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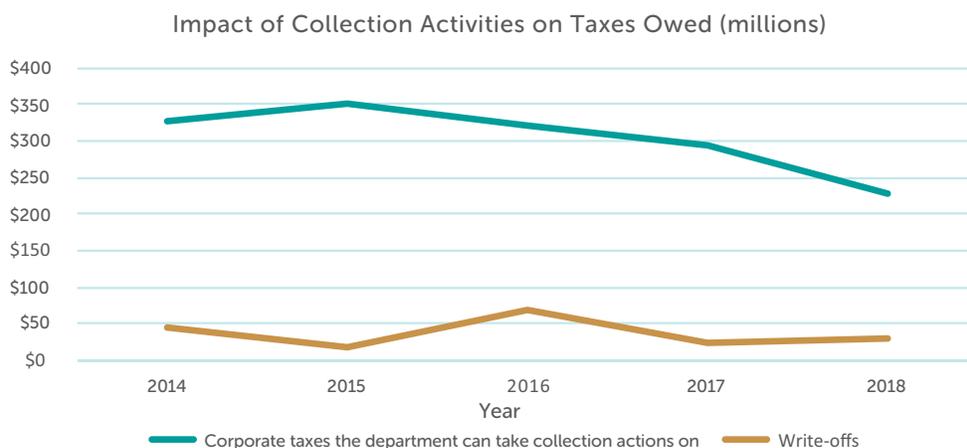
# Alberta Treasury Board and Finance Collections of Corporate Income Tax & Filing Compliance Follow-up

November 2018

## About this Audit

The Tax and Revenue Administration (TRA) division of the Department of Treasury Board and Finance is responsible for administering various tax programs under various acts, including the *Alberta Corporate Income Tax Act*. While most taxpayers file their tax returns and pay taxes when due or shortly thereafter, some do not.

Corporate tax revenue for 2017–18 was \$3.4 billion. At March 31, 2018, TRA is taking collection actions on approximately \$229 million, or 27 per cent, of the \$840 million in corporate income taxes owed. The remaining \$611 million in taxes are under objection, in relation to which some legislative restrictions to collection applies. The graph below shows the taxes owed where the department is not limited by legislation to take collection actions, and the amounts written off<sup>1</sup> at March 31.



In 2014,<sup>2</sup> we recommended that the department improve its tax-collection systems by:

- updating and maintaining its tax-collection policies and procedures and improving its training programs
- developing adequate performance measures to assess the timeliness and effectiveness of collections, and publicly reporting on its collection activities
- updating its management information, periodically analyzing the data of taxes owed to identify emerging issues, and developing strategies to deal with the backlog of files submitted for write-off and low-value accounts

In 2015,<sup>3</sup> we also recommended that the department improve its compliance systems for corporations who do not file their income tax returns.

## Audit Objective and Scope

The objective of our follow-up audit is to determine whether the Department of Treasury Board and Finance has implemented our recommendations regarding the systems to collect outstanding corporate income taxes and compliance systems for corporations who failed to file their income tax returns.

<sup>1</sup> The write-off of an uncollectable account does not forgive the corporation to pay its corporate income taxes owing to the Crown. The department can still take further collection action if in the future it gets new evidence of a collection source.

<sup>2</sup> *Report of the Auditor General of Alberta—October 2014*, page 47.

<sup>3</sup> *Report of the Auditor General of Alberta—October 2015*, page 156.

## What We Examined

We examined the actions that the department took to implement our prior recommendations related to collecting outstanding corporate income taxes and following up with corporations who failed to file their required tax returns. We:

- interviewed management and staff about the tax-collection and filing systems
- reviewed policies, procedures, other documents and management reports
- reviewed a sample of files
- analyzed corporate tax data

We conducted our field work from March 2018 to August 2018. We substantially completed our audit on August 27, 2018.

## Conclusion

We conclude that the department, as of August 27, 2018, implemented the recommendations related to:

- updating and maintaining its policies, procedures, and training
- developing performance measures
- improving management information, analyzing tax data, dealing with the backlog of files submitted for write-off, and developing strategies for low-value accounts
- implementing compliance systems for unfiled corporate income tax returns

Management made significant improvements from our original audit. Management now focuses on continuous improvement. For example, they created specific roles to focus on more complex cases, and they continue to identify strategies and improvements to collection action through the data analysis.

## Why this Conclusion Matters to Albertans

Corporate taxes is a large source of government revenue. While most corporations pay what they owe when due, some do not. In such cases, the department must collect outstanding amounts effectively and efficiently, while also treating corporations fairly and consistently. To reassure Albertans that all corporations are paying the taxes they owe, the department must also evaluate and report on whether its tax-collection program is working.

## Findings and Recommendations

### Documented Policies, Procedures, and Training—**recommendation implemented**

#### Context

Clearly documented and well-understood policies and procedures are an important part of an internal control system. These documents articulate management's expectations and direct compliance officers in their day-to-day activities to achieve a desired result. They also lead to consistent administration of tax collections. Combined with relevant policies and procedures and ongoing training, these documents equip compliance officers with direction and guidance when they exercise professional judgment in complex situations.

We found in our 2014 audit that several collection policies and procedures were outdated, not comprehensive, or did not exist for certain collection actions. We also found that there was no formal ongoing training program.

### Our follow-up audit findings

#### *Policies and procedures*

The department developed a schedule of policies and procedures that it needed to update or develop. The schedule also includes dates when the policies and procedures will be reviewed to ensure they remain current. Several of these procedures are due for review in late 2018.

Based on this schedule, the department updated a range of procedures to guide collection officers in their day-to-day work. This includes procedures that collection officers should follow within the first 90 days that a file is assigned to them, how to prepare writs, and how to prepare demands for information and requirements to pay. The department obtains regular input from staff on further improvements to the policies and procedures. The department also identifies through its data analysis when it needs to improve collection procedures.

