



TAX COMPLEXITY AND INDIVIDUAL
TAX COMPLIANCE COSTS OF THE
PERSONAL INCOME TAX IN CANADA,
1985-2023: A SYNTHESIS

FRANÇOIS VAILLANCOURT

The purpose of the **Working Papers** is to disseminate the results of research conducted by CIRANO research members in order to solicit exchanges and comments. These reports are written in the style of scientific publications. The ideas and opinions expressed in these documents are solely those of the authors.

Les cahiers de la série scientifique visent à rendre accessibles les résultats des recherches effectuées par des chercheurs membres du CIRANO afin de susciter échanges et commentaires. Ces cahiers sont rédigés dans le style des publications scientifiques et n'engagent que leurs auteurs.

CIRANO is a private non-profit organization incorporated under the Quebec Companies Act. Its infrastructure and research activities are funded through fees paid by member organizations, an infrastructure grant from the government of Quebec, and grants and research mandates obtained by its research teams.

Le CIRANO est un organisme sans but lucratif constitué en vertu de la Loi des compagnies du Québec. Le financement de son infrastructure et de ses activités de recherche provient des cotisations de ses organisations-membres, d'une subvention d'infrastructure du gouvernement du Québec, de même que des subventions et mandats obtenus par ses équipes de recherche.

CIRANO Partners – Les partenaires du CIRANO

Corporate Partners – Partenaires corporatifs

Autorité des marchés financiers
Bank of Canada
Bell Canada
BMO Financial Group
Business Development Bank of Canada
Caisse de dépôt et placement du Québec
Desjardins Group
Énergir
Hydro-Québec
Innovation, Science and Economic Development Canada
Intact Financial Corporation
Manulife Canada
Ministère de l'Économie, de l'Innovation et de l'Énergie
Ministère des finances du Québec
National Bank of Canada
Power Corporation of Canada
PSP Investments
Ville de Montréal

Academic Partners – Partenaires universitaires

Concordia University
École de technologie supérieure
École nationale d'administration publique
HEC Montréal
McGill University
National Institute for Scientific Research
Polytechnique Montréal
Université de Montréal
Université de Sherbrooke
Université du Québec
Université du Québec à Montréal
Université Laval

CIRANO collaborates with many centers and university research chairs; list available on its website. *Le CIRANO collabore avec de nombreux centres et chaires de recherche universitaires dont on peut consulter la liste sur son site web.*

© December 2024. François Vaillancourt. All rights reserved. *Tous droits réservés.* Short sections may be quoted without explicit permission, if full credit, including © notice, is given to the source. *Reproduction partielle permise avec citation du document source, incluant la notice ©.*

The observations and viewpoints expressed in this publication are the sole responsibility of the authors; they do not represent the positions of CIRANO or its partners. *Les idées et les opinions émises dans cette publication sont sous l'unique responsabilité des auteurs et ne représentent pas les positions du CIRANO ou de ses partenaires.*

Tax complexity and individual tax compliance costs of the personal income tax in Canada, 1985-2023: a synthesis^{*}

François Vaillancourt[†]

December 2024

Abstract/Résumé

This paper presents evidence on the evolution of both the complexity of the personal income tax system and the compliance costs incurred by personal income tax filers (PIT) in Canada. The complexity is measured using three indicators: length of federal income tax code (1971-2018), number of federal PIT expenditures (1981-2014) and length of PIT forms (2000-2015). All three indicators show an increase in complexity. The compliance costs of the PIT are calculated using survey information gathered from individual Canadians on time expended and amount spent the following year for the 1985, 2007, 2018 and 2022 tax filing /calendar years. Our results show a decrease in the PIT compliance costs in hours, in total value and as share of GDP and revenues collected. This drop compliance costs is most likely due to the increasing use of software by tax filers to prepare their tax returns; this allows them, amongst other things, to download information from the Revenue agencies. A tax pain index combining complexity and compliance costs is put forward; its small growth over time may well explain why increasing tax complexity of the PIT in Canada is apparently well tolerated.

Cet article présente des résultats sur l'évolution de la complexité du système d'impôt sur le revenu des particuliers et des coûts de conformité encourus par les déclarants de l'impôt sur le revenu des particuliers (IRP) au Canada. La complexité est mesurée à l'aide de trois indicateurs : la longueur du code fédéral des impôts sur le revenu (1971-2018), le nombre de dépenses fédérales PIT (1981-2014) et la longueur des formulaires PIT (2000-2015). Les trois indicateurs montrent une augmentation de la complexité. Les coûts d'observation de l'IRP sont calculés à l'aide de données d'enquête recueillies auprès de particuliers canadiens sur le temps passé et le montant dépensé l'année suivante pour les années civiles/de déclaration de revenus 1985, 2007, 2018 et 2022. Nos résultats montrent une diminution des coûts de conformité associés avec l'IRP en heures, en valeur totale et en part du PIB et des revenus collectés. Cette baisse des coûts de conformité est très probablement due à l'utilisation croissante de logiciels par les déclarants pour préparer leurs déclarations de revenus ; cela leur permet, entre autres, de télécharger des informations auprès des agences fiscales. Un indice de "douleur" fiscale combinant complexité et coûts de conformité est proposé ; sa faible croissance au fil du temps pourrait bien expliquer pourquoi la complexité fiscale croissante de l'IRP au Canada est apparemment bien tolérée.

^{*} Paper presented at the CLEA Toronto, October ,2024 and the *Aspects of Tax Administration and Economic Development* conferences ,Bali November 2024. We thank participants for their comments.

[†] Emeritus professor ,economics ,Université de Montréal and Fellow,CIRANO

Keywords/Mots-clés: Tax complexity, compliance costs ,personal income tax, Canada /
Complexité fiscale ,coûts de conformité, impôt sur le revenu personnel, Canada

JEL Codes/Codes JEL: H20 H24 H29

Pour citer ce document / To quote this document

Vaillancourt, F. (2024). Tax complexity and individual tax compliance costs of the personal income tax in Canada, 1985-2023: a synthesis (2024s-13, Working Papers, CIRANO.)
<https://doi.org/10.54932/ZIYD4645>

Introduction

The purpose of this paper is to synthesize the information available, on one hand, on the compliance costs incurred by Canadian personal income tax (PIT) filers and on the other on the complexity of the Canadian PIT. That done, we analyse the two sets of information together. This has not been done before. The paper covers the 1985,2007,2018 and 2022 taxation (calendar) years and thus the compliance costs incurred the year after. The paper is divided in four sections. The first presents briefly the Canadian personal income tax system and the data used in our analysis. The second examines the evolution over time of tax preparation choices and of compliance costs (time, expenditures, total resources) for all filers and groups of particular interest such as self-employed filers. The third brings together evidence on indicators of complexity over time (number of standardized pages in tax code, number of tax expenditures). The fourth links the indicators of complexity and compliance costs to ascertain what relationship exists.

1The personal income tax (PIT) system in Canada; description and survey evidence on compliance costs

The personal income tax system in Canada comprises 14 rate-setting bodies and two tax administrations. The rate-setting bodies are the federal government, the ten provinces and the three¹ northern territories. The two tax administrations are the federal Canada Revenue Agency (CRA)² and the provincial Revenu Québec (RQ)³ agencies . The federal government and the provinces have a constitutional right to levy taxes on personal income while the territories have the legal right to do so, granted by the federal government. The CRA collects the federal, provincial and territorial PIT in all provinces and territories except in Québec where it only collects the federal PIT; the provincial PIT is collected by RQ. Thus, a non-Québec taxfiller files one PIT return with a provincial/territorial annex varying by the December 31st place of residence while a Québec taxfiller files two PIT returns. Since 2018, Québec politicians have been asking for a single PIT return to be administered by RQ; the federal government has said no. Vaillancourt (2023) summarizes this debate.

