

Click/Hear Quick Take

Short-Changed: Tax Filing & Benefits

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Background

Since the late 1990s, federal and provincial governments in Canada have made increasing use of the tax system both to establish eligibility for benefits and to deliver them.¹ This includes a significant number of income-tested benefits targeting low-income households which are only accessible to tax-filers.²

Research shows that around 10–12% of Canadians do not file a tax return, thereby missing out on benefits they may be entitled to receive.³ Not filing taxes can be costly; it's estimated that non-filers missed out on more than \$1.7 billion worth of government rebates and programs that they were entitled to in the 2015 tax year alone.⁴

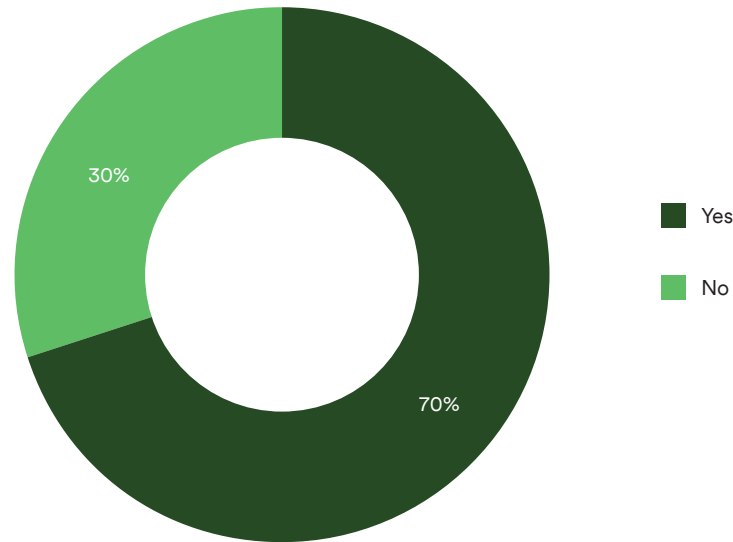
Individuals living in poverty are less likely to file their taxes compared to those with income above Canada's official poverty line.⁵ Hard-to-reach or vulnerable populations, as identified by the Canada Revenue Agency (CRA) and Employment and Social Development Canada (ESDC) are groups that often have modest incomes and face one or more barriers to receiving benefits.⁶ These include Indigenous peoples, individuals with insecure housing, newcomers and refugees, people with disabilities, seniors, and youth.⁷ These groups may be unaware of their eligibility or face significant personal, institutional, or systemic obstacles to filing taxes.⁸

As food bank use increases to historic levels, the 2023 tax-filing season is an important opportunity for people living on low incomes to tap into a wide range of federal and provincial tax benefits. This report seeks to examine the barriers that food bank clients face when it comes to tax filing, how it impacts their lives, and explores prospective solutions from both within Canada and jurisdictions around the world to ensure people receive the benefits to which they are entitled.

Methodology

Through the Click/Hear program, Daily Bread Food Bank maintains a client panel to stay connected with over 500 people who use food banks and to engage in discussions about the daily challenges they face. The Click/Hear panel is built from food bank clients who have expressed their desire to participate in Daily Bread's research and advocacy activities. Regular short surveys are sent out by email, and in-person data collection is used to supplement online responses. In this latest survey on tax filing, 113 respondents participated.

Figure 1: Percentage of survey respondents who filed their 2022 taxes



The Current Landscape of Tax Filing in Canada

Despite common misconceptions, tax filing in Canada is not mandatory by law. Filing is only required if someone has taxes due, is self-employed, wants to claim benefits or a refund, or if the CRA has sent a request asking them to file a return.⁹ The Canadian tax system is based on voluntary compliance, where the CRA generally relies on Canadians to file an annual return.¹⁰

The tax system can be challenging to navigate and not all Canadians file taxes. Of those that do file their tax return, they may still miss receiving benefits for which they are eligible.¹¹ Unfortunately, the CRA does not share data on tax-filing or benefit uptake, which hampers monitoring and evaluation efforts.¹²

There are several services and supports available to assist with tax filing in Canada. For example, there are community tax clinics run through the Community Volunteer Income Tax Program (CVITP) by the federal government where community organizations host free tax clinics with volunteers.¹³ These are often available at food banks,¹⁴ religious spaces, shelters, refugee/newcomer agencies and community centers. There are also paid professional services and commercial online self-serve software programs available.

