No. 20 | February 2020

Sturm, Susann

Tax Complexity in Canada: A Comparative Perspective
Tax Complexity in Canada: A Comparative Perspective

Susann Sturm
LMU Munich
sturm@bwl.lmu.de

February 2020

Keywords: tax complexity, survey, Canada, comparative analysis, OECD

JEL Classification: K34, C83, O51

* I thank Georg Bauer, Alexander Edwards, Thomas Hoppe, Maximilian Mayer, Wolfgang Sturm, and François Vaillancourt for helpful comments and suggestions. I also thank all survey respondents of Baker Tilly Roelfs, BDO, Crowe Kleeberg, Deloitte, DFK, Ecovis, HLB Stückmann, KPMG, Kreston, Moore Stephens, Nexia, PKF, PwC, RSM, Rödl & Partner, Taxand, UHY, Warth & Klein Grant Thornton and WTS without whom the Tax Complexity Index and also this study, which uses the data of the Tax Complexity Index, would not have been possible. I gratefully acknowledge funding by the Deutsche Forschungsgemeinschaft (DFG, German Research Foundation) – Project-ID 403041268 – TRR 266 Accounting for Transparency and the LMU Mentoring Program.
Motivated by concerns about Canada’s tax system being overly complex, this study examines the Canadian corporate income tax system complexity faced by multinational corporations and compares it to the average complexity from other OECD countries, using the survey data of the Tax Complexity Index. I find that, with regard to the Canadian tax code, the most complex regulations are those on corporate reorganization, transfer pricing and controlled foreign corporations; while in relation to the Canadian tax framework the most complex areas are tax audits, tax law enactment and tax guidance. Relative to the other OECD countries, Canada has a medium level of total complexity. However, the tax code is slightly more complex than the average of the other OECD countries, driven by a higher overall complexity level of certain tax regulations in Canada, such as those on corporate reorganization. In contrast, the tax framework is similarly complex as the average of the other OECD countries. There are no substantial differences in the overall complexity level of the tax framework areas between Canada and the other OECD countries.
1 Introduction

Tax complexity is not a new phenomenon in Canada.\(^1\) However, in recent years, it has received increased attention. Many concerns have been raised about the (rising) complexity of the Canadian tax system (Vaillancourt, Roy and Lammam 2015; Vaillancourt et al. 2016; Vaillancourt and Bird 2016; Poschmann, Vaillancourt and Fuss 2019). A general problem with tax complexity is that it can impose significant costs to taxpayers and governments.\(^2\) As a result, a complex tax system is often considered as a threat to a country’s global competitiveness, which is generally important for economic growth and investments. Global competitiveness also plays a large role for Canada. Guided by the concern that Canada is struggling to remain competitive, in 2012, the Canadian Chamber of Commerce launched the initiative “Top 10 Barriers to Competitiveness”, producing a list of 10 barriers that needed to be overcome to improve Canada’s competitiveness. In all subsequent reports about this initiative, the complexity of the Canadian tax system is highlighted as one of these barriers (Canadian Chamber of Commerce 2013, 2014, 2015, 2016). Surprisingly, despite the substantial attention on tax complexity in Canada, there is not much research about it, especially in contrast to other countries where tax complexity is considered a serious issue (e.g., Australia or the United States (US)).\(^3\) Most prior studies on Canada focus on certain aspects of tax complexity, often at a very aggregate level. Furthermore, the few cross-country studies that include Canada provide different results on how Canada performs relative to other countries in terms of tax complexity. Hence, based on the literature, the question of whether Canada’s tax system is as overly complex as indicated by the initiative of the Canadian Chamber of Commerce remains.

In this study, I respond to this question by examining the complexity of the Canadian corporate income tax system as faced by resident multinational corporations (MNCs) in the year 2016, comparing it to the average complexity of other important and comparable countries.\(^4\) Following prior tax-related comparative studies (Wagstaff and van Doorslaer 2001; Nam 2012;

\(^1\) Already in the 1990s, the complexity of the tax legislation was perceived as the number one source of the high federal compliance costs of large Canadian businesses (Erard 1997).

\(^2\) Costs of tax complexity include, for example, distortions, non-compliance, compliance costs, and legal uncertainty (Ulph 2015).

\(^3\) In Australia and the US, there are many studies, which also cover various aspects of tax complexity. See, for example, Smith and Richardson (1999), Evans, Lignier and Tran-Nam (2013), and Tran-Nam and Evans (2014) for Australia and Moody, Warcholik and Hodge (2005), Slemrod (2005), and Burton and Karlinsky (2016) for the US.

\(^4\) I focus on corporate income taxes as they are an important source of tax revenue and an influential factor for real corporate decisions (Hanlon and Heitzman 2010).
Drometer et al. 2018), I focus on the member countries of the Organisation for Economic Co-operation and Development (OECD), to which Canada belongs, and select the other OECD countries (i.e., OECD member countries excluding Canada) as a peer group. These countries are a suitable peer group, given that they share many common characteristics with Canada. They are mostly advanced economies with a similar degree of development (Campbell, Carayannis and Rehman 2015). Moreover, they are affected in the same way by recent tax initiatives of the OECD, such as the Base Erosion and Profit Shifting (BEPS) project to tackle international tax avoidance by MNCs. To conduct the analyses, I use the data of the Tax Complexity Index. This index is a composite measure of total tax complexity that has been recently developed by Hoppe et al. (2019) for 100 countries for the year 2016 based on data collected through an online survey of tax consultants of 19 international tax services firms and networks. It covers a wealth of information about tax complexity, thus providing a unique opportunity to study the complexity of the Canadian tax system in detail. Following Hoppe et al. (2019), I define tax complexity as a characteristic of the tax system that arises from the difficulty of reading, understanding and complying with the tax code (tax code complexity), as well as from issues of various kinds related to the features and processes within the tax system (tax framework complexity). I find that Canada has a medium level of total tax complexity relative to the other OECD countries. When I split total tax complexity into its two components, tax code complexity and tax framework complexity, and look at their dimensions, I find that, in the tax code, the most complex regulations are those on corporate reorganization, transfer pricing and controlled foreign corporations, while in the tax framework the most complex areas are tax audits, tax law enactment and tax guidance. The level of tax code complexity is slightly higher than the average level of the other OECD countries, which is mainly due to the higher overall complexity level of the tax regulations on corporate reorganization, controlled foreign corporations, additional taxes and alternative minimum tax. Drivers that largely contribute to the higher complexity of these regulations in Canada are excessive details, computation requirements and

---

5 In the literature, Canada is often compared to the US (e.g., Erard 1997; Chernick and Tennant 2010; Pinto 2016). However, since I aim to obtain a broader perspective on how Canada performs in terms of tax complexity, I refrain from doing a comparison with only the US. Due to the US Tax Cuts and Jobs Act of 2017, such a comparison would also be rather interesting in the light of more recent data on tax complexity than used in this study.

6 The data of the Tax Complexity Index is publicly available at the aggregate level and can be downloaded at www.taxcomplexity.org. In this study, I not only use the publicly available data but also the disaggregated data, which is not publicly available.
changes over time. In contrast, the level of tax framework complexity is very similar to the average level of the other OECD countries. Regarding the complexity levels of the tax framework areas (audits, appeals, enactment, filing and payments, and guidance), there are no substantial differences between Canada and the other OECD countries. Even within all areas, the main complexity drivers are generally, on average, very similar between Canada and the other OECD countries. For example, I find that there are problems with the quality of tax law drafts in the tax law enactment process or with the time period between the filing of an appeal and a final decision in the tax appeals process. However, I also observe some differences, such as the lack of experience or skills of tax officers in the tax audit process which is considered as a more serious problem in Canada than in the other OECD countries on average. Based on the overall results for Canada and the comparison to the average of the other OECD countries, I conclude that Canada’s corporate income tax system cannot be considered as overly complex as indicated by the initiative of the Canadian Chamber of Commerce.

The contribution of this study is twofold. First, I extend prior literature that has exclusively focused on tax complexity in Canada, most of which is the result of the pioneering work of François Vaillancourt. The majority of studies have focused on tax compliance costs for individuals (Erard and Vaillancourt 1993; Vaillancourt 1995; Vaillancourt and Blais 1995; Vaillancourt 2010; Speer et al. 2014; Lugo and Vaillancourt 2015), businesses (Plamondon and Zussmann 1998; Vaillancourt and Clemens 2008; Vaillancourt and Barros 2011), or both individuals and businesses (Vaillancourt, Roy-César and Barros 2013). These costs were often estimated via surveys (telephone or mail) or through simulations. While the findings provide some evidence about the magnitude of the tax compliance burden, they are subject to several limitations, including the difficulty to disentangle the drivers of the compliance costs in the tax system itself as they are strongly affected by individual characteristics, such as firm size. Besides the purely cost-based studies, there are also a few recent ones (e.g., Vaillancourt, Roy and Lammam 2015; Vaillancourt et al. 2016; Vaillancourt and Bird 2016; Poschmann, Vaillancourt and Fuss 2019) that combined three measures which have been proposed in prior literature to quantify tax complexity in the US. These three measures include the number and value of tax

---

7 There are also some studies that estimate the costs which occur at the level of the government to collect taxes (administrative costs). Examples include Vaillancourt and Clemens (2008) and Vaillancourt, Roy-César and Barros (2013).