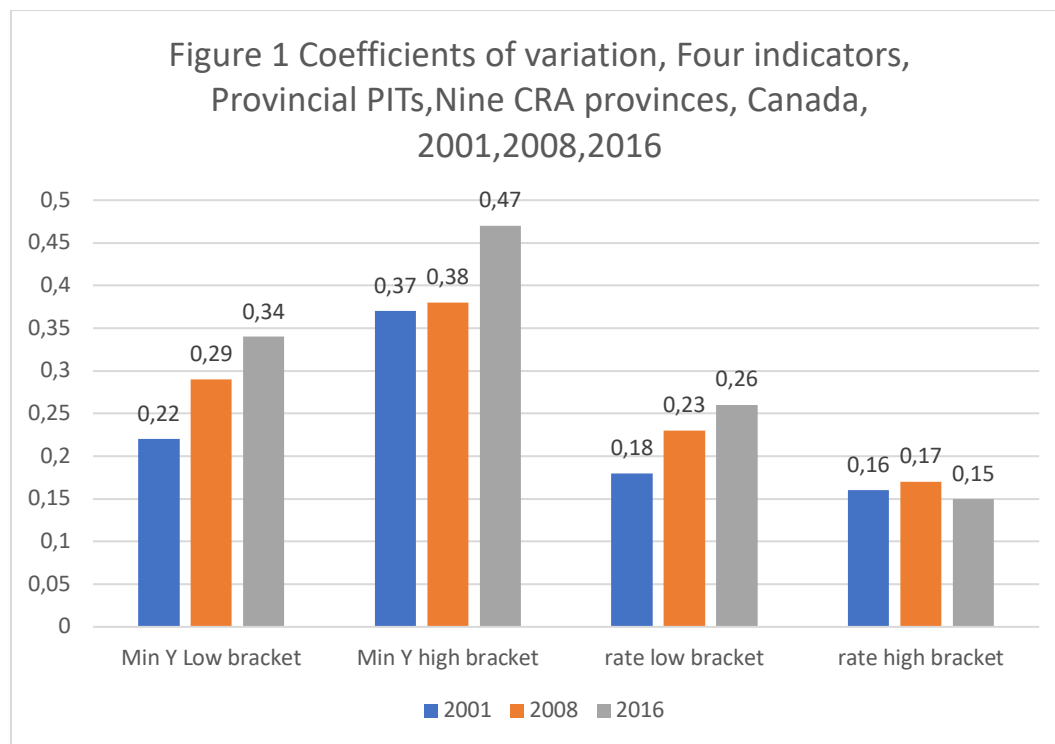
¹ Two before 1999

² Before 1999 the Department of National Revenue

³ Before 2011, Quebec Department of Revenue

The CRA collects provincial/territorial PITs free of charge if provinces use the same definition of income as the federal government. Until 2000, the provinces had to use a Tax-on-Tax approach. They thus set their PIT as a percent of the federal PIT; they could use specific tax credits . This changed that year to a Tax-on-Income system allowing provinces to set their own tax brackets ,whose number and boundaries may differ from the federal ones, and their own tax rates. This allowed them to make their own choices in terms of the progressivity of their part of the PIT. Québec uses its own definition of taxable personal income, credits deductions and so on yielding numerous small differences between the federal and Québec PIT code as shown by Godbout and Michael-Angers (2023)⁴.

Ruiz-Almendral and Vaillancourt (2016) present the Canadian case for 2008 in a comparative setting . Vaillancourt et al (2016) update this information for 2016. Differences, as measured by coefficients of variations, have increased over time except for the highest marginal tax rate as shown in Figure 1.



Source author using information in Appendix tables 1 and 2, Vaillancourt et al, 2016

⁴ One simple difference is the use of the Québec Consumer Price Index(CPI) to adjust amounts over time for inflation while the federal government uses the Canada-wide CPI.

The compliance costs studies used in this paper are summarized in Table 1. It shows that the sample sizes are in the 1500-2700 range. This is sufficient to obtain good Canada-wide estimates from a random sample. Such a sample is used in the earlier two studies but the last two studies use Internet panels that rely on members of the panel answering the survey and weights being used to make the results representative of the target population. Data collection has moved from a face-to-face survey to Internet surveys. The choice of tax filing mode question has evolved over time to reflect the availability of various types of software. The time/\$ questioning has moved from four to one/two questions. The 2018 question is the shortest with no content prompt while the 2022 question wraps into one question the information gathered by three questions for 1985 and 2007.

Table 1 Description of the methodology of the four PIT compliance cost studies, Canada

Study	Vaillancourt(1989)	Vaillancourt, Roy-Cesar and Barros(2013)	Grine and Vaillancourt (2023)	Vaillancourt and Li (2024)
Tax year	1985	2007	2018	2022
Data collection method for adults 18+ 10 provinces	In-person interviews May - June 1986	Phone survey April-May 2008	Internet panel , May-June 2019	Internet panel May 2023
Questionnaire by	Vaillancourt	Vaillancourt	CFFP	Vaillancourt
N analysed	1682	2000	2 669	1 523
Completion mode choices	1) Yourself; 2) Friend or family without payment 3) Individual or firm against payment	1) Yourself using: a) paper form ;b) purchased PC software; c) internet software 2) Friend family or NGO 3) Paid tax preparer	1) yourself using: a) paper form; b) software 2) Friend or family 3) professional tax preparer	1) yourself using: a) paper form; software purchased (b) or free (c) 2) Friend family NGO 3) Tax preparer
Compliance costs question(s)	Three questions on time Time sorting & preparing documents Time gathering information Time filling the tax return(s) One question on amount paid	Three questions on time Time sorting & preparing documents Time gathering information Time filling the tax return(s) One question on amount paid	One question How much money and time was required for this task? with space for responses of time and \$	Two questions How much time did you need to spend to prepare and file your 2022 personal income tax return(s) prompts similar to 1985. How much did you spend (software, tax preparer services)

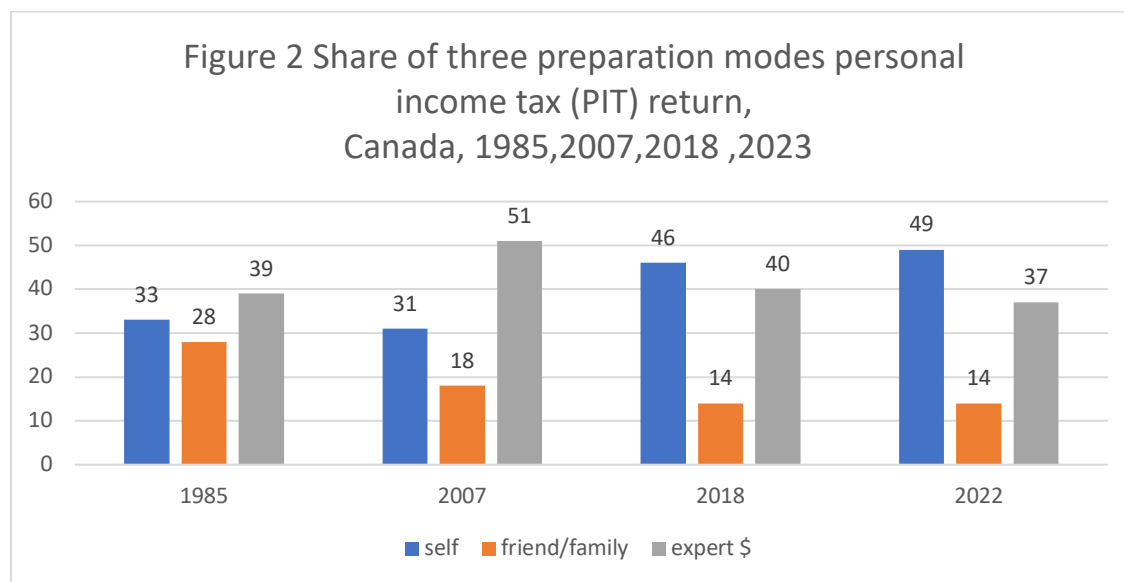
Source: author . Note : CFFP is Chaire de Fiscalité et Finances Publiques