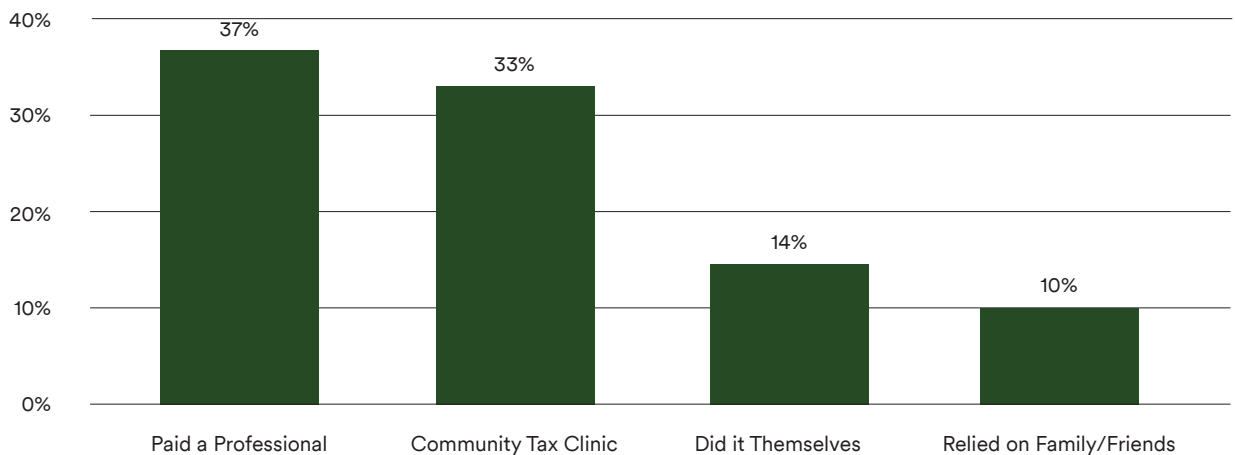
Additionally, since 2018, the CRA has delivered a free automated service called SimpleFile by Phone (Formerly called File My Return), which allows eligible Canadians to auto-file their tax return over the phone after answering a series of short questions.¹⁵ In the 2022 tax filing season, approximately 53,000 returns were filed using this service according to the federal government, who also announced in Budget 2023 that they plan to expand eligibility for this program to two million Canadians by 2025, which is almost triple the number of those who are eligible currently.¹⁶

This is a welcome step in breaking down systemic barriers. At the same time, there are opportunities ahead to increase tax filing and benefit uptake for low-income Canadians. This was noted by the Auditor General of Canada's report in 2022, which found that "the CRA and ESDC have not done enough to help hard-to-reach populations connect with the benefits put in place to support low income Canadians".¹⁷

"I [file my taxes because I] am legally obligated as a Canadian citizen first and foremost. Secondly, because I rely on all the benefits and credits that I am entitled to, to survive."

Experiences of Respondents Who Filed Taxes

Figure 2: Supports and services used by survey respondents to help file taxes

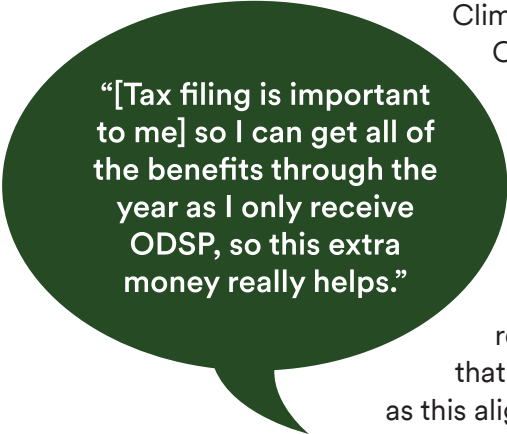


We decided to ask the 70% of food bank client survey respondents who had filed their taxes whether they used any services or supports to do so. As shown in Figure 2, the most used methods were paid professional services (37%), community clinics (33%), themselves (14%) or relied on family/friends (10%).