8 For further limitations, see Eichfelder and Hechtner (2018).
expenditures (Weinstein 2014), the size of the federal income tax code (Moody, Warcholik and Hodge 2005) and the length of the instructions (Slemrod 2005). They were analyzed with respect to personal income tax, corporate income tax and goods and services tax over time. The findings of these studies indicate that tax complexity has increased over the years. However, due to the strong focus on only a few aspects, often at a highly aggregated level, the studies rather provide an overview of the complexity of the Canadian tax system and do not offer an in-depth analysis. This is where the present study steps in. Based on the data of the Tax Complexity Index, I can quantify and comprehensively review the complexity within the Canadian tax system. Due to the numerous facets that are covered by the index, I can provide detailed insights into the complexity drivers of tax code and tax framework complexity in the tax system.

Second, I extend the literature comparing the tax complexity in Canada with other countries or country groups. Since cross-country studies on tax complexity are generally very rare due to the lack of comparable data, there are only few country comparisons that consider Canada. One of these studies is Erard (1997), which estimated the income tax compliance burden of big businesses in Canada and compared them with the cost estimates of Slemrod and Blumenthal (1996) for the US. This study indicates that compliance costs in Canada are high but smaller than in the US. Another study comparing tax compliance costs is the study of Evans et al. (2014) which was conducted for small businesses in Australia, Canada, South Africa and the United Kingdom. In this study, Canada is highlighted for its very high level of internal compliance costs for income taxes compared to the other three countries. Although both studies provide some indication about Canada’s compliance burden relative to other countries, they are subject to some limitations. Due to differences in the methodologies across the countries, the estimates are not fully comparable. Moreover, the approaches do not allow for obtaining deep insights into the key determinants of the compliance costs across the countries. Another study examining tax complexity across countries is the annual study of the World Economic Forum, which aims to measure the global competitiveness of countries. In earlier versions, the study also measured the complexity of a country by asking business executives to rate the complexity of their tax system on a scale from one (highly complex) to seven (simple and

---

9 The problem of limited comparability is also noted by several review studies, which therefore call for more internationally comparable analyses in the future (e.g., Eichfelder and Vaillancourt 2014).
transparent). In World Economic Forum (2005), which is the last study that includes this question, Canada ranks in the middle of the OECD countries (rank 17 of 35), with an average score of 2.9. Similar to the compliance costs studies of Erard (1997) and Evans et al. (2014), the scores of World Economic Forum (2005) give an impression for Canada’s tax complexity relative to other countries. Nevertheless, they are relatively subjective and do not provide any information on the underlying drivers of the scores. A different approach is followed by Ehrlich (2011), who measured tax complexity by the standardized number of words in the tax laws. With about 1.26 million words, Canada ranks fourth among the 19 OECD countries in his sample and is thus one of the most complex countries. In contrast to the previous studies, the count-based approach by Ehrlich (2011) would enable a closer look at single regulations. However, the approach is very narrow in its focus, as it only captures the detailedness of a tax law. A more comprehensive approach is taken by the “Paying Taxes” study of PwC and the World Bank Group, which combines several measures, including the number of tax payments and the time to file and pay taxes in order to quantify the total tax burden. To ensure comparability, the measures are calculated based on a medium-sized case study company without any foreign operations. PwC and World Bank Group (2017) find that, in 2016, Canada has a total Paying Taxes score of 88.05, which translates into a country rank of 29 out of 35 OECD countries, indicating a very low level of tax complexity. Due to the compositive approach of the “Paying Taxes” study, it allows to look at the values of the single components and thus, to some extent, to obtain information about the reasons for the low level of tax complexity. However, the “Paying Taxes” study is often heavily criticized, for example, for its focus on a purely domestic medium-sized company and its inability to capture the whole tax burden (Tran-Nam and Evans 2014). Due to the limitations of the different approaches and the different results, it is still unclear how Canada performs relative to other countries. The present study uses a comprehensive approach and provides more clarity. It carries out a detailed comparison between Canada and the other OECD countries. It does not only compare the levels of tax complexity but also its drivers. This approach also offers the opportunity to identify relatively more or less complex aspects of the Canadian tax system.

This study is interesting for different groups. The results can help policy makers to improve existing tax policies and processes. Additionally, it provides them with evaluation criteria to assess new policies and processes in the future. Moreover, they can give MNCs information about tax complexity that may be relevant for several business decisions, such as to invest in
Canada. Last but not least, it provides researchers with comprehensive information on tax complexity that could be used as a starting point for future research.

The remainder of this paper is organized as follows. The ensuing section provides an overview of the Tax Complexity Index and its underlying survey. Moreover, it describes the sample and the methodology of the analysis. Section 3 presents the results. It focuses on the levels of tax complexity in general and also provides details on the complexity drivers of tax code and tax framework complexity. The last section summarizes the findings and offers conclusions.

2 Methodology

2.1 Survey and Index

I use the data of the Tax Complexity Index for the year 2016 to examine the complexity of the Canadian tax system and to present comparisons with the other OECD countries. The Tax Complexity Index, which has been recently developed by Hoppe et al. (2019), is a composite measure that captures the total complexity of corporate income tax systems as faced by MNCs. It is based on Hoppe et al. (2018)’s two-pillar concept of tax complexity, which is illustrated in Figure 1. According to this concept, the total tax complexity is composed of two pillars, the complexity of the tax code (Pillar I: Tax Code Complexity) and the complexity of legislative and administrative features and procedures within the tax system (Pillar II: Tax Framework Complexity). To collect country-specific information on tax complexity, Hoppe et al. (2019) conducted a survey of tax consultants of leading international tax services firms and networks. Their standardized questionnaire included questions on the different dimensions of tax code and tax framework complexity.

---

10 This primary focus of the index is on the federal level. However, as a dimension of the complexity of the tax code, it also covers additional income taxes, such as provincial corporate income taxes.
The complexity of the tax code was assessed based on 15 dimensions (also referred to as regulations), consisting of regulations\textsuperscript{12} on (1) additional local and industry-specific taxes, (2) (alternative) minimum tax, (3) capital gains and losses, (4) controlled foreign corporations, (5) corporate reorganization, (6) depreciation and amortization, (7) dividends (including withholding taxes on dividend payments), (8) general anti-avoidance, (9) group treatment, (10) interest (including withholding taxes on interest payments) and thin capitalization, (11) investment incentives, (12) loss offset, (13) royalties (including withholding taxes on royalty payments), (14) statutory corporate income tax rate, and (15) transfer pricing.\textsuperscript{13} To measure the level of complexity of each regulation, respondents were asked to determine the extents to which five complexity drivers contribute to the complexity of a regulation. These complexity drivers included ambiguity and interpretation (regulation is phrased in an unclear, imprecise and/or ambiguous manner so that different interpretations are possible), change (regulations is frequently changed and changes are extreme in terms of quantity and/or scope), computation (regulation requires many and/or sophisticated calculations to prove its applicability), detail (regulation contains excessive details, such as numerous rules, exceptions to rules and/or cross-references to other rules), and record keeping (regulation requires many records and

\textsuperscript{11} This figure is based on Figure 1 in Hoppe et al. (2018).

\textsuperscript{12} The term regulation is used to describe provisions, rules and standards in the tax code (Hoppe et al. 2019).

\textsuperscript{13} The regulations have been identified based on the survey which is described in Hoppe et al. (2018).
documents to substantiate all claims under this regulation). The total complexity level of a regulation was calculated as a weighted sum of the single assessments, yielding a potential range of values between zero (not complex) and one (extremely complex).

The complexity of the tax framework was determined based on five dimensions (also referred to as areas): (1) tax audits, (2) tax appeals, (3) tax enactment, (4) tax filing and payments, and (5) tax guidance. In contrast to the dimensions of the tax code, the complexity of the dimensions of the tax framework were determined by complexity drivers specific to each area. The number of complexity drivers varied across the areas and ranged between six (tax enactment and tax guidance) and fourteen (tax filing and payments). The total complexity level of an area was calculated as the average of the assessments on the respective complexity drivers, yielding a potential value between zero (not complex) and one (extremely complex).