2 Personal income tax returns: how and at what costs

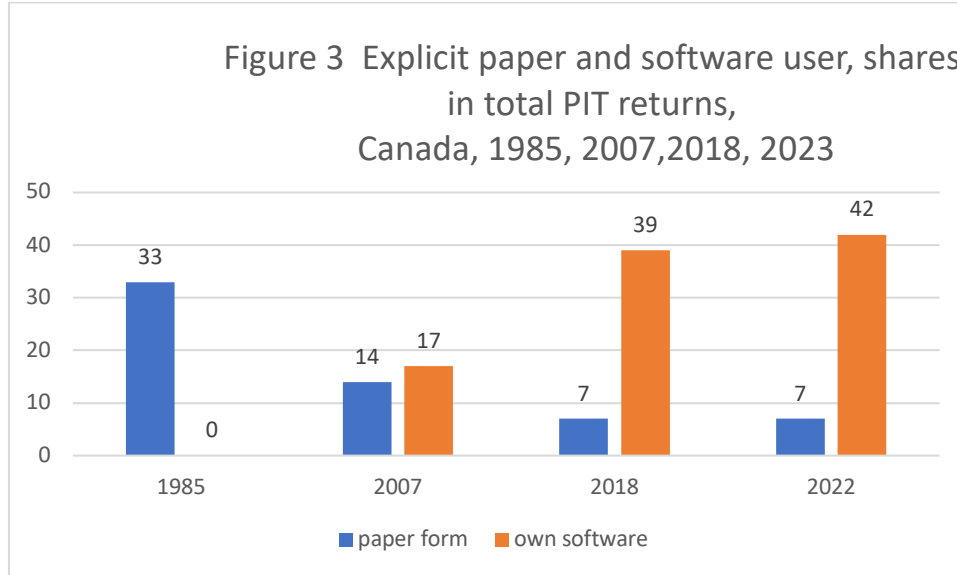
To understand the evolution of the cost of filing a personal income tax return in Canada, it is necessary to see how they prepared We examine this in Figures 2 and 3 .That done, we examine the average cost of filing a return for all taxpayers in Figures 4, 5 and 6. We then turn to some specific types of tax filers in Figures 7 and 8. Finally, we assess the compliance costs with respect to indicators of overall economic activity in Table 2.

1.1 Personal income tax filing choices

Figure 2 shows an increase between 1985 and 2007 in the use of paid tax preparers then a drop in the use of tax preparers such that, for the 2022 tax year, they are used slightly less than for the 1985 tax year. Indeed for 2022, roughly half the returns are self-prepared. This can be explained by the increasing use of software as shown in Figure 3.This last figure does not account for the use by friends and family members of software so that the total share of returns filed using personal (not paid tax preparer software) is most likely around 60%. One should note that for 2022, 43% of self preparer software users used free software (Vaillancourt and Li, 2024,table 1)



Sources: 1985 : Vaillancourt (1989) table B-1, p 103 ; 2007 Vaillancourt et al (2013), table 2, p. 8 ; 2018 Grine and Vaillancourt table 3 ; 2022 Vaillancourt and Li, table 1



Sources: 1985 : Vaillancourt (1989) table B-1 ; 2007 Vaillancourt et al (2013), table 2 ; 2018 Grine and Vaillancourt table 3 ; 2022 Vaillancourt and Li, table 1

1.2 Personal income tax filing compliance costs of individual filers

Figures 4, 5 and 6 present information on the compliance costs incurred by personal income tax filers in Canada. These costs do not include the costs incurred by employers or financial institutions in preparing the various income statements (T3, T4 and T5 for example).

Figure 4 shows a sharp drop in the time cost of filing a PIT return in Canada between 2007 and 2018. This can be explained by:

- i. a generalised increase in the use of software to prepare PIT returns;
- ii. improvements in the ease of use of software over time due to improvements by software providers;
- iii. more knowledge acquired /retained over time by software users that facilitate filing the PIT tax return;
- iv. increased use of online (banking sites) payment of tax liabilities;
- v. an increased use of information downloaded from the CRA and RQ websites to fill the software prepared tax returns.

Support for i) is found in Figure 3. For ii), we should note that using software not only reduces the time needed but most likely reduces the % of tax filers that neglect/forget to claim various deductions and credits as they are often automatically included in the tax return. For iii), Vaillancourt et al (2013 tables 5c and 8) report a drop in the time required by self-preparers when their level of experience with the tax system is higher than four years; presumably this holds also in the case of software users. As to iv) this is a trend found for all types of spending⁵. Finally, for v), Vaillancourt and Li(2024, p 6-7) report that downloading data (Auto-fill my return) from the CRA was first offered for the 2015 PIT return and, while first offered for 2013, was made easier to access by RQ (TDF: téléchargement des données fiscales) for the same year .

Data provided ⁶ by the e-Services Program-HQ from the CRA allow us to ascertain that :

there was a an 87,5% increase in the number of individual users of this service from 2018 to 2022 (2 890 691 in 2018 and 5 420 008 in 2022) for an 87,5% increase;

the % of eligible self filers that uses Auto-fill⁷ increases from 42,5% to 53,3% over the 2019-2022 period ⁸ .

We do not have chronological data for Québec taxfillers .In 2021, 40,5% of Québec self- fillers using software indicate having used Auto-fill while 37,1% indicate having used TDF⁹ Downloading should reduce the time required to prepare a tax return, for a given level of complexity. We cannot measure this precisely.

⁵ In 2022 52% of tax payments are made using on-line banking Figure A10 https://www.payments.ca/sites/default/files/PaymentsCanada_Canadian_Payment_Methods_and_Trends_Report_2023_En.pdf

⁶ Personal communication July 18th 2024

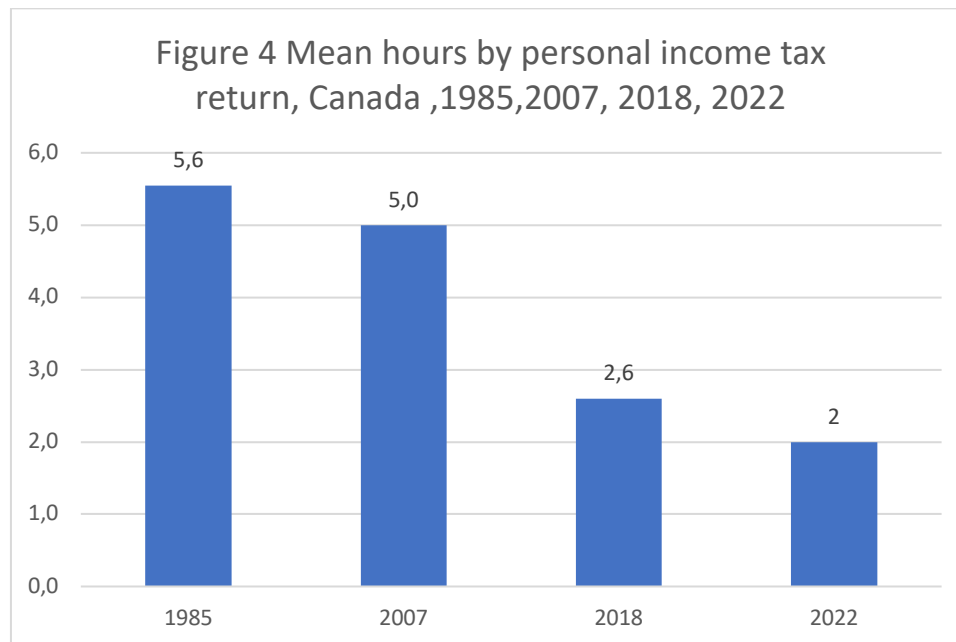
⁷ That is self filers who file electronically and do not use a paper form

⁸ We compute this by dividing the data on Auto- fill users for 2019 by the number of Individual e-filers<https://www.canada.ca/en/revenue-agency/corporate/about-canada-revenue-agency-cra/individual-income-tax-return-statistics.html> consulted 16/09/2024. There is no data on the number of e-filers for 2019.