Considering the median income of food bank clients in Toronto is \$1,131, according to *Who's Hungry 2023*, it comes as a surprise that more than one in three survey respondents paid a professional to do their 2022 taxes, adding another expense to their already-stretched budgets.

However, when we asked survey respondents who filed taxes why it's important, an overwhelming majority said: "to get benefits" and "to comply with government policies." This implies that many are willing to pay to get their taxes done professionally because they want to make sure that they get all the benefits they are entitled to, and to avoid any potential repercussions from the government.

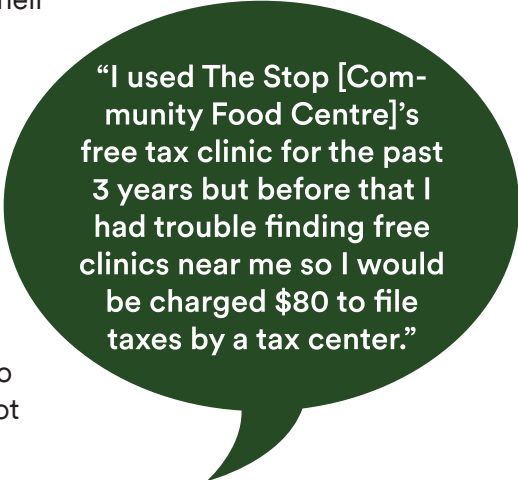
Among survey respondents who filed taxes, according to Figure 3, the most received benefits reported were the Goods and Services Tax (GST) Credit, the Climate Action Incentive Payment (CAIP) (now called the Canada Carbon Rebate), and the Ontario Trillium Benefit (OTB).



"[Tax filing is important to me] so I can get all of the benefits through the year as I only receive ODSP, so this extra money really helps."