Besides questions on the drivers of tax code and tax framework complexity, the questionnaire also included introductory questions on tax complexity at the beginning and demographic questions at the end. In total, respondents had to answer 52 questions. To provide a reference point for the assessment and a uniform understanding of all terms, examples and hints were added next to the questions when required. The link to the questionnaire was sent to 19 international tax services firms, who shared it with their local tax consultants within their networks. The survey was open from October to December 2016. The final sample consisted of 933 responses from 100 countries, including Canada and 32 other OECD countries.\(^\text{15}\)

### 2.2 Respondents and Analysis

Table 1 presents selected demographic information on the respondents from Canada (17 respondents) and from the other OECD countries (455 respondents). As indicated by the distributions of the demographic variables, the two samples are characterized by highly experienced and well-educated respondents.\(^\text{16}\) In both, the majority of the respondents are partners, directors or principals (Canada: 82.35%; other OECD countries: 72.31%). Moreover, the respondents are highly experienced, with 70.59% in Canada having worked in the tax area for

\(^{14}\) The complexity drivers for each area will be presented in detail in Section 3.4.

\(^{15}\) I refer to the countries which were members of the OECD in 2016. Out of these 35 countries, two countries (Iceland and Latvia) are not included in the sample of Hoppe et al. (2019). Hence, without Canada, I obtain 32 other OECD countries. The distribution of the respondents among these OECD countries is provided in the Appendix (Figure 16).

\(^{16}\) It would be interesting to examine whether the samples are also representative of the target populations. However, this is nearly impossible since there is no comparable, publicly available data on tax consultants.
more than 15 years. Compared to the respondents from the other OECD countries in which, on average, 63.30% have worked for more than 15 years in this area, the respondents from Canada are slightly more experienced. In addition, about half of the respondents of both samples are familiar with more than one other tax system (Canada: 52.94%; other OECD countries: 47.91%). In terms of education, 70.59% of the Canadians have at least a master’s degree – slightly smaller compared to the share of respondents from other OECD countries (76.70%). A larger difference exists with regard to the age distribution. While in Canada almost half of the respondents (47.06%) happen to be between 40 and 49 years old, only about a third (29.89%) from the other OECD countries are. Across the other OECD countries, there are slightly more respondents who are over 59 years as well as between 30 and 39 years old. However, as indicated by Hoppe et al. (2019), this is not a problem: demographic differences do not have a crucial impact on the responses. With respect to the gender, nearly all respondents (94.12%) from Canada are men. In contrast, the share of men (76.70%) is smaller but still large for the other OECD countries.

In the next section, I present and compare the responses of the survey participants. I first focus on the responses to the introductory questions of the survey. Then, I provide an overview in terms of total tax complexity and its two components, tax code and tax framework complexity. Afterwards, I look at the dimensions of tax code and tax framework complexity and examine the complexity drivers. Given the extensive information provided by the data of Hoppe et al. (2019), I often focus on selected dimensions and complexity drivers. All results refer to the year 2016 and are based on the average of the individual responses. I test for differences in the results between Canada and the other OECD countries using Mann-Whitney U tests. In the figures, asterisks indicate statistically significant differences at the level of 1% (***), 5% (**), and 10% (*), respectively.

---

17 This approach is necessary to test for significant differences between the two groups. However, as the 455 respondents of the 32 other OECD are not equally distributed among the countries, countries with more (less) respondents receive higher (lower) weights, when calculating the average value for the other OECD countries. In the following, all averages are based on this weighting approach. The countries with more respondents are largely those that play an important role within the OECD. Hence, the weighting can be regarded as useful to account for countries’ different roles within the OECD. To examine the influence of the weighting, in a robustness test, I calculated the average values for the other OECD countries based on the countries’ average responses. However, the descriptive results were qualitatively very similar to those based on the individual responses. Therefore, the weighting does not have a crucial impact on the results of this study.
Table 1: Demographic Characteristics of Survey Respondents

<table>
<thead>
<tr>
<th></th>
<th>Canada (17)</th>
<th></th>
<th>Other OECD countries (455)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percentage</td>
<td>Number</td>
<td>Percentage</td>
</tr>
<tr>
<td><strong>Job position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partner/Director/Principal</td>
<td>14</td>
<td>82.35%</td>
<td>329</td>
<td>72.31%</td>
</tr>
<tr>
<td>Manager</td>
<td>3</td>
<td>17.65%</td>
<td>88</td>
<td>19.34%</td>
</tr>
<tr>
<td>Senior assistant</td>
<td>0</td>
<td>0.00%</td>
<td>27</td>
<td>5.93%</td>
</tr>
<tr>
<td>Junior assistant</td>
<td>0</td>
<td>0.00%</td>
<td>7</td>
<td>1.54%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0.00%</td>
<td>4</td>
<td>0.88%</td>
</tr>
<tr>
<td><strong>Tax experience</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;15 years</td>
<td>12</td>
<td>70.59%</td>
<td>288</td>
<td>63.30%</td>
</tr>
<tr>
<td>&gt;10 but ≤15 years</td>
<td>1</td>
<td>5.88%</td>
<td>89</td>
<td>19.56%</td>
</tr>
<tr>
<td>&gt;5 years but ≤10 years</td>
<td>3</td>
<td>17.65%</td>
<td>51</td>
<td>11.21%</td>
</tr>
<tr>
<td>≤5 years</td>
<td>1</td>
<td>5.88%</td>
<td>27</td>
<td>5.93%</td>
</tr>
<tr>
<td><strong>Familiar with ... other tax system(s)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;Three</td>
<td>2</td>
<td>11.76%</td>
<td>49</td>
<td>10.77%</td>
</tr>
<tr>
<td>Three</td>
<td>0</td>
<td>0.00%</td>
<td>26</td>
<td>5.71%</td>
</tr>
<tr>
<td>Two</td>
<td>3</td>
<td>17.65%</td>
<td>63</td>
<td>13.85%</td>
</tr>
<tr>
<td>One</td>
<td>4</td>
<td>23.53%</td>
<td>80</td>
<td>17.58%</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>47.06%</td>
<td>236</td>
<td>51.87%</td>
</tr>
<tr>
<td>Missing</td>
<td>0</td>
<td>0.00%</td>
<td>1</td>
<td>0.22%</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doctoral or equivalent</td>
<td>1</td>
<td>5.88%</td>
<td>54</td>
<td>11.87%</td>
</tr>
<tr>
<td>Master or equivalent</td>
<td>11</td>
<td>64.71%</td>
<td>295</td>
<td>64.83%</td>
</tr>
<tr>
<td>Bachelor or equivalent</td>
<td>5</td>
<td>29.41%</td>
<td>95</td>
<td>20.88%</td>
</tr>
<tr>
<td>Secondary education</td>
<td>0</td>
<td>0.00%</td>
<td>4</td>
<td>0.88%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0.00%</td>
<td>7</td>
<td>1.54%</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 59 years</td>
<td>1</td>
<td>5.88%</td>
<td>46</td>
<td>10.11%</td>
</tr>
<tr>
<td>50 – 59 years</td>
<td>5</td>
<td>29.41%</td>
<td>125</td>
<td>27.47%</td>
</tr>
<tr>
<td>40 – 49 years</td>
<td>8</td>
<td>47.06%</td>
<td>136</td>
<td>29.89%</td>
</tr>
<tr>
<td>30 – 39 years</td>
<td>3</td>
<td>17.65%</td>
<td>124</td>
<td>27.25%</td>
</tr>
<tr>
<td>Under 30 years</td>
<td>0</td>
<td>0.00%</td>
<td>24</td>
<td>5.28%</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>16</td>
<td>94.12%</td>
<td>349</td>
<td>76.70%</td>
</tr>
<tr>
<td>Female</td>
<td>1</td>
<td>5.88%</td>
<td>102</td>
<td>22.42%</td>
</tr>
<tr>
<td>Missing</td>
<td>0</td>
<td>0.00%</td>
<td>4</td>
<td>0.88%</td>
</tr>
</tbody>
</table>

3 Results

3.1 Role of Tax Complexity

At the beginning of the questionnaire, respondents were asked about the role of tax complexity in their country based on three statements. The three cover thoughts about the impact of tax complexity in the past, present and future. Respondents were asked to indicate the extent to which they agree or disagree with the statements, ranging from zero (strongly disagree) to one (strongly agree). Figure 2 shows the mean values of the responses (i.e., average opinions) of the survey participants from Canada and the other OECD countries.
As can be seen from Figure 2, the average opinion of the respondents from Canada varies among the statements. The respondents tend to agree, on average, with the first statement about tax complexity having substantially increased for MNCs in the last five years (0.66). However, when considering the implications of tax complexity, it does not seem bad, per se. Regarding the second statement according to which tax complexity currently has only negative implications for MNCs, there is, on average, only little agreement. The average value is even close to having no clear opinion (0.56). In line with this result, there is no clear opinion for the third statement on whether tax complexity will be one factor forcing MNCs to shift their business activities to other countries. The respondents from Canada rather tend to disagree, on average, with this statement (0.41). Turning to the other OECD countries, the average opinion is often not substantially different from the Canadian average (statement 1: 0.70; statement 2: 0.53; statement 3: 0.50). When I test for differences in the opinions between Canada and the other OECD countries, I do not find any statistically significant differences regarding the three statements. Hence, the respondents from Canada do not have a substantially different view on tax complexity than the respondents from the other OECD countries.