⁹ Tables 6 and 7 SONDAGE SUR LE TÉLÉCHARGEMENT DES DONNÉES FISCALES : PARTICULIERS https://www.revenuquebec.ca/documents/fr/docs_adm/sondage-telechargement-donnees-fiscales-particuliers-2022.pdf

Shift and share calculations show that $\frac{1}{4}$ of the 3,5 drop in compliance hours is due to the increased share of software produced returns and $\frac{3}{4}$ to a general drop in the time required to prepare a tax return.

This drop of about 65% over a 37 year period for Canada in the time needed to file a PIT return is similar to what one can calculate for the United States for a 39 year period. For 1984, Slemrod and Sorum (1984) report an average of 21,7 hours spent on PIT compliance. For 2023, Benzarti and Wallossek (2023) report an average of 4-5 hours spent on PIT compliance . Putting these two sets of numbers together, one finds a drop of about 75% in the time needed to file a PIT return in the USA.

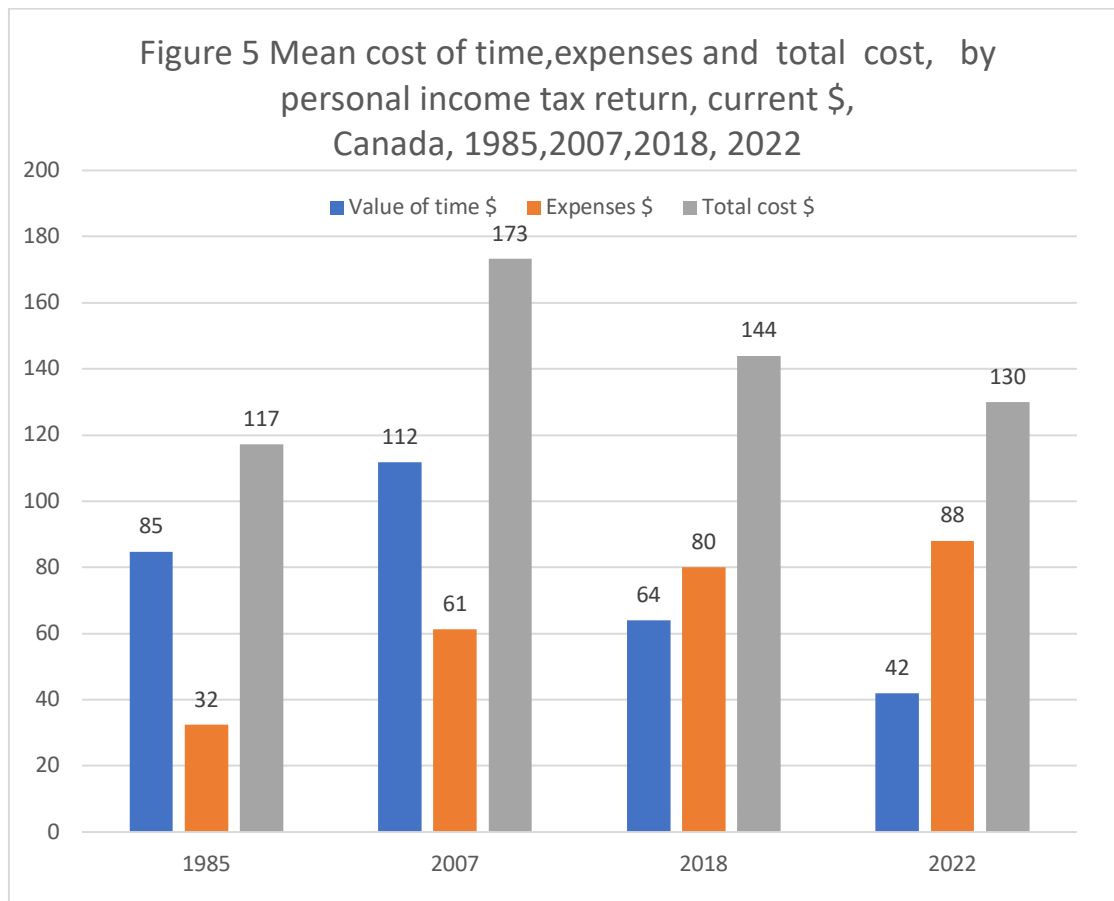


Sources: 1985 : Vaillancourt (1989) table 2.1, ; 2007 Vaillancourt et al (2013), table 4a ; 2018 Grine and Vaillancourt table 3 ; 2022 Vaillancourt and Li, table 2

Transforming time into \$ using gross wages, we can present the value of time and expenses and, adding them up, total PIT compliance costs in Figure 5. Total nominal costs peak for the 2007 tax year. Transforming these \$ into constant \$ accentuates this drop in costs as shown in Figure 6.

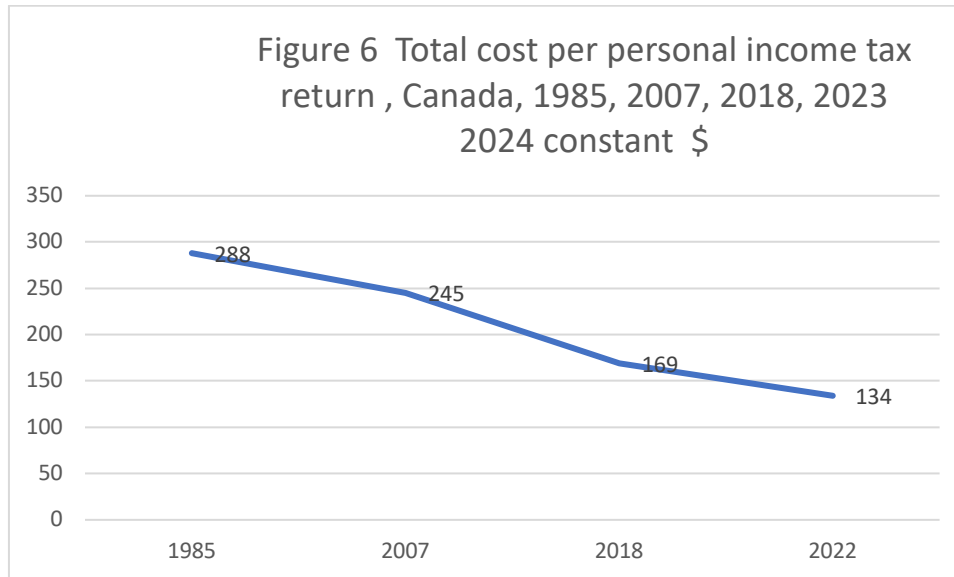
Are these intertemporal comparisons valid? The discussion of Table 1 highlighted the differences in methodology between each survey; this makes them less comparable than desirable. The

literature on the impact of mode change in surveys does not indicate that major issues in the measurement of compliance costs would result from this¹⁰. That said, changes in provincial PITs in the early 2000s should increase compliance costs, something we observe between 1985 and 2007, before the use of tax software was generalised. And we noted five factors that should lead to a drop off in the time costs of preparing PIT returns in Canada over the last 20 years or so. One should also note that the ageing of the population; will mechanically reduce the estimation of PIT compliance costs since the four studies impute a low value of time to retirees.