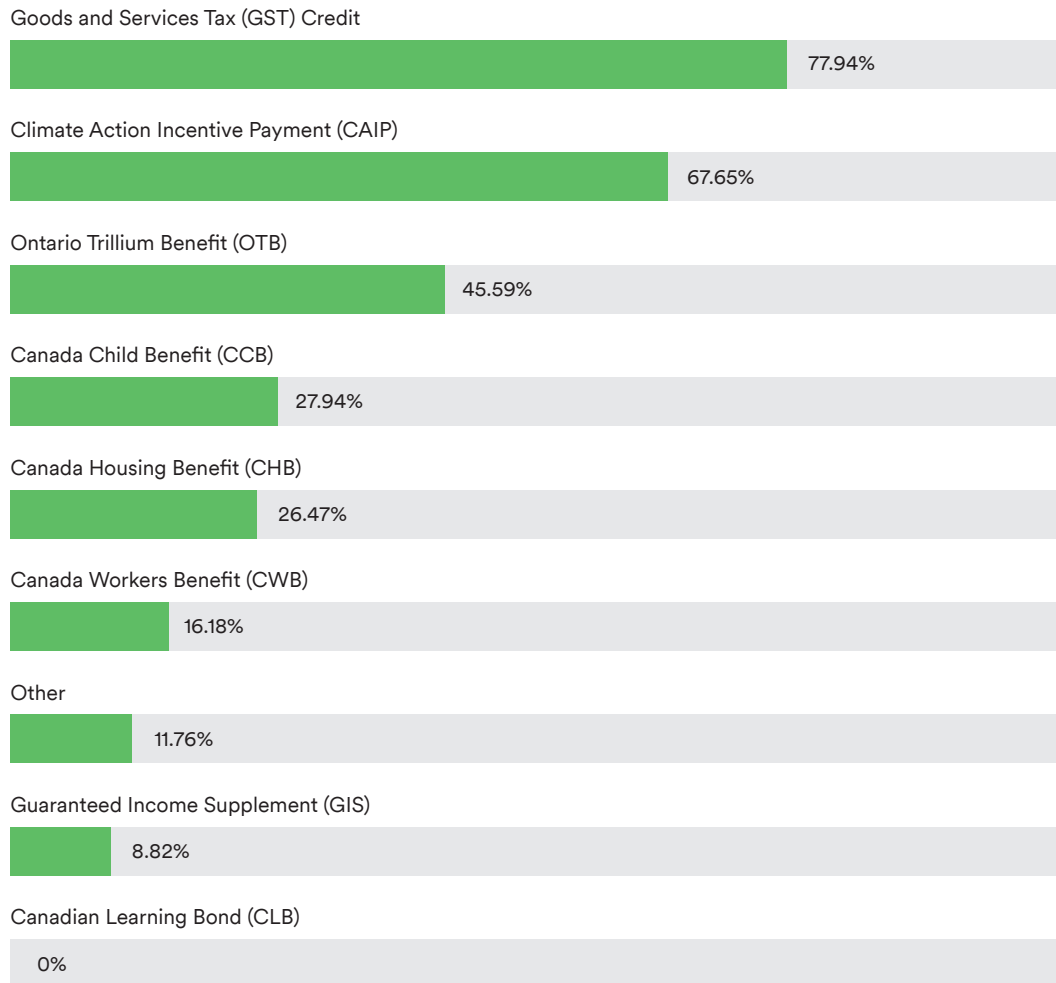
The uptake was much lower for Canada Workers Benefit (CWB), Canada Housing Benefit (CHB), Canada Child Benefit (CCB), or the Guaranteed Income Supplement (GIS) among the survey respondents, but this could be attributed to the fact that they are mainly determined by age, dependents, and employment status rather than income only, and may therefore relate to the small sample size of our survey. It's also not surprising that the Canada Learning Bond (CLB) had zero uptake in this survey, as this aligns with the Auditor-General's report that the CLB had the lowest uptake in comparison to the CCB, CWB and the GIS.¹⁸

When we asked respondents who reported filing their taxes whether they received any money back from the government after filing their taxes, only 65% said yes. This is concerning as "tax refunds are often the single largest lump-sum payment a low-income household will receive each year and households can use these refunds for big-ticket purchases and for savings, especially to smooth finances during periods of income fluctuation and financial shocks."¹⁹ Unfortunately, due to the limitation of the survey, we are unable to determine why 35% of those who filed taxes did not receive money back from the government.



"I used The Stop [Community Food Centre]'s free tax clinic for the past 3 years but before that I had trouble finding free clinics near me so I would be charged \$80 to file taxes by a tax center."

Figure 3: Benefits received by survey respondents who filed taxes



Although the majority of the survey respondents (70%) had filed their taxes, this group still reported a few barriers and challenges. The most cited barrier among respondents was the expensive cost of private tax help. Other respondents noted challenges due to the lack of user-friendly systems, challenges in self-navigating the processes, and mobility issues of getting to places to do their taxes.

When we asked those who reported filing taxes whether they would be interested in workshops or resources that provide guidance and support on tax filing, more than half (54%) said yes, meaning that tax filing could still be made easier for those already filing taxes.

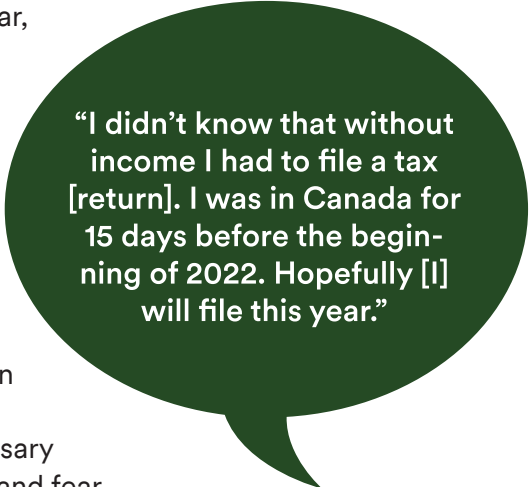
Experiences of Respondents Who Did Not File Taxes

According to Daily Bread’s Who’s Hungry 2022 report,²⁰ nearly 1 in 5 (19%) food bank clients in Toronto did not file their 2021 taxes, whereas nearly 1 in 3 (30%) of respondents to our Click/Hear survey reported not filing their 2022 taxes. While the Click/Hear program does not yield a representative sample, it offers insights to help us better understand why food bank clients do or do not file taxes, and what barriers and challenges they face, and how their experiences can offer lessons and implications for policymakers.