---

A benefit of tax complexity is that it provides opportunities for tax planning, for example, through the ambiguity of tax regulations (Laplante et al. 2019).
3.2 Overview of Tax Complexity

Figure 3 shows the level of total tax complexity for Canada and for each country of the sample of the other OECD countries.

**Figure 3: Total Tax Complexity**
(descending order)

Across all 33 countries, Italy has the most complex tax system (0.450), while Estonia has the least complex (0.221). Canada experiences a medium level, as indicated by rank 12. Its total complexity value of 0.374 is also very close to the average of the other OECD countries of 0.366.

When I split total tax complexity into its components, I observe slightly different patterns for tax code and tax framework complexity. As can be seen from Figure 4, which illustrates the levels of tax code complexity, Canada ranks ninth and is thus one of the ten OECD countries with the most complex tax code. Correspondingly, its code complexity value of 0.498 is also slightly higher than the average of the other OECD countries (0.476).

**Figure 4: Tax Code Complexity**
(descending order)
Figure 5 presents the levels of tax framework complexity across the OECD countries. In contrast to tax code complexity, Canada ranks in the middle range in terms of tax framework complexity. With a framework complexity value of 0.249, Canada ranks 15th and is very similar to the average of the OECD countries (0.256).

![Figure 5: Tax Framework Complexity (descending order)](image)

Based on the findings on Canada, the question arises as to what causes the respective levels of tax code and tax framework complexity in the tax system. To answer it, next I investigate the dimensions and the drivers of the two complexity components in Canada and compare them to those in the other OECD countries.

### 3.3 Tax Code Complexity

The legal basis for imposing federal income tax in Canada is the Income Tax Act (ITA) (Ansari 2015). In addition to the ITA, there is also provincial tax legislation which, however, builds on the ITA.

Figure 6 illustrates the complexity of the 15 tax code dimensions (regulations). The three tax regulations that are considered as most complex by the respondents from Canada are regulations on corporate reorganization (0.73), transfer pricing (0.65) and controlled foreign corporations (0.63). In the other OECD countries, transfer pricing regulations are also often regarded as a...
crucial aspect of the tax code involving many complex issues. On average, they are even considered as the most complex tax regulations (0.69), followed by regulations on general anti-avoidance (0.59) and corporate reorganization (0.58). In contrast, the least complex regulations in both Canada (0.26) and the other OECD countries (0.15) are those on (alternative) minimum tax. In Canada, they are preceded by regulations on group treatment (0.37) and depreciation and amortization (0.39), whereas, in the other OECD countries, they are outranked by regulations on additional local and industry-specific taxes (0.31) and statutory corporate income tax rate (0.34).

Figure 6: Complexity of Tax Code Dimensions (descending order based on the values of Canada)

An overview of transfer pricing issues in different countries is provided by Duff & Phelps (2016).
When considering the complexity levels of all tax regulations, I generally observe similar values for Canada and the average of other OECD countries for many regulations. Nevertheless, I also do find several differences. The largest exist in the regulations on corporate reorganization, controlled foreign corporations, additional local and industry-specific taxes, and (alternative) minimum tax. The differences are also statistically significant, indicating that these regulations are more complex in Canada than in the other OECD countries. To learn more about the diverse complexity levels, I now concentrate on the underlying complexity drivers of the four regulations.

Figure 7 shows the extent to which the five complexity drivers (columns) contribute to the complexity of the regulations (rows) and thus cause the respective complexity level of each regulation. Row (1) provides an overview about the complexity drivers of the regulations on corporate reorganization. In Canada, there is a broad range of rules on corporate reorganization, and the tax consequences depend on the type of the reorganization. The overarching principle is that transactions must be recognized at fair market value. However, some reorganizations may be eligible to be conducted on a tax-deferred basis. In order to be eligible for the benefits, detailed statutory requirements in the ITA must be fulfilled. As indicated by row (1), the complexity of regulations on corporate reorganization in Canada is largely driven by detail (0.84), followed by ambiguity (0.74) and change (0.72). While in the other OECD countries detail (0.65) and ambiguity (0.59) also have a large impact, change (0.53) are of little importance. The different impact of change in Canada and the other OECD countries might be explained by the different developments in recent years, including new rules for eligible capital property (ECP) announced in 2016. These rules repealed the existing ECP regime and

---

22 In an additional analysis, I also examine the underlying complexity drivers of the remaining 11 regulations. Moreover, I also examine the complexity drivers of all regulations on the aggregate level. The results are displayed in the Appendix (Figures 17 and 18). As indicated by Figure 18 which displays the average impact of the complexity drivers, all complexity drivers contribute, on average, to a large extent to the complexity of the tax regulations in both Canada and the other OECD countries. Moreover, the impact of the complexity drivers is not substantially different between Canada and the other OECD countries.

23 The general rules are contained in sections 55 (divisive reorganizations), 85 (transfer of property and share for share exchanges), 86 (reorganization of capital), 87 (amalgamations) and 88 (liquidation/winding-up) of the ITA. Comprehensive reviews of these rules are provided by Tetreault and Linday (1995), Krishna (2008), Monaghan et al. (2012), and Kopstein et al. (2017).

24 Common examples of ECP include goodwill, trademarks, consumer lists and franchise rights (Morris 2017).

25 For other developments which might explain the larger impact of changes in Canada, see KPMG (2016).
replaced it with a capital cost allowance class for depreciable capital property, which, for example, eliminated a tax deferral opportunity (Morris 2017). In addition to changes, I also observe statistically significant differences between Canada and the other OECD countries for the complexity drivers detail, ambiguity and computation.

In row (2), the complexity drivers of the regulations on controlled foreign corporations are presented. These specific anti-avoidance regulations were implemented in 1976, making Canada the third country after the US and Germany incorporating such rules (Dueñas 2019). Since they require residents to pay Canadian income tax on their share of foreign accrual property income (FAPI) earned by a controlled foreign affiliate, they are often referred to as FAPI rules (Nosikova 2015). As indicated by row (2), the complexity of the Canadian rules is largely driven by detail (0.75). The other complexity drivers also play a large role, but, compared to the driver detail, they contribute less (change: 0.63; computation: 0.62; ambiguity: 0.59; record keeping: 0.59). In the other OECD countries, the impact of the complexity drivers is often much smaller (detail: 0.55; change: 0.46; computation: 0.48; ambiguity: 0.50; record keeping: 0.48). For detail and change, the differences are also statistically significant. The difference for detail indicates that Canadian regulations on controlled foreign corporations are even more detailed than those in the other OECD countries on average. Potential reasons may be the amendments to the rules in the past or their strong connection to foreign affiliate rules (Loomer 2012). The difference for change suggests that regulations on controlled foreign corporations in Canada have changed more frequently or more extensively than in the other OECD countries.

Next, I turn to the complexity drivers for regulations on additional local and industry-specific taxes, displayed in row (3). In Canada, the impact of the single complexity drivers is of similar size. For example, ambiguity, change and detail contribute to the same extent (0.47) to the complexity of the regulations, closely followed by computation (0.46) and record keeping (0.43). In the other OECD countries, all complexity drivers have on average a lower impact compared to Canada (ambiguity: 0.31; change: 0.33; detail: 0.35; computation: 0.29; record keeping: 0.28). The differences between Canada and the other OECD countries are statistically significant for all five drivers. In contrast to many other OECD countries, Canada has, as indicated earlier, a provincial/territorial income tax which is imposed on the income earned in the province or

---

26 Under the new regime, the gain from selling the ECP must be taxed in the year of disposition. In contrast, under the old regime, vendors had the opportunity to defer some of the taxes (Abdulla 2016).

27 The definition for a controlled foreign affiliate is provided in section 95 of the ITA.
territory (Arnold 2020). It is added to the federal income tax and cannot be deducted. Among the complexity drivers, a very large difference between Canada and the other OECD countries exists for computation. Potential reasons for this result might be the different computation rules. For example, there are different tax rates not only across the different provinces or territories but also across different income types. The last row illustrates the complexity drivers of the regulations on (alternative) minimum taxation. Similar to additional taxes, I find statistically significant differences between Canada and the other OECD countries regarding all complexity drivers, indicating that they contribute more to the complexity of the regulations on (alternative) minimum taxation in Canada than broadly in the other OECD countries. However, their impact on complexity is much smaller. This can be explained by the fact that alternative minimum tax is only rarely imposed across the OECD countries, and, in Canada only the province of Ontario levies such a tax. It has been introduced in 1986 in order to establish a fairer tax system (Royal Bank of Canada 2018). However, as shown in Figure 7, it contributes to a higher complexity of the tax code. Across the different complexity drivers, computation (0.32) and detail (0.32) contribute the most to the complexity of the regulations on Ontario minimum tax. For these two drivers, I also observe the largest differences to the other OECD countries (computation: 0.16; detail: 0.16). When looking at the rules in Ontario, one reason for this result might be the many adjustments that need to be considered when calculating the tax.

