



The Canadian supplement to the Global Tax Disputes Benchmarking Survey 2016

How the tax teams of Canadian multinational corporations are managing, adjusting and responding to tax disputes

KPMG in Canada

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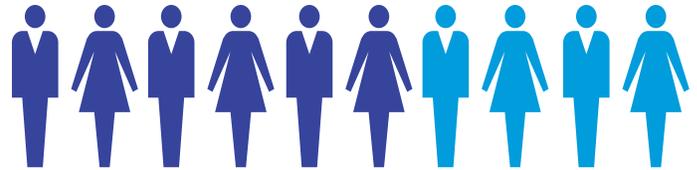
Key takeaways for Canadian tax teams

KPMG International's 2016 Global Tax Benchmarking Survey offers a snapshot of the structure, governance, priorities and performance measures of tax departments today — and delivers insights on how leading tax departments expect to transform over the next 5 years. This supplementary report zeroes in on the issues faced in Canada by those in charge of managing their company's tax disputes.

The current survey tells us that companies are seeing a significant rise in tax audits and disputes worldwide. All signs point toward even more intense tax authority activity in the future, and Canada is no exception.

Following earlier investments in tax audit resources, the Canadian federal government's 2017 budget channeled an extra \$523.9 million over five years to support the Canada Revenue Agency's (CRA) "crack down" on tax evasion and tax avoidance. The expectation is that this will result in a significant increase in tax disputes and litigation, as the government anticipates these funds will unearth an additional \$2.5 billion in tax revenues over the next five years.

While some other jurisdictions are moving toward "cooperative compliance" approaches that foster collaboration and trust between taxpayers and tax authorities, this does not apply to the CRA. It's "crack down" may heighten Canada's already adversarial taxpayer/tax authority dynamics.

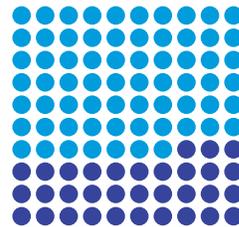


More than half of the respondents say their disputes are getting harder to resolve.



About half say tax authorities are taking a harder line in negotiations.

Two-thirds attribute the increase in disputes to tax authority aggressiveness and their reluctance to reach settlements.



One-third of the respondents say the tax authorities they deal with have less appetite for settlement, resulting in more litigation the last 3 years.

Note: Total might not add up to 100% due to rounding.

Source: KPMG International 2016.

Canada's "crack down" on tax evasion and tax avoidance

Tax teams of companies in Canada with international operations can expect to experience the impact of the "crack down" through recent shifts in the CRA's enforcement processes.



Large business risk assessment: The CRA is transitioning its tax risk assessments for large taxpayers toward a more data-driven approach to evaluating risk indicators and driving audit selection.



Data analysis and business intelligence: The CRA is also employing more sophisticated data analytics and business intelligence techniques to its direct verification processes. With the CRA's increasing scrutiny of data, the accuracy of tax compliance data is crucial. And if the information is accurate but not sufficiently detailed, for example, for financial reporting on General Index of Financial Information (GIFI) schedules, your return may inadvertently raise risk flags for the CRA.



Access to taxpayer information: The CRA continues to extend its reach to obtain ever more taxpayer data through, among others, new tax transparency filing requirements, automatic information exchange agreements with international tax authorities, and requirements for financial institutions to report electronic cross-border transfers of \$10,000 or more.



Voluntary disclosures: The federal Offshore Compliance Advisory Committee has called on the CRA to tighten its voluntary disclosures program, which potentially lets taxpayers correct tax filing lapses with reduced penalties and interest. Changes in the works may weaken the program's advantages, so taxpayers who may be offside with their taxes should consider applying for the program without delay.



Underfunded notice of objection process: The CRA's additional funds for tax audits are fueling tax disputes, but it appears that no extra funds have been directed to increase the CRA's resources for managing its rising tax dispute workload – likely lengthening the time it takes for the CRA to process objections.

Top do's and don'ts in Canada's current tax dispute environment

KPMG International's Global Tax Disputes Benchmarking Survey 2016 report outlines leading practices that international companies are adopting to create tax risk management frameworks to protect their bottom lines and add value. In addition to this advice, these do's and don'ts are especially important for tax dispute teams in Canada.

- **Do take compliance accuracy seriously:**
 - File tax returns and make payments on time.
 - Prepare tax returns and all relevant schedules accurately and completely – especially the General Index of Financial Information (GIFI) form.
 - Use the most relevant North American Industry Classification System code (NAICS) that relates to your business.
- **Do properly execute and meticulously document** any business tax planning steps you take on an ongoing basis.
- **Don't regularly amend your tax filings.** If you discover errors or omissions in previous filings, correct them proactively and consider using the voluntary disclosure program.
- **Do be prepared for quick collections activity and protracted disputes.** If you are reassessed, you can expect immediate collection activity. However, timeframes are prolonged for resolving disputes at the notice of objection stage.

- **Do consider settling your file at the audit stage and entering into an "audit agreement" with the CRA** when your audit is complete. These agreements outline the issues and clearly define the final adjustments, effectively binding the taxpayer and the CRA for the items at issue. Although you'll need to waive your right to object or appeal, the current environment may make the certainty you'll gain worth the trade-off.
- **Don't underestimate** the extent of tax authority efforts to obtain taxpayer information and aggressively raise reassessments – including penalties.

How does your tax department compare?

KPMG's 2016 Global Tax Benchmarking Survey remains open, and Canadian tax leaders still have an opportunity to take part and broaden the survey's results. On completing the survey, you can request a personalized report showing how your tax function compares with other tax functions in Canada and worldwide. To participate, please email: kpmgtaxmarketing@kpmg.ca

For complete global survey results and additional resources, please visit kpmg.com/tax.

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