A report released by Prosper Canada on tax filing and benefit uptake utilizing a short survey, interview guide, and a scan of relevant articles found that the most frequently cited barrier to accessing benefits for people living on low incomes was not knowing what to do.²¹ This was followed by not knowing where to get help, the high cost of private tax help, challenges accessing existing supports, problems assembling documents and fear, mistrust, and a lack of confidence.²²

We saw similar challenges emerge in the survey results. When we asked those who did not file their taxes whether they encountered any challenges or barriers that prevented them from doing so, the most cited reason was because they were newcomers. This is not surprising as research tells us that tax-filing rates are highest for seniors and individuals with children and lower for young singles and newcomers.²³ Other reasons reported included the lack of necessary knowledge, absences (being away from Canada), and fear, mistrust, and lack of confidence.

When we asked those who reported not filing taxes whether they would be interested in workshops or resources that provide guidance and support on tax filing, 81% said yes. This could indicate that those who are not already filing their taxes are looking for additional supports to help them file their taxes.



“I didn’t know that without income I had to file a tax [return]. I was in Canada for 15 days before the beginning of 2022. Hopefully [I] will file this year.”

Automatic Tax Filing – A Solution on the Horizon

As noted earlier, in Canada, tax-filers are expected to assemble their documentation and submit it to the government for verification, putting the onus on individuals and households to complete their tax returns to receive the benefits to which they are entitled.

Surprisingly, Canada is somewhat unique in this regard, as more than 30 comparable countries around the world, including the United Kingdom, Slovenia, Norway, Denmark, Finland, Chile, Portugal, New Zealand, and Australia already have systems that are largely automated.²⁴ While there are variations, tax filing in these places generally involves governments completing tax forms using available information on income and deductions for taxpayers, followed by inquiries about additional details that could lower their tax liabilities.²⁵

Hence, one way to ensure benefits reach their intended recipients is for the CRA to assume a greater share of the administrative responsibilities in initiating and finalizing tax returns for low-income households.

One research paper published in 2023, titled “What Proportion of Tax Returns Could the Canada Revenue Agency Complete?” found that the CRA could be directed to complete returns for two-thirds of the households receiving income from provincial social assistance programs such as Ontario Works (OW) and the Ontario Disability Support Program (ODSP).²⁶ The paper also estimated that if the CRA collected third-party information from new sources or instituted alternative administrative procedures, it would substantially increase the number of returns they could complete.²⁷ As such, the authors concluded that there is a reasonable pathway for the CRA to do much more to reduce the administrative burden imposed by current systems and a strong case for it to do so.²⁸

