

TACKLING THE UNDERGROUND ECONOMY

According to all available measures, underground transactions in the construction sector have grown exponentially, and cost billions of dollars annually in lost government revenue. Consumers may think they are getting a “good deal”, but have little or no recourse when things go wrong.

The main Canada Revenue Agency (CRA) response has been the “Contract Payment Reporting System” (CPRS). An evaluation of the CPRS by the Agency itself concluded that it is “not effective in that segment of the underground economy where transactions are purposefully hidden by both the contractor and sub-contractor to circumvent tax laws and other legal obligations (commonly known as the ‘cash’ economy).”

Underground operators, by definition, operate in cash only, outside the legitimate economy. The CPRS simply makes them even more careful about the ways in which they conduct their activities.

Contrary to Federal Government commitments, the CPRS has served no useful purpose in redirecting resources to those areas of non-compliance where cash transactions are prevalent. In short, the CPRS is both ineffective in addressing the underground economy and a source of significant administrative cost to the industry.

The CPRS has failed to “level the playing field” for legitimate contractors who file their tax returns and play by the rules, as promised by the federal government.

Many firms and individuals claiming to be exempt from collecting the GST because they are under the \$30,000 annual sales threshold only continue to be exempt because they do not report cash transactions earned in the underground economy. Not having to register to be exempt assists them in staying below the radar screen of tax compliance and enforcement authorities.

The restrictive definition of “substantial renovation” to be eligible for the GST Rebate on New Housing also encourages people to seek out cash deals for their renovation work rather than working with legitimate contractors.

There are models from Australia and elsewhere that are much more effective in reducing underground activity. These should be examined for application in Canada.

RECOMMENDATIONS:

That the Federal Government:

1. Replace the CPRS with an effective regulatory approach to the underground economy.
2. Require all firms and individuals in the construction industry to register for a Business Number, even if they wish to take advantage of the GST exemption for companies which operate below the \$30,000 annual sales threshold.
3. broaden the current restrictive definition of “substantial renovation” for GST rebate purposes to cover more types of projects that meet the test of being “substantial” by any lay definition of the term, i.e., they involve large expenditures on renewing and/or upgrading major elements of the home.

Submitted by the Kamloops Chamber of Commerce