---

28 However, the federal tax rate is set in a way that takes provincial tax rates into account (Arnold 2020).
29 In 2016, the provincial (standard) tax rates varied from 10% in Ontario and Saskatchewan to 16% in Nova Scotia and Prince Edward Island. Moreover, all provinces and territories applied a reduced tax rate to the first CAD 500,000 (CAD 450,000 in Manitoba and CAD 350,000 in Nova Scotia) of the active business income of Canadian-controlled private corporations. See PwC (2016) for an overview of the different tax rates.
30 See sections 54 to 62 of the Taxation Act (as of 2016) in Ontario. The Taxation Act is available for download at https://www.ontario.ca/laws/statute/07t11.
31 See, for example, section 58 of the Taxation Act (as of 2016) in Ontario.
Overall, the analysis reveals that Canada has a slightly higher tax code complexity since some regulations are considered to be more complex than in other OECD countries. These regulations not only include regulations that specifically exist in Canada, such as provincial/territorial tax and alternative minimum tax, but also those that exist in almost all OECD countries, such as regulations on corporate reorganization and foreign controlled corporations. Among the four regulations, detail, computation and change have a large impact on the differences in the complexity levels.
3.4 Tax Framework Complexity

Next, I look at the complexity of the tax framework dimensions (areas). Figure 8 illustrates the level of complexity of each of the five areas for Canada and the average of other OECD countries.

**Figure 8: Complexity of Tax Framework Dimensions**
(descending order based on the values of Canada)

The most complex areas are *audits* (0.34), *enactment* (0.33) and *guidance* (0.29), while the least complex areas are *appeals* (0.16) and *filing and payments* (0.12). This is not only the case for Canada but also the average for other OECD countries, for which I observe very similar values (*audits*: 0.34; *enactment*: 0.31; *guidance*: 0.26; *appeals*: 0.20; *filing and payments*: 0.17). When comparing the complexity levels of the tax framework areas between Canada and the other OECD countries, in contrast to the regulations of the tax code, I find no statistically significant differences among the areas of the tax framework at the aggregate level. However, it is still possible that there are differences for single complexity drivers within the areas. Therefore, I will focus on all areas in the following, starting with those with the highest levels of complexity in Canada.
a) Tax Audits

The tax audits area covers the examination of MNCs’ tax returns, books and records by the tax authorities. Around the world, tax audits are known to be very challenging for MNCs. Hence, they are also a very interesting topic for international research (e.g., Beck and Lisowsky 2014; Brushwood, Johnston and Lusch 2018; Ayers, Seidman and Towery 2019).

In Canada, tax audits play a large role as Canada employs a self-assessment system, which provides taxpayers with the responsibility to calculate, pay and report their own tax payable (Li, Magee and Wilkie 2017). Hence, continuous audits by the Canadian Revenue Agency (CRA) are considered as an important tool to maintain this system (Campbell 2018). To enable the CRA to conduct audits, it requires certain powers. These powers are codified in section 231 of the ITA and include, for example, the power to audit books and records and the power to require information to be provided. With regard to the tax audit process itself, the CRA is generally very transparent, providing several tax audit manuals that contain information on how the CRA selects, plans, conducts and finalizes its audits. In Canada, the selection of audit targets and the audit approach strongly depend on the size of the firm and its risks (Misutka and MacEachern 2013). For example, large corporations are assessed every year. If they are classified in this assessment as corporations at high risk, they are audited annually.

Complexity can arise through problems in anticipating tax audits and in the audit process itself. Figure 9 illustrates the complexity drivers associated with the anticipation of tax audits. The vertical axis of this figure shows the share of respondents that consider an issue to be a serious problem.

---

32 For more details on these powers, see Van der Hout, Goldstein and Fisher (2000).
33 The manuals are provided online via a virtual reading room (CRA 2018).
34 Large corporations are corporations with gross annual revenues in excess of CAD 250,000 (Misutka and MacEachern 2013).
As illustrated by Figure 9, the most serious problem in Canada is **bad disclosure of selection criteria** (i.e., little or no) for tax audit targets, chosen by almost half of the respondents from Canada (47.06%). At first glance, this result seems surprising, given the range of information provided by the CRA. However, a deeper look reveals that there is not much detailed and precise information that help companies to predict the likelihood of being audited. For example, the risk assessment process is described in a superficial way and there is almost no information on what extent new technologies are used to select audits.\(^{35}\) Compared to the poor disclosure of selection criteria, the remaining problems are less serious. **Bad communication of the audit topics** (i.e., poor or no) and **late or no notification of an upcoming audit** are only chosen by 29.41% and 23.53% of the respondents, respectively. This result might be explained by the fact that, in case of a regular audit, the process usually starts with the receipt of a letter informing the audit target about the audit, its scope and potential documents required.\(^{36}\) Moreover, even if the topics are not clear, based on the experience of past audits it seems to be rather easy to expect some of them in advance.\(^{37}\)

---

\(^{35}\) According to the CRA, the risk assessment considers, for example, the likelihood and frequency of errors made by the taxpayers in the past. However, since taxpayers do not know the reference points used by the CRA, it appears to be impossible to infer from this very general information whether they will be audited or not. See CRA (2019a).

\(^{36}\) There is also no evidence in the literature that the time limits that are proposed by the CRA might be too short.

\(^{37}\) In an additional question, the respondents were asked about the top current audit topics. In Canada, the responses indicate two key topics. These are **transfer pricing** (64.71%) and **corporate reorganization** (64.71%). Further topics that follow are **controlled foreign corporations** (29.41%) and **investment incentives** (29.41%), which are, however, much less reported as indicated by the respective shares of the respondents.
The least serious problem in Canada is absence of a regular audit cycle, with only 11.76% of the respondents considering it to be a serious problem. This result might by associated with the fact that MNCs expose themselves to more risks and thus are more frequently audited according to the risk-based approach of the CRA. When taking the responses from the other OECD countries into account, I also observe bad disclosure of selection topics to be the most serious complexity driver (42.20%). Regarding the remaining complexity drivers, the results for the average of the other OECD countries slightly deviate from those for Canada. On average, the second most serious problem at the level of the other OECD countries is absence of a regular audit cycle (28.57%) – the least serious problem in Canada. It is followed by bad communication of audit topics (27.47%) and late or no notification of an audit (17.36%). Overall, I do not find any statistically significant differences for the four complexity drivers between Canada and the other OECD countries. Hence, Canada does not appear to be substantially different to the average of the other OECD countries regarding the complexity in anticipating tax audits.

Figure 10 shows the complexity drivers of the tax audit process. In Canada, the most serious problem is lack of experience and technical skill of tax officers (88.24%). This result might be explained by the initiatives to strengthen the CRA’s capacity to stop tax evasion and combat aggressive tax avoidance, introduced by the Budget Plan 2013 and amended in the following years (Government of Canada 2013, 2014, 2015, 2016). These initiatives included the plan to hire additional tax officers to audit high-risk MNCs and thereby increase the number of compliance activities (Government of Canada 2015, 2016). Hence, it might be possible that, due to this plan, many MNCs were confronted with new and relatively inexperienced tax officers in 2016, leading to several problems like uncertainty in tax treatment of specific transactions or issues. Moreover, I also find inconsistent decisions of tax officers being a main but less serious problem in Canada, as indicated by about half the respondents (52.94%). In contrast, neither offensive or unethical behavior by tax officers (5.88%) nor ineffectiveness of sanctions (0.00%) are considered as very serious problems in Canada. For the average of other OECD countries, I observe a similar picture compared to Canada. To a large extent, both the lack of experience and technical skill of tax officers and their inconsistent decisions are considered as serious problems, while offensive or unethical tax officer behavior and sanction ineffectiveness are not.

---

38 A budget plan provides an estimate of the government’s revenues and expenses for the next year (Cook 2010).
39 Such inconsistencies are also identified in the 2018 Fall Report of the Auditor General. The report mentions several reasons for this result, including the appraisal of the tax officers (Auditor General 2018).
However, regarding the first two complexity drivers, inconsistent decisions (58.90%) are only slightly more problematic than lack of experience and technical skill (51.65%) in the other OECD countries on average, which contrasts with the results obtained for Canada, where the latter is perceived as a very serious problem. The difference for this problem between Canada and the other OECD countries is also statistically significant. Hence, this problem does not only appear to be a serious issue in Canada itself, but also in comparison to the average of other OECD countries, probably because of the special initiatives to strengthen the CRA’s capacity, as explained above.

**Figure 10:** Complexity Drivers Regarding the Tax Audit Process (descending order based on the values of Canada)

![Diagram showing complexity drivers](image)

---

**b) Tax Law Enactment**

Tax law enactment refers to the process from introducing a tax law draft until passing it into law. In Canada, the power to impose federal taxes is given by the Constitution to the Parliament, which consists of three parts: the Queen (represented by the Governor General), the Senate, and the House of Commons.\(^{40}\) In general, the process starts with the amendments to the ITA normally prepared by the Department of Finance and ends with Royal Assent (i.e., the

---

\(^{40}\) See section 91 of the Constitution Act. The powers of the provincial legislatures are described in section 92 of the Constitution Act.
Various complexity drivers for the tax enactment process are illustrated in Figure 11.