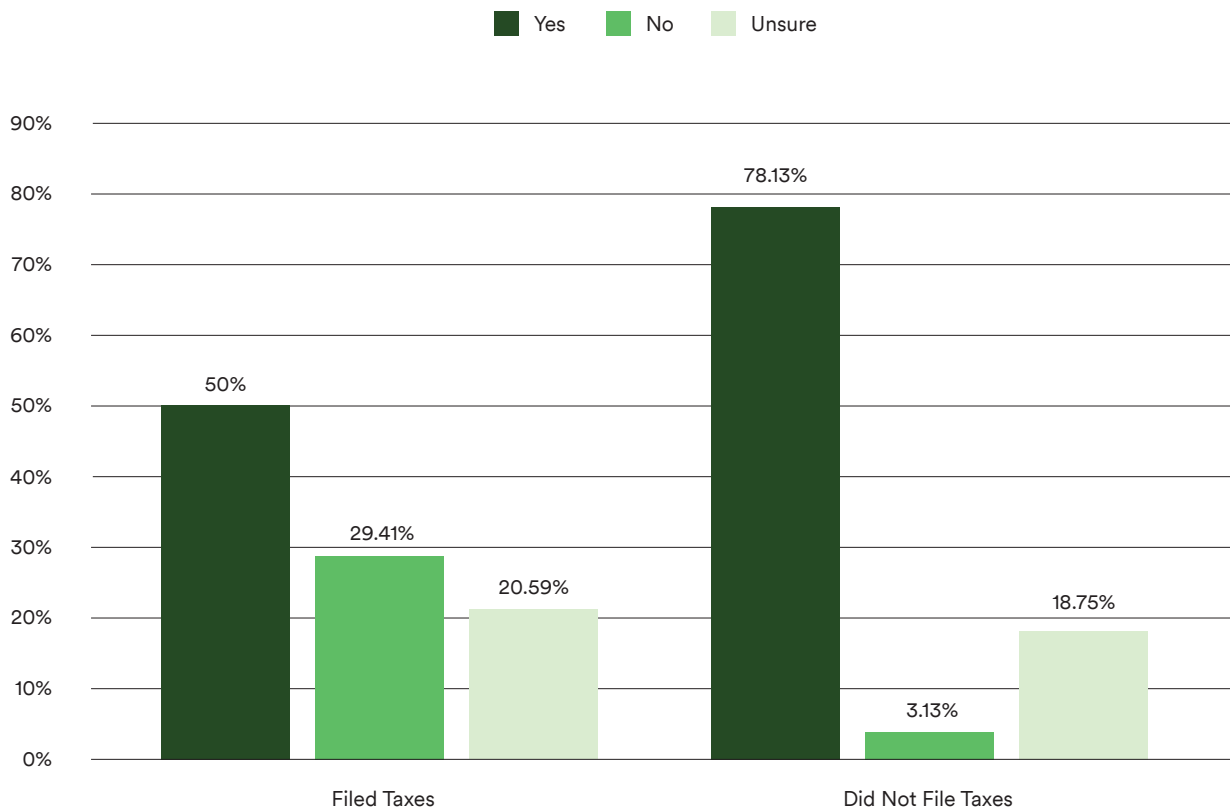
However, tax policy researchers have stated that compared to Canada, countries with highly automated tax systems typically offer fewer credits and deductions.²⁹ Furthermore, given that the majority of taxpayers have straightforward returns, implementing an automated system may not encompass all Canadians immediately.³⁰ Instead, it would initially benefit those with lower incomes, who stand to gain the most from such a system.³¹

Therefore, it’s important to note that filing taxes automatically for low-income Canadians is not the same thing as filing them automatically for everyone; but this is an opportunity for the federal government to boost benefit uptake because when low-income households do not receive benefits or services that they would have received if they had filed a tax return, it reduces the effectiveness of government policies.³²

In Budget 2023, it was announced that starting in 2024, the CRA will pilot a new automatic filing service so vulnerable Canadians who currently do not file their taxes can receive the benefits to which they are entitled.³³ Unfortunately, a year later at the time of writing of this report, there have been no publicly disclosed plans or updates on this, but we will look to Budget 2024 to see if the federal government follows through on their promise.

Figure 4: Willingness of survey respondents to use automatic tax filing if it was available

Would you use automatic tax filing if it was available?



When we asked respondents why they would or would not be willing to use automatic tax filing, the following themes emerged:

1. **Respondents who did not file taxes are far more likely to be open to using an automatic tax filing option than those who did file their taxes.** This indicates that automatic tax filing could increase tax filing and benefit uptake among hard-to-reach populations if it were available.
2. **The most cited reason by all respondents who said that they would use it (regardless of whether they did or did not file their taxes) is to save money, time, and to reduce barriers.** This highlights administrative burdens and challenges as a prominent barrier to tax filing and benefit uptake and supports the case for action by the government to pilot automatic tax filing.
3. **Both those who filed and did not file their taxes noted concerns about the service due to a mistrust of government.** This denotes that the government still has work to do in earning the trust of many hard-to-reach individuals.

