

Contract Payment Reporting System

2007

According to all available measures, underground transactions in the construction sector have grown exponentially, and cost billions of dollars annually in lost government revenue. Consumers may think they are getting a “good deal”, but have little or no recourse when things go wrong.

As part of its efforts to combat underground economic activity, the Canada Revenue Agency (CRA) introduced the “Contract Payment Reporting System” (CPRS) in 1996 to promote compliance with Canada’s tax laws in the construction industry. Specifically, it requires all persons whose principal business activity is construction to report payments to subcontractors, and to report these payments to the CRA.

An evaluation of the CPRS by the Agency itself concluded that it is “not effective in that segment of the underground economy where transactions are purposefully hidden by both the contractor and subcontractor to circumvent tax laws and other legal obligations (commonly known as the ‘cash’ economy).”

Underground operators, by definition, operate in cash only, outside the legitimate economy. The CPRS simply makes them even more careful about the ways in which they conduct their activities.

Contrary to Federal Government commitments, the CPRS has served no useful purpose in redirecting resources to those areas of non-compliance where cash transactions are prevalent. In short, the CPRS is both ineffective in addressing the underground economy and a source of significant administrative cost to the industry.

The CPRS has failed to “level the playing field” for legitimate contractors who file their tax returns and play by the rules, as promised by the federal government.

A subcontractor is an individual, partnership, or corporation that provides construction services. Subcontractors include businesses that have annual gross revenues below the \$30,000 limit for goods and services tax (GST) registration purposes. Many firms and individuals exempt from collecting the GST because they are under the \$30,000 annual sales threshold only continue to be exempt because they do not report cash transactions earned in the underground economy. Not having to register to be exempt assists them in staying below the radar screen of tax compliance and enforcement authorities.

Recommendations

That the federal government:

1. Establish a consultation process with the construction industry and other stakeholders to combat underground economic activity while the CPRS is in operation.
2. Examine efforts in other countries to combat underground economic activity and adopt best practices.