**Figure 11**: Complexity Drivers Regarding the Tax Law Enactment Process (descending order based on the values of Canada)

The most serious problem is *quality of drafting*, chosen by 70.59% of the respondents from Canada as regularly causing problems. This result might be attributed to different factors (Li, Magee and Wilkie 2017; Arnold 2020). It might be the result of unclear or vague legislative proposals that were enacted. Another factor could be that legislative proposals did not take existing regulations sufficiently into account, leading to different interpretations of the law at the federal level or even federal/provincial level. Moreover, since the tax legislation is bilingual, conflicts in the meaning of words could also cause problems. Evidence for these arguments are, for example, given by the news release of the Department of Finance on September 16, 2016. According to this release, which made new proposals public, amendments were included “to improve the accuracy and consistency of the income tax legislation and regulation” (Department of Finance 2016). Another serious problem is *time between the announcement and*...
the enactment of a tax law, indicated by 58.82% of the respondents from Canada to regularly cause problems. This problem can lead to complexity in different ways: by a very short time, a very long time, or both. In Canada, there is some evidence for the second form (Brooks 2016). For example, in the 2009 Fall Report of the Auditor General, the Parliament is criticized that it had enacted only very few technical amendments, although there were several amendments outstanding (Auditor General 2009). The report also indicates that important issues which comfort letters identified to be enacted have not been enacted for a very long time, thus increasing uncertainty for taxpayers. However, there are not only problems with the time until a law is enacted but also when it becomes effective, considered by 52.94% of the Canadian respondents to regularly cause problems. In Canada, changes often become effective from the date they are publicly announced for the first time (Li, Magee and Wilkie 2017; Arnold 2020). Hence, when there is a delay between the announcement and the enactment, uncertainty arises for both the CRA and the taxpayer during this time with regard to the application of the pending legislation.

As also indicated in Figure 11, the two remaining drivers, influence of third parties and access to legislation, are not very problematic in Canada. The first driver is only chosen by 17.65% of the respondents from Canada, while the second is not selected at all. The latter finding might be explained by the fact that tax regulations are publicly available in the internet. For the other OECD countries, the results are on average highly similar to the results for Canada. The first three drivers (quality of tax law drafting, time between change of announcement and time at which legislation become effective) also present serious problems in the other OECD countries. The shares of respondents selecting these drivers to regularly cause problems (quality of tax law drafting: 63.74%; time between announcement and enactment: 47.25%; time at which legislation become effective: 43.52%) are only slightly smaller to those of the respondents from Canada. In contrast, the shares of respondents choosing the last two drivers (influence of third parties: 21.54%, access to legislation: 6.37%) are slightly larger compared to Canada. However, like Can-

---

43 Comfort letters are issued by the Department of Finance and indicate amendments to the ITA that will be proposed, thus providing taxpayers with some “comfort” regarding the potential application of a regulation (Mac-Arthur 2012).
44 To strengthen this argument, the report mentions amendments to the taxation of dividends that were identified in a comfort letter to be enacted but did not pass into law for seven years (Auditor General 2009).
45 All federal tax regulations are made available by the Government of Canada at www.laws-lois.justice.gc.ca.
ada, on average these drivers are also not very problematic in the other OECD countries. Overall, the differences between Canada and the other OECD countries are not statistically significant. Hence, Canada does not encounter substantially different complexity drivers in the tax law enactment process than the average experienced by other OECD countries.

c) Tax Guidance

Tax guidance covers the guidance provided by the tax authority or by other sources to clarify uncertain tax treatments or procedures. In general, there are a lot of possibilities to obtain help in dealing with tax matters. In Canada, there is a broad range of guidance issued by the CRA. For example, the CRA provides general guidance to the public, consisting of Income Tax Interpretation Bulletins or Income Tax Folios (CRA’s interpretations of tax regulations), Information Circulars (information on CRA’s procedures and practices), Income Tax Technical News (newsletter with CRA’s announcements), various application policies, forms and tax guides (Cook 2010). All information is available online on the CRA’s website. In addition, the CRA also offers guidance to specific taxpayers, mainly through Advance Income Tax Rulings. This type of guidance is issued upon the request of a taxpayer and is only regarded as binding for this taxpayer and the specified transactions. Advance Income Tax Rulings are also made available to the public but in severed form. However, in contrast to the documents above, they are released through various publishers and not through the website of the CRA itself.

Besides guidance that is issued by the tax authority, there are other sources providing help in applying the law. Two main sources are other principles and rules, especially national generally accepted accounting principles (GAAP) and so-called soft law. However, these principles and rules cannot only help to clarify the tax treatment, they can also serve as an additional

---

46 For a short overview, see Commonwealth of Australia (2009). A more detailed description of the different types is provided by Cook (2010). In the survey of Hoppe et al. (2019), the responses to the questions on binding rulings and non-binding advice indicate that the respondents from Canada are also aware of the different possibilities to obtain guidance from the CRA.

47 Income Tax Interpretation Bulletins are currently replaced step-by-step by a new set of publications which are called Income Tax Folios (CRA 2012a).

48 On the website of the CRA (www.canada.ca/en/revenue-agency.html), there is a list of all forms and publications.

49 Further information on advance income tax rulings are provided by the Information Circular IC70-6R9 (CRA 2019e).

50 For example, they are made available on www.taxinterpretations.com/cra/severed-letters.

51 An overview of various sources is provided by Cook (2010).

52 Soft law is defined as rules that are neither strictly binding in nature nor completely lacking legal significance. The term refers to guidelines, policy declarations or codes of conduct which are not legally enforceable. OECD guidelines are an example of soft law.
driver of tax complexity. For example, when they conflict with the tax law in place, they can lead to uncertainty. In case of the GAAP, it may result in a number of adjustments in reconciling book and taxable income. To evaluate this assumption for the GAAP, in the survey of Hoppe et al. (2019), respondents were asked to choose the extent to which national GAAP differ from the national tax regulations based on a range between zero (no extent) and one (very great extent). The results indicate that, in Canada, GAAP and tax regulations differ to some extent (0.59). However, the difference is similar to the average difference obtained by the respondents from the other OECD countries on average (0.54). Hence, GAAP seem to induce some complexity but to a limited extent both in Canada and in the other OECD countries on average. With regard to the soft law, respondents were asked to choose the extent to which the existence of international soft law offers support by providing additional information in dealing with the tax law based on a range between zero (very great extent) and one (no extent). I find that international soft law provides moderate support in Canada (0.62). However, in comparison to the average of the other OECD countries (0.45), it appears to be less helpful in Canada. This difference is also significant in a statistical sense. It might be explained by controversies that arose from the implementation and application of BEPS recommendations. One example are the disputes and uncertainties that resulted from the new OECD guidance on transfer pricing. For example, while in the Budget Plan 2016 it was argued that the revisions arising from this new guidance are in line with current practice and thus applicable by the CRA without notification, experts were critical, noting that the guidelines contained new content and called for a transfer pricing memorandum (e.g., Deloitte 2018). Moreover, there were many unsolved issues as well as concerns about the retroactive adoption of the new guidance by the CRA (Norton Rose Fulbright 2016).

Another driver affecting the complexity of tax guidance is the lack of tax regulations on important business matters. Most respondents from Canada have the opinion that there are various substantial business issues whose tax treatment is not codified in the Canadian tax code (58.82%). In the other OECD countries, the share of respondents with this opinion (40.22%) is smaller on average. However, the difference between Canada and the other OECD countries is not statistically significant. Moreover, in both Canada and the other OECD countries, nearly all respondents with this opinion state in the survey that there is guidance towards helping clarify the treatment of issues not codified in the law.
d) Tax Appeals

The tax appeals area covers the resolution of tax disputes. In Canada, the dispute resolution process is very clear. As a first formal step, if taxpayers disagree with the assessment of the CRA, they can file a notice of objection to the CRA (administrative level). The notice is reviewed by the appeals branch of the CRA and the result is communicated to the taxpayer. If not satisfied with the result, they can file an appeal to the Tax Court of Canada (judicial level).

At the level of the Tax Court, there are two different procedures: an informal procedure and a formal procedure (Campbell 2012; Li, Magee and Wilkie 2017; Arnold 2020). The informal procedure is less formalized and can be elected when the amount of federal tax and penalties or losses is small. However, it does not allow the taxpayer to file an appeal against the decision of the Tax Court. This is only possible when the more formal general procedure is chosen. With this option, appealing the decision of the Tax Court to the Federal Court of Appeals might also lead to further review at the Supreme Court, the ultimate court for appealing tax cases. However, in practice, since the Supreme Court is not required to hear the appeal, there are only a few cases on tax issues that end up at this level.

