Fines and Penalty Reform for Businesses

Issue

For businesses, filing with CRA can be a complicated process. Many businesses are required to make over thirty payments per year with GST, Payroll Tax and Income Tax. The tax code is three thousand pages long with hundreds of rules and regulations, right down to the kind of form that can be used to file remittance vouchers. Not surprisingly, a significant portion of Canada's 5 million SMEs make mistakes every year when dealing with the Canadian Revenue Agency (CRA).[1]

The CRA has little or no forgiveness if a payment is missed and the penalties and fines are steep even if missed by one day. They do have an appeal process for penalties and charges for late payment, but it is a complicated, time-consuming and costly process for businesses. Regardless of the dollar value, type or frequency of incomplete or inaccurate tax returns, penalties and interest may be applied.

The federal government is currently examining some of its procedures as part of its "Red Tape Reduction Action Plan", an initiative aimed at removing unjustified or undue burdens on small businesses and removing the complexities of dealing with government regulations.

Allowing businesses some margin of error for minor tax filing issues would also remove a significant weight for enterprises that occasionally overlook a detail, miss a deadline or misallocate CRA payments.

Background

The office of the Taxpayers' Ombudsman, an impartial and independent office to deal with complaints, reports that a significant number of calls to the CRA business enquiries line deal with misallocated payments. These are payments "not allocated according to its (CRA) procedures."[2] For example, about two-thirds of all taxpayers use CRA remittance vouchers that are pre-printed with magnetic ink designed to be read by computers using Optical Character Recognition (OCR). Although CRA warns taxpayers that photocopies of these forms cannot be scanned electronically, many taxpayers still make remittance payments on photocopied forms. It's a clerical mistake that can have costly consequences.

The result can be a late payment and "for the tax year 2013 penalties begin at 5 percent on the balance owing plus 1 percent on the balance owing for each full month the return is late to a maximum of 12 months. If CRA charged a late penalty in 2010, 2011, and 2012, the penalty escalates to 10 percent of the balance owing, plus 2 percent of 2013 balance to a maximum of 20 months.[3]

Even tax preparers, hired to keep businesses from filing incorrect returns, routinely make mistakes that end up trimming dollars from the company's bottom line. Given the difficulty in filing for the CRA, some leniency is in order.

Summary

It is important for CRA to be fair and reasonable in dealing with small business and the complex remittance process. Mistakes do and will continue to happen. Penalties, fees and interest should be proportional to the amounts and escalating for non-payment. CRA should handle their receivables in the business model and charge business for late payments the way business charges their customers.

---

[1] http://www.cra-arc.gc.ca/gncy/cmplnc/rtpp-pipdr/cnslttnppr-eng.html#fnb2
[2] http://www.oto-boc.gc.ca/rprts/spcl/gttng-rght-eng.html#h114
[3] http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/ncm-tx/ntrst/menu-eng.html

Recommendations

That the Canada Revenue Agency, in conjunction with the Department of Finance:

1. Charge small business a modest flat late remittance for missed payment deadlines. Interest then accrues if payment is not made within 7 days of the due date, or 14 days for locations in prescribed northern zones.
2. After the "Late Remittance Fee" is applied, then subject businesses that consistently and repeatedly miss payment dates to increasing fines and/or stiffer penalties with every missed payment.