While experts and advocates have called for automatic tax filing to help boost benefit uptake and better connect the federal government to hard-to-reach populations,³⁴ there would be implications for the tax filing industry that need to be considered. To successfully move this initiative forward, the government would need to manage the perspectives of a diverse set of stakeholders to design and implement an optimal program.

A Whole of Government Approach

While the tax system in Canada is mainly administrated by the federal government, provincial/municipal governments also have a role in boosting tax filing and benefit uptake. We decided to look to the international stage for best practices, and found the case of Scotland, where benefit uptake strategies are underpinned by the following principles³⁵:

1. Prioritize person-centered approaches: “simplify processes and messaging to make access to benefits and engagement with the system more straightforward and less daunting for clients.”³⁶
2. Communicate and engage effectively: “work in partnership with other organizations to broaden the reach of messages and integrate within local communities.”³⁷
3. Bring services to people: “ensure dissemination [of] information to the right places at the right time to reach as many people as possible.”³⁸

4. Encourage cross-system collaboration: “adopt a whole-system approach to income maximization by working in collaboration with other public sector and third sector bodies.”³⁹
5. Continuously learn and improve: “work to collect more data on promoting benefit uptake to more accurately identify what works, and also what does not work.”⁴⁰

These principles should be adopted in Canada to make sure that hard-to-reach populations receive the benefits they are entitled to. This would require governments to prioritize person-centered approaches that simplify processes to make engagement with the system more straightforward and less daunting for clients.

Additionally, it would also facilitate the adoption of a whole-system approach to income maximization because low-income populations would be able to apply for, and receive other federal benefits, such as the CWB, CCB, or the GST credit that they are eligible for in addition to any provincial benefits they may already receive – increasing the effectiveness of government policies.

Policy Recommendations

To improve access to benefits for hard-to-reach populations, we recommend:

- The federal government to move forward with the implementation of the automatic tax filing pilot for low-income Canadians and develop a plan to expand it to all Canadians.
- The federal government, in partnership with the non-profit sector, to expand the Community Volunteer Income Tax Program (CVITP) so that more community organizations can run free tax clinics more often and for longer, and to add staff support from the CRA, to ensure volunteers are qualified and knowledgeable when completing tax returns for people.
- The federal government, in partnership with provincial/municipal governments, to adopt principles in the development of benefit uptake strategies that prioritize people-centered approaches that bring services to people and encourage cross-system collaboration for income maximization, so people receive all the benefits they are entitled to.
- The federal government to improve measurement of the uptake of benefits, including its assessment of existing data on hard-to-reach populations and the implementation of measures to collect missing data.

What Respondents Told Us About Their Tax Filing Experiences

“I can’t do [my taxes] myself. It’s too challenging to understand.”

“[Tax filing] is a REAL concern for those who have disabilities and those [lacking] English language skills to understand, access and get tax support. Also, Tax programs only run during Feb/March/April of any year so if you MISS the “help” program’s time frame then you have missed getting help in any particular year.”



“[I] needed assistance with the paperwork and to help me understand how [file my taxes]. Also, now that I’m more than one year behind - I am worried and nervous about filing my taxes and I’m uncertain about where to start.”

“[Tax filing is important to me] because I have to provide the Toronto Community Housing subsidy program yearly rent review with my Notice of Assessment so I can keep my Rent Geared to Income benefit. Also, I need the GST rebate and any other monies I’m entitled to. Lack of understanding on how to fill out forms. Far behind in taxes. Having multiple years to file. I am afraid of the amount of paperwork and if I have the proper paperwork still and/or whether I will be penalized for filing later and how to get outstanding documentation if I have lost it.”

The error was that the volunteer thought I was in a TCHC building that does not pay municipal taxes and my [Ontario] Trillium [Benefit] was held. CRA accidentally gave me extra money in November. Now they are going to take it away. I still have no [Ontario] Trillium [Benefit].”



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