¹⁰ Differences in survey administration mode appear to affect mainly attitudinal answers, with more extreme answers given in in person or phone surveys than in web surveys; this does not seem to apply to our type of questions See <https://www.pewresearch.org/short-reads/2019/02/07/phone-vs-online-surveys-why-do-respondents-answers-sometimes-differ-by-mode/>
<https://www.pewresearch.org/short-reads/2015/05/14/where-web-surveys-produce-different-results-than-phone-interviews/>
<https://news.gallup.com/opinion/methodology/233291/why-phone-web-survey-results-aren.aspx>
<https://www.surveysensum.com/blog/cati-vs-online-surveys>

Sources: 1985 : Vaillancourt (1989) table 2.4, ; 2007 Vaillancourt et al (2013), table 4a ; 2018 Grine and Vaillancourt table 5 ; 2022 Vaillancourt and Li, table 2



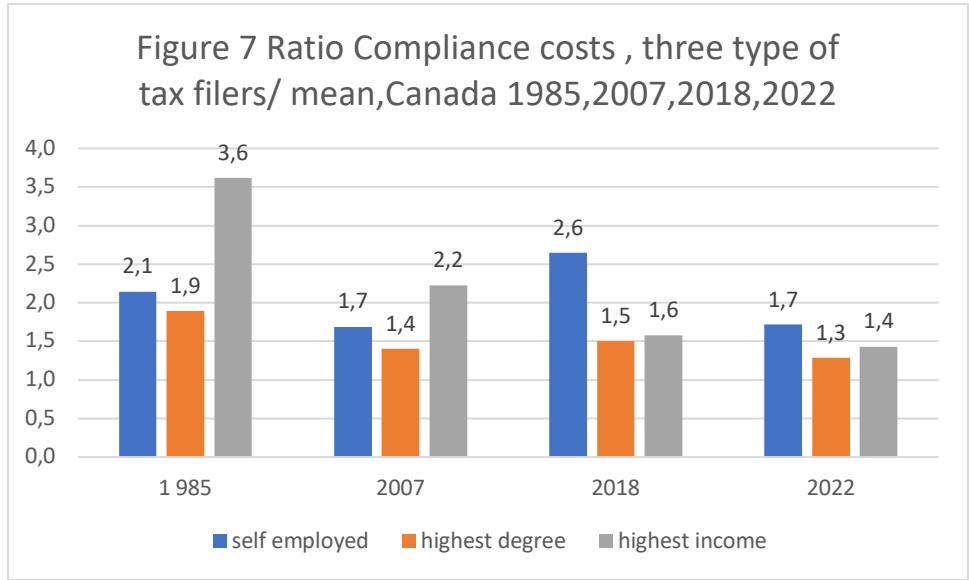
Source: figure 5 ,this paper total costs

Note \$s transformed into 2024 \$ using the Bank of Canada inflation calculator

<https://www.bankofcanada.ca/rates/related/inflation-calculator/>

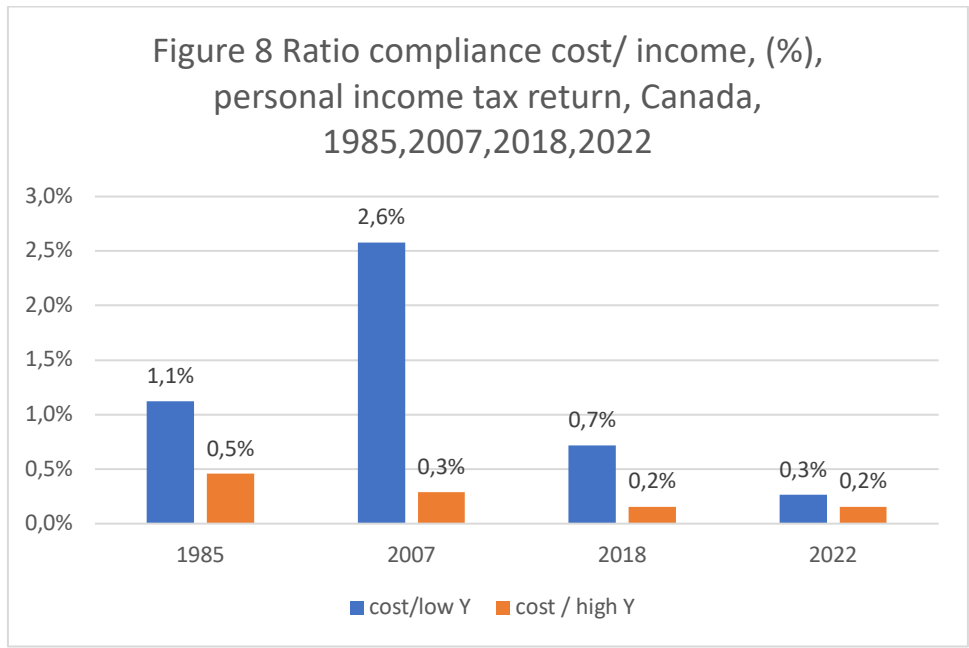
Figure 7 examines the evolution over time of the compliance costs of PIT filers with three specific characteristics: self-employment and ,relative to survey respondents, highest education and highest income. We do this by comparing the mean time cost of each group to the mean cost of all filers for each year. The relative costs of the self employed have not changed much over time¹¹. The relative costs of filers with higher education and higher income have dropped. The finding for high income individuals is particularly striking; it is probably the result of a combination of more sophisticated software and downloading of financial information slips indicate that software may simplify the compliance efforts of the majority of tax-fillers.

¹¹The self employed account for 10% of tax fillers in the 2022 tax year ;Vaillancourt and Li, 2024, Table A-1).



Sources: 1985 : Vaillancourt (1989) table 2.4. ; 2007 Vaillancourt et al (2013), tables 4a and 4b ; 2018 Grine and Vaillancourt table 7 ; 2022 Vaillancourt and Li, table 2

Figure 8 shows that the classic (Eichfelder and Vaillancourt, 2014) downward sloping compliance costs/size indicator ratio is found in all four years but that the drop in mean cost is reducing somewhat the steepness of the slope.



Sources: 1985 : Vaillancourt (1989) table 2.4, ; 2007 Vaillancourt et al (2013), table 4b ; 2018 Grine and Vaillancourt table 5 ; 2022 Vaillancourt and Li, table 2

Note These compliance cost/income ratios are calculated using the median point of known income levels thus excluding the highest income since in all surveys it is an open interval.

Table 2 shows that, overall, the compliance costs incurred by PIT tax-fillers in Canada has dropped by more than half between 2007 and 2022, when measured as a share of GDP or of revenue collected by the federal government .

Table2 Total compliance costs, personal income tax filers, \$ and % GDP, Canada, 1985, 2007, 2018, 2022

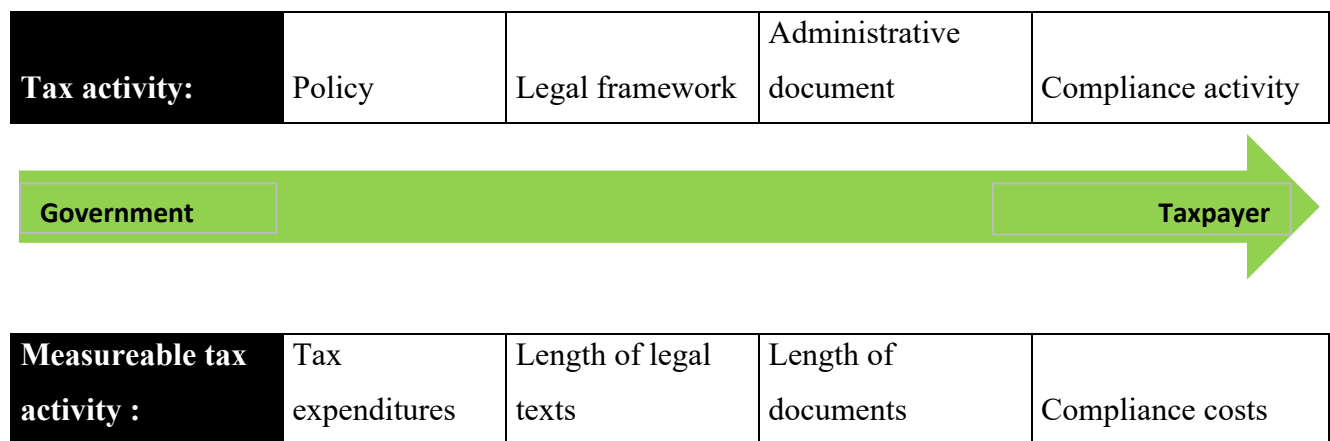
	1985	2007	2018	2022
Million \$ current (1)	1 951	4 318	4 024	4171
% GDP (2)	0,39 %	0,33 %	0,18 %	0,15%
% PIT revenue (3)	3,60%	1,68%	1,08%	0,87%

