



CESTNICK

TAX MATTERS

Artificial intelligence may lead to automatic tax filing for some

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Preparing tax returns is complicated. I think the Canada Revenue Agency should come up with a better way to help. Maybe a GPS device for taxpayers makes sense. During the month of April, while sitting in your car, a CRA-issued GPS might say something like, “Proceed to the next intersection and then, if you sold your home in the year, fill out Schedule 3 and turn left if the number of dependants in your vehicle exceeds the number of cupholders in the back seat.” I don’t know, maybe that’s asking too much.

The reality is that the [CRA](#) is trying to make things easier for some people. The federal government announced in its 2020 Speech from the Throne that it would “work to introduce free, automatic tax filing for simple returns to ensure citizens receive the benefits they need.” The issue? Some individuals who neglect to file their tax returns are the very people who would benefit from certain social benefits but aren’t receiving them because they don’t file.

A recent article published by the Canadian [Tax](#) Foundation and written by Alexandre Laurin of the C.D. Howe

Institute shared an update on the government’s progress on automated tax filings.

[As Canadians miss out on benefits, Ottawa promises automatic tax filing is on the way](#)

The progress

Since the 2020 Speech from the Throne, the CRA has invited certain taxpayers to participate in the automated tax-filing program. This year, 1.5 million folks were asked to take part, but by May 27, just 46,000 individuals – about 0.2 per cent of all personal tax filers – accepted the invitation. The CRA selects only those with low incomes or simple tax situations when deciding who to invite. The 2024 federal budget said the agency is trying to improve its automated filing tool, which has recently been renamed from “File my Return” to “SimpleFile by Phone.”

The low acceptance rate by invitees says something about people’s comfort level with the CRA preparing tax returns automatically. This might change over time, as automatic tax filing is taking

place more successfully in other countries.

The international scene

In 2022 the C.D. Howe Institute completed a study on the use of automatic tax filing in other countries. Some don't require tax returns at all from people with simple situations who meet certain criteria. Typically, this will include employees in countries where taxes are withheld at source from each pay and adjusted throughout the year to reflect the amount owing.

Employees in Argentina, Costa Rica, Chile, Germany, Ireland, Peru and the United Kingdom, to name a few, generally don't have to file a tax return if their only source of income is their employment.

Also, automatic filing can look different in each country. It might mean, for example, that automation simplifies the tax-filing process but may not fully eliminate the need to file something.

In the C.D. Howe study, 25 of the 57 countries surveyed have adopted an approach in which the tax authority prepopulates the tax return of an eligible individual with basic information gathered from third parties such as employers, financial institutions and benefit administrators. A preliminary assessment of taxes is done, then the prepopulated return is sent to the taxpayer for review and any adjustments.

In some countries, such as Finland, Slovenia and Denmark, the taxpayer doesn't have to correspond with the tax authority after the prepopulated tax return is sent for review. In these cases, if the government doesn't hear back, the

prepopulated return is considered to be accepted by the taxpayer. Other countries such as France, Spain and Chile require the taxpayer to respond in order for the return to be considered filed.

The Canadian context

The problem we have in Canada is that our tax system is ridiculously complex. In the view of Mr. Laurin, the proportion of Canadians who could expect an accurate and optimized tax return from an automated system is too low today because of the complexity of our system. And our government seems to place a low priority on simplicity in favour of tax changes that achieve economic, social and purely redistributive objectives.

Where might artificial intelligence come in? AI could help the CRA assess whether there's sufficient third-party information to accurately calculate a particular taxpayer's liability. Picture a day when you access your My Account with the CRA online, answer a few questions, then have the AI engine use advanced reasoning to accurately predict whether the information already in the CRA's possession, along with information you might provide quickly online, is sufficient to accurately automate your tax return.

The C.D. Howe institute estimates that about one-third of personal tax filers in Canada might one day benefit from accurate automatic filing. My vote is to simplify our tax system to make tax filing of all types much easier.

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