

THE MERITS OF AUTOMATIC INCOME TAX ASSESSMENTS FOR LOW-INCOME CANADIANS

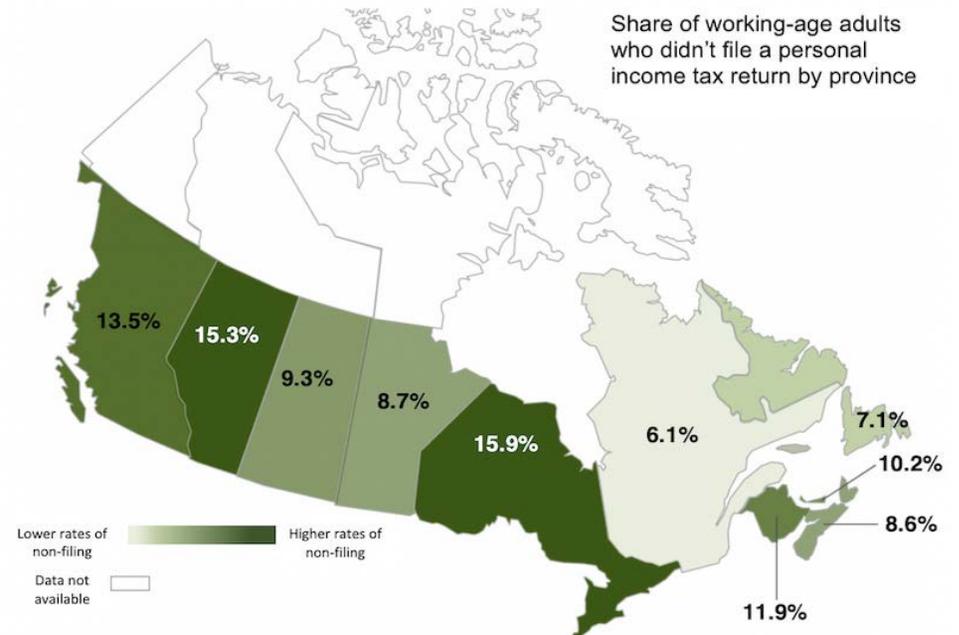
In Canada, the personal income tax system is not just used to raise revenue; it has also become an important instrument for delivering various income support benefits, like the Canada Child Benefit (CCB) and the Climate Action Incentive. By law, a person is not required to file a tax return if they do not owe any taxes. However, by not filing many individuals and families are potentially losing out on thousands of dollars in benefits intended to achieve various economic and social objectives.

How concerning is the incidence of non-filing in Canada? In the figure, we show by province the share of working-age adults who do not file a personal income tax return. On average, 12% of working-age adults in Canada do not file taxes. The highest rates of non-filing occur in Ontario (15.9%) and Alberta (15.3%).

The incidence of non-filing is even higher among the most vulnerable—a group that stands to benefit the most from accessing tax benefits. [Stapleton \(2018\)](#) shows that roughly one-third of social assistance recipients do not file taxes. In 2018, the Point-In-Time homeless count for Calgary ([Calgary Homeless Foundation 2018](#)) revealed only 3% of people experiencing homelessness received the GST/HST tax credit; since the credit is automatically assessed, this is a reasonable proxy for having filed taxes. Additionally, [Prosper Canada \(2018\)](#) estimates that as many as 40% of eligible First Nations families do not receive the CCB.

For those with the lowest incomes, failing to file a tax return means forgoing thousands of dollars in refundable tax credits, like the GST/HST credit, the Canada Workers Benefit, and the Canada Child Benefit. This impedes Canada's ability to meet its poverty reduction targets.

The Canada Revenue Agency (CRA) has both the information and mechanisms in place to address this problem. Most sources of income, particularly those for low-income individuals, are already reported to CRA



Source: Tabulations by Jennifer Robson and Saul Schwartz using the 2016 Survey of Financial Security through a system known as third-party reporting. This means the CRA could automatically assess most Canadians, not only for their taxes owed but also to determine for which tax benefits they are eligible. This is especially true for individuals who are issued a T5007 Statement of Benefits slip, which indicates the social assistance and workers' compensation benefits an individual receives in a given tax year. A first step towards full automatic tax assessment would be to implement a deemed filing rule for those who are issued a T5007, meaning these individuals have their tax form filled out by CRA using the information already on file, and ensure they are assessed for all tax benefits.

A deemed filing rule for vulnerable Canadians is in line with government priorities: the Minister of National Revenue has been tasked with not only reducing the burden on tax filers, but also with proactively contacting those individuals entitled to but not receiving benefits. Doing this for T5007 recipients would be a manageable first step toward simplifying Canada's tax filing system. Issuing pre-populated tax forms for all tax filers, as is done in the United Kingdom, is the eventual end goal.