Source : lines 1 and 2 :author from Table 9 Grine and Vaillancourt; Table 3,Vaillancourt and Li. Line 3: calculation by author numerator: line 1 ;denominator 1985 Statistics Canada. Table 36-10-0161-01 ; 2007-2018-2012 : Table 33 Fiscal Reference table <https://www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables/2023.html>

2 Personal income tax: complexity indicators

Vaillancourt et al(2015, 2016), Lugo and Vaillancourt (2015), Bird and Vaillancourt (2016) and Poschmann et at (2019) have examined various dimensions of tax complexity in Canada. The definition of complexity, let alone its measurement and evolution over time, is not something upon which there is a strong consensus in the literature. In Canada both individuals and organisations argue that the tax system is complex.¹² Poschmann et al (2019,p5-6) report that there are three measures commonly used to measure tax complexity: the number of words in the tax code; the number of lines in tax forms; and the number of tax expenditures. They do not subscribe to the view that compliance costs are an indicator of complexity as such, as other factors could be at play in setting the level of compliance costs. Figure 9 shows that the three measures noted above can be linked together and related to the tax setting/collecting process .

Figure 9 Analytical relationship between tax complexity and compliance costs



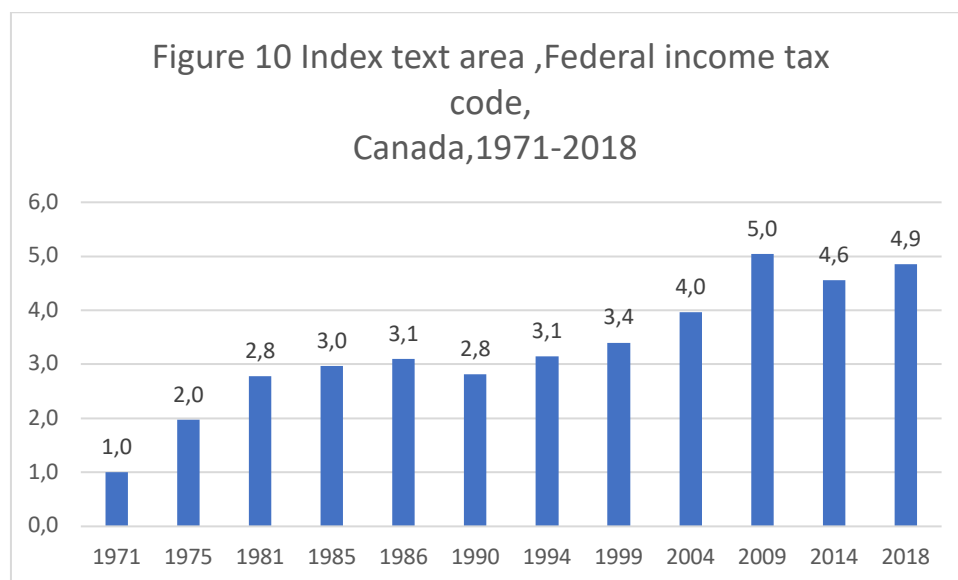
Source Bird and Vaillancourt ,2016

¹² For example see <https://www.cpacanada.ca/public-interest/public-policy-government-relations/policy-advocacy/cpa-canada-tax-review-initiative> or https://epe.bac-lac.gc.ca/100/200/301/pwgsc-tpsgc/poref/canada_revenue_agency/2023/147-22-e/summary/summary.html

We focus here on PIT complexity presenting two indicators of federal level complexity and one indicator of provincial level complexity .

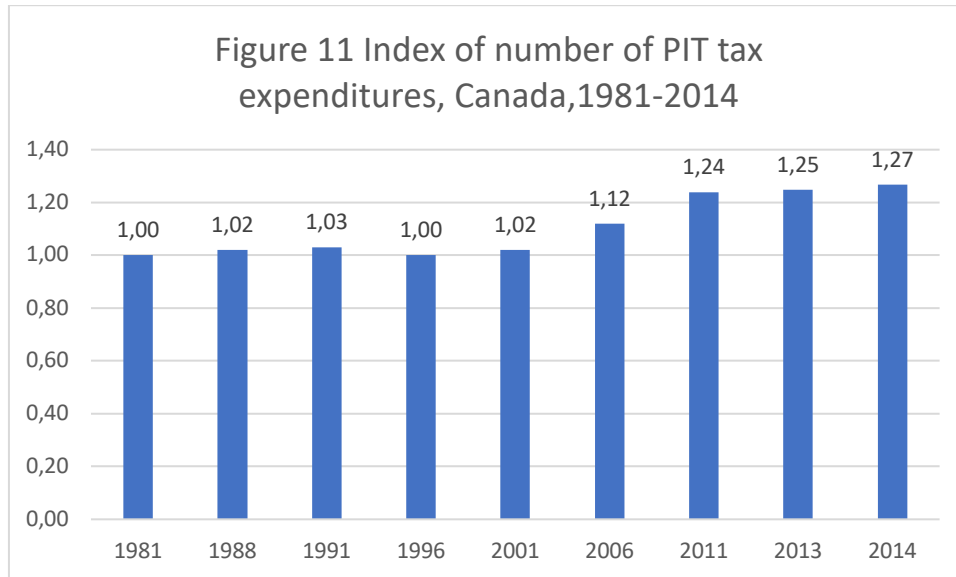
Figure 10 presents the growth over the 1971-2018 period of the size of the federal income tax code as measured by the physical size of the text obtained by a combination of the number of pages and their size. This income tax code is used by all provinces and territories except Québec. We can compare our results with that of Benzarti and Wallossek(2023). They report in graphical form on the number of words(PDF count) in the Canadian federal income tax code; it goes from about¹³ 850 000 in 2004 to about 1 250 000 in 2022; from 2018 to 2022, the increase is about 100 000. Thus, the growth from 2004 to 2022 is 47% and from 2004 to 2018 35% . Using data from Figure 10, we calculate a growth of 22% for 2002-2018 for our text area indicator. Thus, the two trends are similar.

Figure 11 reports, for a shorter period due to data availability, the growth in the number of tax expenditures at the federal level. It also shows increasing complexity, this correlation between tax complexity indicators was noted by Vaillancourt et al (2015, p8).Figure 12 shows a sharp rise in tax complexity at the provincial level between 2000 and 2005 then a levelling off. This rise is associated with the reforms in the provincial PITs outside Québec that were implemented in 2000 and that were discussed in the first part of the paper .

