties and interest can get. We can help you get back on track.

Be on the right side of the law and avoid paying penalties and interest. When you file your return and pay your taxes on time, you contribute to your community.

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