Despite clearly communicated processes, it is still possible that there are certain issues that lead to complexity. Figure 12 illustrates the complexity drivers at the administrative level. In Canada, the most serious problem is unpredictable time until resolution on an objection is made, with almost half of the respondents from Canada (47.06%) choosing it. The (in-)ability to resolve decisions in a timely manner is also mentioned in the Tax Appeals Evaluation report of the corporate audit and evaluation branch of the CRA published in 2012. According to this report, it took on average 299 calendar days for the appeals branch in 2009 to 2010 to resolve a notice of objection (CRA 2012b). In contrast to the processing time of objections, the remaining problems are not considered to be very serious in Canada. Lack of (specialized) agents that

53 Corporations must file the notice of objection within 90 days after the day of mailing of the notice of assessment (i.e., notice about changes to the taxable income or tax payable) or the notice of determination (i.e., notice about changes to the loss claimed). See CRA (2019d).
54 Similar to the objection, the appeal must be filed within 90 days after the notice of the CRA (CRA 2019c).
55 It is considered as small if the amount in issues is less than CAD 12,000 of the federal income tax (Cook 2010).
56 An overview of the number of tax cases heard by the Tax Court, the Federal Court of Appeals and the Supreme Court between 2015 and 2017 is provided by Arnold (2020). In these three years, the Supreme Court decided in total about two tax cases.
57 Moreover, it is mentioned in the 2016 Fall Report of the Auditor General, thus indicating the problem remained (Auditor General 2016).
58 Recent figures distinguish between the complexity of tax objections and range between 51 days (low complexity income tax objections) to 690 days (high complexity income tax objections). See CRA (2020).
resolve the objections is only selected by 23.53% of respondents. There are (almost) no concerns about the influence of third parties (0.00%) as well as inconsistent decisions of tax agents (5.88%). The latter result is especially very interesting, as it is in sharp contrast to the tax audit process, where 52.94% of the respondents select inconsistent decisions by tax officers as a serious problem of tax audits.

In the other OECD countries, the above-mentioned complexity drivers are on average also not regarded as very problematic. Compared to Canada, the share of respondents that considers unpredictable time until resolution to be a serious problem is slightly smaller in the other OECD countries (32.09%). The difference is, however, not statistically significant. A similar result can be seen for lack of (specialized) agents, which is, similar to Canada, only considered by 17.80% of the respondents from the other OECD countries as a serious problem. In contrast, I observe different results for inconsistent decisions of tax agents. The share of respondents from the other OECD countries selecting it to be serious issue (30.00%) is much larger compared to the share of Canadian respondents. Although this share is still relatively small in general, the difference, which is also statistically significant, suggests that there are less inconsistent decisions of tax agents at the administrative level in Canada. The fact that decisions are perceived as consistent is also highlighted in the 2012 Tax Appeals Evaluation report. A potential explanation for this result might be the continuous efforts to support a consistent response to objections. This might also explain why it is not a serious problem for the appeals process compared to the audits process. Moreover, similar to Canada, influence of third parties is also the least serious problem in the other OECD countries (2.64%).

---

59 In addition to internal evaluations, in 2006, intake centers were established to support the appeals branch in “the timely and consist validation of notices of objections” (CRA 2012b).
Figure 12: Complexity Drivers Regarding the Tax Appeal Process – Administrative Level (descending order based on the values of Canada)

Figure 13 shows the drivers causing complexity at the judicial level. Overall, they seem to be of similar size compared to those at the administrative level. The most serious complexity driver in Canada is *unpredictable time period until resolution* of an appeal. With 64.71% of the respondents selecting it as a serious problem, this share even exceeds the share of respondents who chose it as a problem at the administrative level by 18 percentage points. According to the 2012 Tax Appeals Evaluation report, it took the Tax Court in 2009 to 2010 on average 688 calendar days to complete a case from its registration with the Tax Court to its resolution. Potential reasons for these long time periods at both the administrative and the judicial level include the overload of cases due to increased aggressiveness in tax planning and a lack of a legal provision that makes a decision binding to all taxpayers appealing the same issue (CRA 2012b). Again, in contrast to the processing time of appeals, all remaining complexity drivers (inconsistent decisions, lack of (specialized) judges and influence of third parties) are not regarded as problematic in Canada. The share of respondents selecting one of the drivers to be a serious problem is very low for each driver (*inconsistent decisions*: 11.76%; *lack of (specialized) judges*: 5.88%; *influence of third parties*: 0.00%).

When looking at the other OECD countries on average, the most serious complexity driver is the processing time of appeals. With a share of 54.29% of respondents from the other OECD countries considering it to be a serious problem, it is slightly less relevant but still comparable with Canada. Moreover, similar to the respondents from Canada, the respondents from the other OECD countries perceive this complexity driver as more serious at the judicial level than
at the administrative level, as indicated by the positive difference of 22 percentage points. Less serious problems at the level of the other OECD countries include inconsistent decisions (26.15%), lack of (specialized) judges (30.33%), and influence of third parties (3.52%). However, they are still more serious compared to Canada. Regarding the lack of (specialized) judges, the difference between Canada and the other OECD countries is even statistically significant. This result might be explained by the fact that, unlike some other OECD countries (e.g., Australia), Canada has a special tax court, the Tax Court of Canada.\textsuperscript{60} Hence, complex tax issues are processed by qualified and experienced judges.

\textbf{Figure 13: Complexity Drivers Regarding the Tax Appeal Process – Judicial Level (descending order based on the values of Canada)}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{complexity_drivers_judicial.png}
\caption{Complexity Drivers Regarding the Tax Appeal Process – Judicial Level (descending order based on the values of Canada)}
\end{figure}

e) Tax Filing and Payments

The area tax filing and payments comprises of two main processes: return filing and payment of tax. As indicated earlier, the tax system in Canada is based on a self-assessment system. Hence, taxpayers have to determine their own tax liability and file the required returns. Figure 14 shows various complexity drivers for the tax return filing process. In Canada, the general filing process does not seem to be a major issue in terms of tax complexity. The only complexity driver that is selected at all by the respondents from Canada is preparing returns. However, it is only chosen by about a quarter of the respondents to regularly cause problems (23.53%). In the other OECD countries, on average, all complexity drivers are present, but none of them has a large impact. Similar to Canada, the most serious problem concerns preparing returns,\textsuperscript{60}

\textsuperscript{60} For details on the development of the tax appeal structure, see Cook (2010).
with a third of the respondents from the OECD countries select it as regularly causing problems (32.97%). The remaining complexity drivers include number of tax returns (18.02%), (electronic) transmission of tax returns (14.73%), determination of due dates (5.05%) and identification of recipients (2.64%). When comparing the complexity drivers between Canada and the other OECD countries, I find statistically significant differences regarding the number and the (electronic) transmission of tax returns. In Canada, corporations have to file a corporate income tax (T2) return every year. For most provinces, the return serves as both a federal and provincial tax return. Therefore, there are no separate returns like in other OECD countries imposing additional local income taxes. This might explain why the number of returns seem to cause less problems in Canada than in the other OECD countries. Furthermore, the difference with regard to the (electronic) transmission of the tax returns might be explained by the Canadian e-filing system and the continuous efforts to improve it (Dutil et al. 2010). In general, there seems to be much satisfaction with the online tax filing system in Canada (e.g., Bastien et al. 2017). With respect to other features that can make the tax filing process more complex, the responses indicate that, in contrast to many other OECD countries, Canada does not permit companies to file a consolidated tax return. Thus, in groups with multiple entities, each entity must file its own tax return, which imposes additional complexity.

---

61 One explanation as to why tax return preparation is not very problematic might be the existence of instructions. Survey respondents were asked whether the written instructions issued by the tax authority are helpful. Surprisingly, 82.35% of the responding Canadians and 90.33% of those from the other OECD countries classify the instructions of the tax authority as helpful.