#### *Training*

The department developed training manuals for the policies and procedures it completed, and it trained all staff. In addition, the department holds periodic technical training sessions to update staff on changes made regarding the collection and filing actions and to share lessons learned. The senior manager and supervisors also discuss changes or challenges that collection officers encounter during regular staff meetings.

## Performance Measures and Reporting—**recommendation implemented**

### Context

To demonstrate that the department is achieving its results in a cost-effective and efficient way, it must have sufficient performance measures and targets to evaluate and report the performance of collections. This includes external measures to demonstrate accountability for the results achieved and detailed internal measures to manage resources that support achieving the desired results. These measures and targets serve as communication, motivational, and decision-making tools.

When there are significant variances from targets, management needs to explain what factors, including external factors, affected results. When targets are not met, management needs to adjust and develop cost-effective strategies to achieve the desired results.

We found in our 2014 audit that the department lacked adequate performance measures to evaluate the effectiveness of its collection activities.

### Our follow-up audit findings

The department implemented our recommendation by developing a set of internal and external performance indicators and targets to evaluate the effectiveness and efficiency of the collection activities at an operational and strategic level. Supervisors evaluate the collection activities for staff monthly to determine if they take appropriate and timely collection actions, and also to identify any areas for improvements to policies, procedures, and training. Management reviews the combined performance measures results for staff on a monthly basis, while senior management reviews a number of high-level measures semi-annually, including evaluating any significant variances from targets and requesting further analysis or developing strategies and plans to improve results.

TRA also developed a set of performance indicators that it publishes on its website.<sup>4</sup>

## Management Information and Monitoring—**recommendation implemented**

### Context

TRA uses a number of collection actions, such as sending letters, making phone calls, and taking various legal actions, such as registering liens, garnisheeing outstanding taxes from corporations' bank accounts or other sources, and seizing assets. To be effective, management should monitor and analyze the status of collection files and the results of its collection activities so it can focus on actions with the best results or develop alternate strategies for actions that are less effective. Focusing resources on the highest risk and value amounts must be balanced with avoiding the perception that compliance is not required for lower risk and value files.

We found in our 2014 audit that the monitoring reports and information systems lacked key information to monitor collection activities and the department did not analyze receivables sufficiently to identify potential trends or improvements to collection actions. We also found that the department did not have strategies to deal with low-value accounts and there was a significant backlog of files that had been submitted for write-off.

### Our follow-up audit findings

The department implemented our recommendation.

#### *Management information and analysis of outstanding taxes*

The department continues to produce a monthly inventory of outstanding files. The department updated its collection systems to track various collection actions, to analyze the data to improve collection actions, and to include the information in reports.

The department developed a new report that includes information about the outstanding taxes, such as how long they have been outstanding, breakdowns between various categories, and other information about taxes owing. Filing and Compliance Branch management review these monthly reports to identify trends in the inventory and the taxes owed. Management discusses any questions and follow-up actions with supervisors and collectors.

<sup>4</sup> [https://finance.alberta.ca/publications/tax\\_rebates/tra-indicators/corporate-income-tax.html](https://finance.alberta.ca/publications/tax_rebates/tra-indicators/corporate-income-tax.html)

The department also analyzes outstanding receivables data to develop strategies and improve collection actions. For example, the department analyzed corporations that meet certain criteria, identified improvements that are required for the collection processes, and discussed the results and potential collection strategies with staff.

#### *Low-value accounts*

Files with low values represent a significant number of the outstanding files, but the total value of these files is low. At March 31, 2018, the number of files with balances under \$1,000 represented a large number of files, yet this number only represented about one per cent of the total value of the outstanding corporate income taxes.

The department has made changes to its processes and developed strategies to deal with low-value accounts. We conclude that the department has taken appropriate steps to deal with low-value accounts.

#### *Backlog of files submitted for write-offs*

Independent reviews are required to determine whether collectors have taken all the necessary collection actions before the appropriate approval is provided to write off an account. The write-off of an uncollectable account does not forgive the corporation to pay its corporate income taxes owing to the Crown. The department can still take further collection action if in the future it gets new evidence of a collection source.

The department updated its policy and authority levels to write off the corporate income tax amounts that it deems to be uncollectible. Since 2014, the department has significantly reduced the number of files that has been submitted for write-off that were awaiting review and approval. The department has developed a plan to complete detailed reviews of files awaiting approval. We conclude that the department has adequate processes to manage the files submitted for write-off.

## **Compliance Systems for Unfiled Corporate Income Tax Returns— recommendation implemented**

### **Context**

The department is responsible for ensuring corporations file their income tax returns within six months of the tax year-end unless they are exempt from doing so. Corporations are charged a penalty if they file returns late or not at all, or if they do not pay outstanding taxes when required.

The department assigns a risk score to files to effectively manage its resources. Supervisors assign high-risk files to filing-compliance officers, who contact corporations to file their returns. The department can issue a demand to a corporation and its officers or directors to file a return, and it can estimate the corporation's tax payable if the demand or requests are ignored. This process is known as default assessment.

We found in our 2014 audit that the department did not have strategies to deal with outstanding tax returns that were not filed.

### Our follow-up audit findings

The department implemented our 2015 recommendation by updating its risk-scoring model and developing common procedures that officers should follow when a file is assigned to them for an outstanding tax payable or when corporations failed to file their required tax returns.

The department also developed procedures for issuing default assessments when corporations fail to respond. The department has issued default assessments since 2014 to ensure companies file their returns and pay any taxes due. The department also evaluated the success of the default assessments processes and identified further improvements to its current processes.