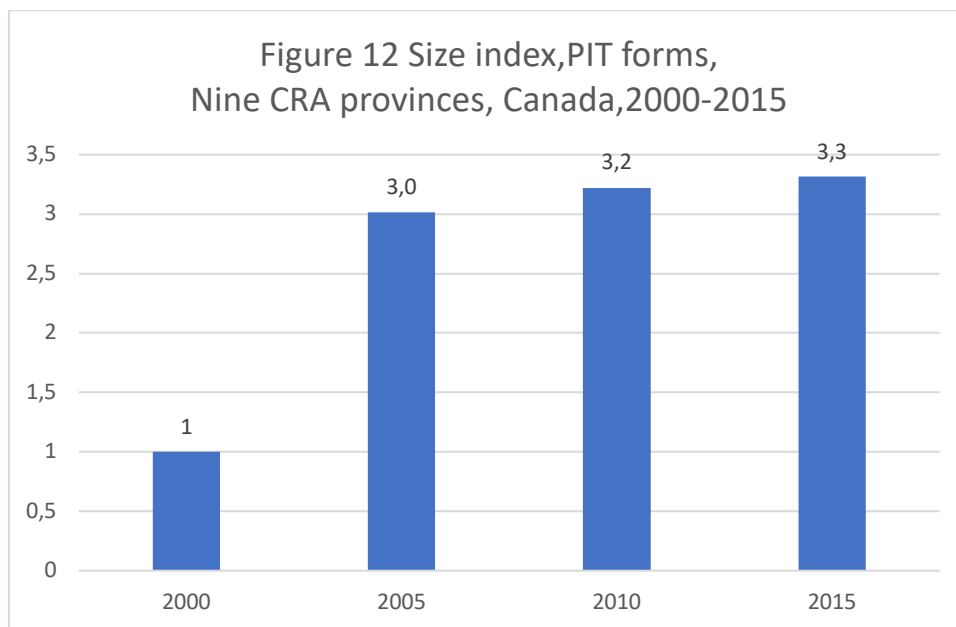


¹³ Values are read off their Figure 8 (a) thus slightly approximate.

Source: calculations by author drawing on data from Table 2 (1971-2014) in Vaillancourt et al (2016) and Table 1 in Poschmann et al (2019)



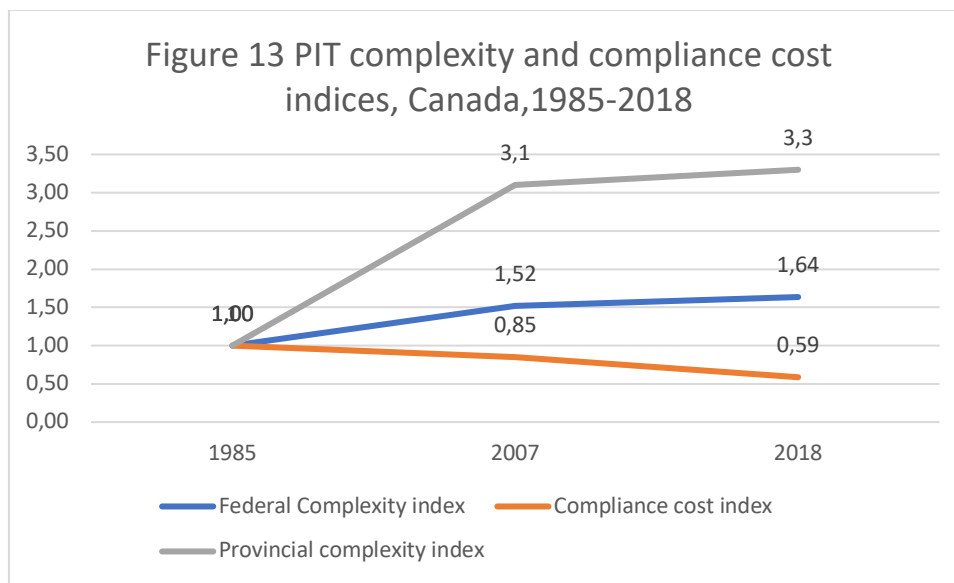
Source: calculations by author drawing on data from Figure 2 (1991-2014) in Vaillancourt et al (2016)



Source: Figure 7a Vaillancourt et al (2016)

3 Linking compliance costs and complexity

Combining the information presented in the two preceding parts of the paper yields Figure 13 .It shows an increase in complexity and a decrease in total compliance costs in Canada over the 1985-2018 period.

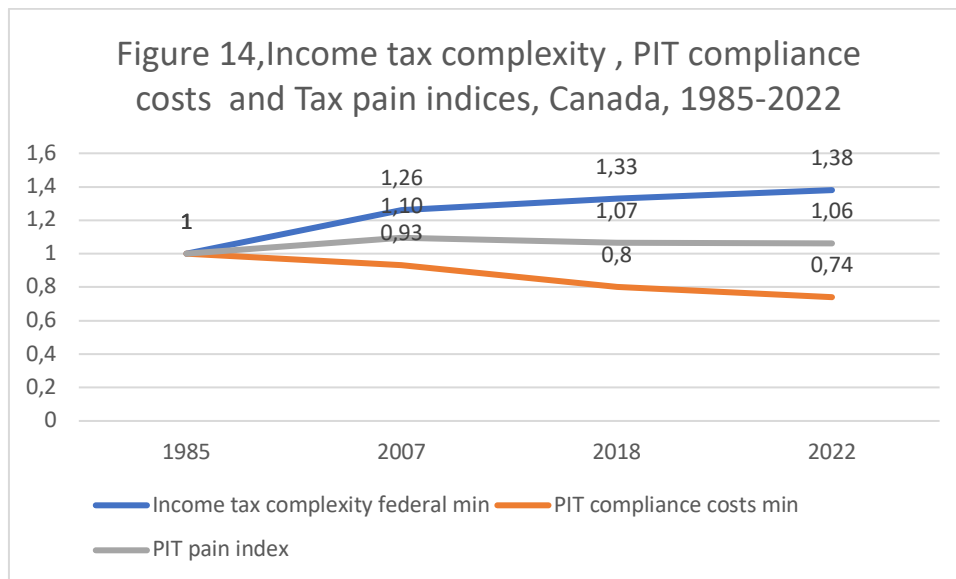


Source :calculations by author using data from figures 5 (total costs), 10 and 12 above.

The divergence between the paths of complexity and compliance costs in Canada over the last 40 years can be explained in two ways.

One way is to assume that all indicators are correctly measured and that the divergence results from changes in the tax environment. Complexity measured by size of text went up between 1985 and 2007 in part because of the introduction of the new provincial PIT system; this has now stabilized. At the same time, the generalisation of the use of software to prepare PIT returns allows for a drop in the time of self-preparers and in the costs of tax preparers.

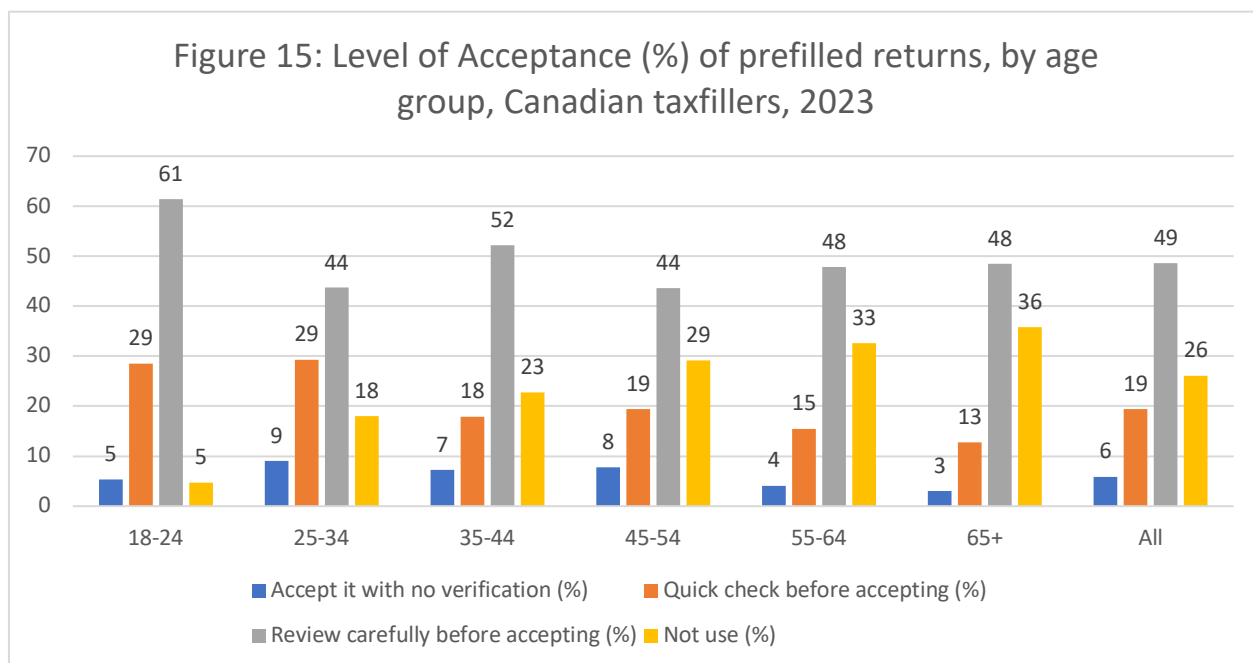
The second way is to argue that there are measurement issues at play. On the complexity side, the increased federal complexity may mainly affect firms and not individuals and thus its growth is over estimated for the PIT. On the compliance cost side, changes in survey methods lead to an underestimation of compliance cost. Figure 14 presents the federal complexity index and the compliance cost index both with a 50% reduction in the changes in values between years.¹⁴ This is, in our opinion ,a minimal quantification of the paradox of diverging trends. We combine these two indices in a new tax pain index, defined as the average of the compliance costs and complexity indices. We see that this index has not increased much over the 1985-2022 for the Canadian PIT.