62 Exceptions are Alberta and Quebec, where a separate provincial tax return must be filed (CRA 2016).

63 For example, in the US, corporations generally file separate federal and state tax returns. An overview of the different states and links to their income tax forms are provided on www.taxadmin.org/state-tax-forms.
Figure 14: Complexity Drivers Regarding the Filing of Tax Returns
(descending order based on the values of Canada)

Refund of overpaid taxes, computing payments and number of payments are chosen by a share of 11.76% of the Canadian respondents as regularly causing problems. Even less problems seem to be caused by (electronic) remittance (i.e., transmission), only selected from 5.88% of the respondents. Moreover, similar to the filing process, none of the respondents from Canada select the determining due dates and the identifying recipient(s) as a serious problem. Overall, the low values might be explained by the characteristics of the tax filing process in Canada. For example, there are very clear instructions provided by the CRA on how much and when to pay by installments, or how to request a refund (CRA 2019b). In the other OECD countries, the most problematic complexity driver is, on average, refunding overpaid taxes, which is, nonetheless, only perceived to regularly cause problems by a quarter of the respondents (25.49%). It is followed by computing payments (20.66%), number of tax payments (16.48%), (electronic) remittance of payments (8.13%), determining due dates (5.05%) and identifying recipient(s) of the payments (1.10%). When I compare these results with those from Canada, I do not find any statistically significant differences. Hence, regarding the complexity of the tax payment process, Canada does not seem to be substantially different to the average experienced in other OECD countries.
4 Conclusion

In this study, I analyze the complexity of the Canadian income tax system as faced by MNCs in the year 2016 using the Tax Complexity Index of Hoppe et al. (2019) and its underlying survey data. Moreover, I compare the findings with average results from the other OECD countries. I find that Canada ranks 12th among all 33 sample OECD countries for total tax complexity, with a complexity level that is close to the average level of the other OECD countries. When I split total tax complexity into its two components, Canada ranks 9th for tax code complexity and 15th for tax framework complexity. In the tax code, the most complex regulations are those on corporate reorganization. These are followed by regulations on transfer pricing and controlled foreign corporations, indicating that specific anti-tax avoidance measures play a large role in inducing tax complexity. As suggested by the higher rank for tax code complexity, the tax code in Canada is slightly more complex compared to the average of the other OECD countries. This difference is strongly driven by four regulations that are considered as significantly more complex in Canada. These are regulations on corporate reorganization, controlled foreign corporations, additional taxes and (alternative) minimum tax. Drivers that largely contribute to the differences in complexity are excessive details, computation requirements and frequent or extensive changes. In contrast to the tax code, the complexity of the tax framework in Canada is very similar compared to the average of the other OECD countries. The most complex areas in Canada are tax audits, tax enactment and tax guidance. Among all areas, I do not observe any significant differences in the level of complexity between
Canada and the other OECD countries. Even within the areas, I find many complexity drivers that are present to a similar extent in both Canada and customarily the other OECD countries, such as problems with the quality of tax law drafts in the tax law enactment process or with the time period between the filing of an appeal on taxes and a final decision. Nonetheless, there are also a few differences. On the one hand, there are complexity drivers where Canada performs worse than the average of the other OECD countries. For example, the lack of experience or skills of tax officers in the tax audit process is considered as a more serious problem in Canada, which might be linked to base erosion and profit shifting issues and the initiatives to hire new tax officers in 2016. On the other hand, there are also complexity drivers where Canada performs better. Examples include the consistency of decisions or the qualification of judges in the tax appeals process.

Taking prior comparative studies on tax complexity into account, the results of this study help to shed light on the different findings. For example, they support the result of World Economic Forum (2005) according to which Canada ranks in the middle of the OECD countries in terms of (total) tax complexity, even in 2016. Moreover, they show that excessive details are a crucial driver of tax complexity in Canada which is also indicated by the word count of Ehrlich (2011). The low values in the area filing and payments might also explain to a large extent why Canada performs relatively well in terms of the Paying Taxes ranking of PwC and World Bank Group (2017). Notwithstanding, the results of the present study also indicate that tax complexity is not equally present across the different dimensions of tax complexity in Canada. There are aspects that are more complex than others. Hence, caution should be exercised with regard to the complexity measure chosen when examining and comparing tax complexity.

In addition to enhancing the understanding of tax complexity in Canada, the findings have important policy implications. They show that the corporate income tax system in Canada performs not as badly as indicated by the “Top 10 Barriers to Competitiveness” of the Canadian Chamber of Commerce. Based on the overall results for Canada and the comparison to the average of other OECD countries, the corporate income tax system cannot be regarded as an overly complex system which may impair Canada’s global competitiveness. Nonetheless, as indicated above, there are certain aspects that are indeed very complex and thus may require attention. However, as with other studies, there are several limitations that must be considered when interpreting the results. First, the results for Canada refer to the responses of 17
tax experts. Although these experts are highly experienced and skilled, it can be argued that the study’s findings are not generalizable due to the small number of respondents. Second, the data this study is based on refers to the year 2016. Hence, concerns may be raised of whether the results are still fully valid today. Third, the analysis focuses on the determinants of complexity. In order to better interpret the results, the underlying causes and the consequences of the single complexity drivers need to be analyzed in further research. For example, certain complexity drivers may also be positive for corporations (e.g., ambiguity in tax regulations) or governments (e.g., opaqueness in tax audit selection criteria). Irrespective of all limitations, this study provides a valuable contribution to the prior literature as well as many new insights into tax complexity that can be used as a starting point for future research.
References


Canadian Chamber of Commerce. 2014. Tackling the Top 10 Barriers to Competitiveness 2014, available upon request.


Appendix

Figure 16: Distribution of Survey Respondents Among the Other OECD Countries
Figure 17: Complexity Drivers of Remaining Tax Code Dimensions

<table>
<thead>
<tr>
<th></th>
<th>Ambiguity and interpretation</th>
<th>Change</th>
<th>Computation</th>
<th>Detail</th>
<th>Record keeping</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>Transfer pricing</td>
<td><img src="https://example.com/graph1.png" alt="Graph" /></td>
<td><img src="https://example.com/graph2.png" alt="Graph" /></td>
<td><img src="https://example.com/graph3.png" alt="Graph" /></td>
<td><img src="https://example.com/graph4.png" alt="Graph" /></td>
</tr>
<tr>
<td>(2)</td>
<td>General anti-avoidance</td>
<td><img src="https://example.com/graph5.png" alt="Graph" /></td>
<td><img src="https://example.com/graph6.png" alt="Graph" /></td>
<td><img src="https://example.com/graph7.png" alt="Graph" /></td>
<td><img src="https://example.com/graph8.png" alt="Graph" /></td>
</tr>
<tr>
<td>(3)</td>
<td>Capital gains/losses</td>
<td><img src="https://example.com/graph9.png" alt="Graph" /></td>
<td><img src="https://example.com/graph10.png" alt="Graph" /></td>
<td><img src="https://example.com/graph11.png" alt="Graph" /></td>
<td><img src="https://example.com/graph12.png" alt="Graph" /></td>
</tr>
<tr>
<td>(4)</td>
<td>Investment incentives</td>
<td><img src="https://example.com/graph13.png" alt="Graph" /></td>
<td><img src="https://example.com/graph14.png" alt="Graph" /></td>
<td><img src="https://example.com/graph15.png" alt="Graph" /></td>
<td><img src="https://example.com/graph16.png" alt="Graph" /></td>
</tr>
<tr>
<td>(5)</td>
<td>Interest (incl. withholding taxes) and thin capitalization</td>
<td><img src="https://example.com/graph17.png" alt="Graph" /></td>
<td><img src="https://example.com/graph18.png" alt="Graph" /></td>
<td><img src="https://example.com/graph19.png" alt="Graph" /></td>
<td><img src="https://example.com/graph20.png" alt="Graph" /></td>
</tr>
<tr>
<td>(6)</td>
<td>Loss offset</td>
<td><img src="https://example.com/graph21.png" alt="Graph" /></td>
<td><img src="https://example.com/graph22.png" alt="Graph" /></td>
<td><img src="https://example.com/graph23.png" alt="Graph" /></td>
<td><img src="https://example.com/graph24.png" alt="Graph" /></td>
</tr>
<tr>
<td>(7)</td>
<td>Dividends (incl. withholding taxes)</td>
<td><img src="https://example.com/graph25.png" alt="Graph" /></td>
<td><img src="https://example.com/graph26.png" alt="Graph" /></td>
<td><img src="https://example.com/graph27.png" alt="Graph" /></td>
<td><img src="https://example.com/graph28.png" alt="Graph" /></td>
</tr>
<tr>
<td>(8)</td>
<td>Statutory corporate income tax rate</td>
<td><img src="https://example.com/graph29.png" alt="Graph" /></td>
<td><img src="https://example.com/graph30.png" alt="Graph" /></td>
<td><img src="https://example.com/graph31.png" alt="Graph" /></td>
<td><img src="https://example.com/graph32.png" alt="Graph" /></td>
</tr>
<tr>
<td>(9) Royalties (incl. withholding taxes)</td>
<td>![Graph]</td>
<td>![Graph]</td>
<td>![Graph]</td>
<td>![Graph]</td>
<td></td>
</tr>
<tr>
<td>(10) Depreciation and amortization</td>
<td>![Graph]</td>
<td>![Graph]</td>
<td>![Graph]</td>
<td>![Graph]</td>
<td></td>
</tr>
<tr>
<td>(11) Group treatment</td>
<td>![Graph]</td>
<td>![Graph]</td>
<td>![Graph]</td>
<td>![Graph]</td>
<td></td>
</tr>
</tbody>
</table>

**Contribution to complexity**

No extent (0) to very great extent (1)

- [ ] Canada
- [ ] Other OECD countries
Figure 18: Complexity Drivers of Remaining Tax Code Dimensions
TRR 266 Accounting for Transparency

Contact:
Prof. Dr. Caren Sureth-Sloane
Paderborn University
Faculty of Business Administration and Economics
Department of Taxation, Accounting and Finance
Warburger Str. 100, 33098 Paderborn, Germany

trr266@mail.upb.de
www.accounting-for-transparency.de