Source Figure 13 with changes in indices for 1985-2018 ;2022 complexity index imputed from Benzarti and Wallossek(2023) and compliance index computed from figure 6.

Finally let us note that Canada does not have (Vaillancourt ,2011; Brookes,2018) a general prefilled returns program. One could presumably reduce compliance costs even more if prefilled returns were produced and used. Figure 15 presents information collected in 2023 about the acceptance of such returns should they be sent to tax filers. Compliance costs of the PIT are simulated to be reduced by one third if such returns are put in place (Vaillancourt and Li,2024,table 4).

¹⁴ We add the 2018-2022 period by applying the 12% growth for that period in the Benzarti and Wallossek (2023) index to our index and by including all data points from figure 5.



Source: figure 7 Vaillancourt and Li,2024

Conclusion

There has been a major shift in the mode of PIT return preparation in Canada from 1985 to 2022 with the emerging dominance of self-preparation using software. This has been accompanied in the last 10 years by the possibility of downloading into such software information held by tax authorities, making it easier to prepare one's PIT return. The associated drop in the compliance burden may well explain why the complaint that the Canadian tax system is getting more complex over time has not led to action by governments, particularly as the administrative costs of the CRA have dropped as a % of revenue collected from 2,1% of all taxes collected in 2007 to 1,7% in 2018 and 1,4% of all taxes collected in 2022¹⁵.

¹⁵ There is no published data on the collection costs of the PIT by the CRA. We use data from the Public Accounts of Canada to calculate these amounts as follows 2007-2008 : pages 4-4 to 4-7; 2018-2019: pages 421 and 425 ;and 2022-2023 :pages 383 and 387. Documents are accessible at https://epe.lac-bac.gc.ca/100/201/301/public_accounts_can/pdf/index.html The overall budget of CRA has increased substantially

References

Benzarti, Youssef and Luisa Wallossek (2023) Rising Income tax Complexity <https://www.nber.org/papers/w31944>

Bird, Richard and François Vaillancourt (2016) ‘‘Tax Simplification in Canada: A Journey not yet mapped ‘’ in *The Complexity of Tax Simplification* (S James, A Sawyer and T Budak eds) New York: Palgrave Macmillan, 2016 p 70-94

Brookes, Kevin (2018) *SHOULD THE GOVERNMENT PRE-FILL YOUR TAX RETURN?* Montreal Economic Institute https://www.iedm.org/sites/default/files/web/pub_files/note0518_en.pdf

Eichfelder Sebastian and François Vaillancourt ‘Tax Compliance Costs: A Review of Cost Burdens and Cost Structures’’ and François Vaillancourt *Hacienda Pública Española / Review of Public Economics*, 210-(3/2014): 111-148

Godbout, Luc and Michaël Robert-Angers (2023) ‘‘How Does Quebec Exercise Its Fiscal Autonomy?’’ *Canadian Tax Journal* (2023) 71:3, 779 - 94 https://www.ctf.ca/common/Uploaded%20files/Documents/CTJ%202023/Issue%203/Public/779_Public-2023CTJ3-PF-4-Godbout-EN.pdf

Grine, Ferial and François Vaillancourt (2023). *Modes de préparation et coûts de produire une déclaration de revenus des particuliers au Canada : résultats pour 2018 et comparaisons intertemporelles*. Cahier de recherche 2023/18, Chaire de recherche en fiscalité et en finances publiques, 28 p. <https://cffp.recherche.usherbrooke.ca/modes-de-preparation-et-couts-de-produire-une-declaration-de-revenus-des-particuliers-au-canada-resultats-pour-2018-et-comparaisons-intertemporelles/>

in recent years as it acts as a conduit for the Canada Carbon Rebate <https://www.canada.ca/en/revenue-agency/services/child-family-benefits/cai-payment.html>

Marco Lugo and François Vaillancourt “Measuring Tax Complexity: Analytical Framework and Evidence for Individual Income Tax Preferences for Canada” in *Tax Simplification* (Evans, C. Krever, R. and P Mellor eds.). Alphen aan den Rijn: Kluwer Law International, 2015, p141-166

Poschmann, Finn, François Vaillancourt and Jake Fuss *Tax Complexity in 2019: Can It Be Tamed?*
<https://www.fraserinstitute.org/sites/default/files/tax-complexity-in-canada-2019.pdf>

Ruiz-Almendral ,Violeta and François Vaillancourt (2016) *Subnational Personal Income Tax Autonomy in Selected OECD Countries: A comparative perspective* Forum of Federations occasional paper 11 <https://www.forumfed.org/wp-content/uploads/2016/02/op11.pdf>

Slemrod, Joel and Nikki Sorum (1984) The Compliance Cost of the U.S. Individual Income Tax System NBER paper 1401 <https://www.nber.org/papers/w1401>

Vaillancourt, François (1989). *The Administrative and Compliance Costs of Personal Income Taxes and Payroll Taxes, Canada 1986*, Canadian Tax Foundation.

Vaillancourt, François (2011) 'Prefilled Personal Income Tax Returns: An examination of five cases' in *Prefilled Personal Income Tax Returns: A comparative analysis of Australia, Belgium, California, Québec and Spain* (F Vaillancourt ,Ed)Vancouver: Fraser Institute,2011pii-xii
<http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/prefilled-personal-income-tax-returns.pdf>

Vaillancourt, François, Édison Roy-César, et Maria Silvia Barros (2013). *The Compliance and Administrative Costs of Taxation in Canada*, Fraser Institute.
<https://www.fraserinstitute.org/sites/default/files/compliance-and-administrative-costs-of-taxation-in-canada-2013.pdf>.

Vaillancourt, François Charles Lamman and Marylène Roy(2015) *Measuring Tax Complexity in Canada* Fraser Institute 2015 <https://www.fraserinstitute.org/sites/default/files/measuring-tax-complexity-in-canada.pdf>

Vaillancourt, François, Charles Lammam, Feixue Ren, et Marylène Roy (2016). *Measuring Personal Income Tax Complexity in Canada*, Fraser Institute.

<https://www.fraserinstitute.org/sites/default/files/measuring-personal-income-tax-complexity-in-canada.pdf>

Vaillancourt ,François (2023) ‘‘The Quest for a Quebec Single Income Tax Report—History and Estimated Savings’’ *Canadian Tax Journal* (2023) 71:3, 763 – 78
https://www.ctf.ca/common/Uploaded%20files/Documents/CTJ%202023/Issue%203/Public/763_Public-2023CTJ3-PF-3-Vaillancourt.pdf

Vaillancourt, François and Nathaniel Li (2024) *Personal Income Tax Compliance for Canadians How and at What Cost?* Fraser Institute <https://www.fraserinstitute.org/sites/default/files/personal-income-tax-compliance-for-canadians.pdf>