Combatting tax evasion

Focus Sheet

FAST FACTS

- Tax evasion is the act of evading the taxes that an individual or corporation is required to pay by not complying with tax laws, and it is illegal.
- If a bank suspects an account is being used for criminal purposes of any kind it will report the activity and close the account.
- The banking sector has long believed that tax transparency and the exchange of information between tax authorities in different countries is the best way to combat tax evasion and is supportive of international standards put in place to achieve this.

The bottom line

Banks firmly adhere to the laws in Canada and other countries where they carry on business, including those laws designed to deter illegal activities such as tax evasion and money laundering. Canadian banks have implemented comprehensive compliance policies and procedures to ensure that their products and services are not used for the purpose of evading taxes.

What is tax evasion?

Tax evasion is the act of evading the taxes that an individual or corporation is required to pay by not complying with tax laws, and it is illegal. This can be done by under-reporting taxable income or claiming a tax deduction that the individual or corporation is not entitled to claim.

In some cases, tax evasion occurs when money is moved to another country with a lower tax rate by a Canadian resident and income earned in that country is not reported to Canadian tax authorities when it should be.

Tax minimization is taking steps to minimize the amount of taxes paid. While tax evasion is illegal, tax minimization is not as long as tax laws are followed. For example, investing money in a Registered Retirement Savings Plan (RRSP) is a form of tax minimization because contributions made to the plan can be deducted from gross income at tax time, reducing the amount of income tax paid that year. Tax minimization is an important part of personal financial planning.

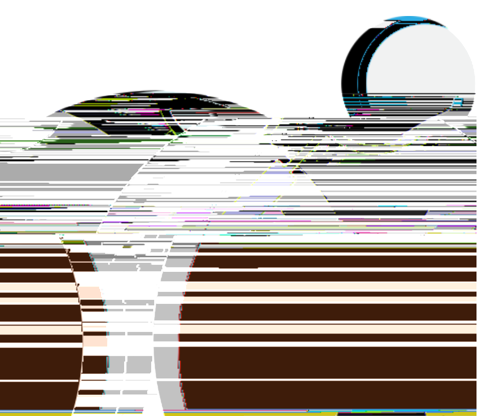
Banks work to prevent tax evasion

Banks firmly adhere to the laws in Canada and other countries where they carry on business, including those laws designed to deter illegal activities such as tax evasion and money laundering. Banks do not advise their clients to evade taxes in Canada or elsewhere.

To prevent and detect cases of potential tax evasion, Canadian banks have implemented comprehensive governance and compliance policies and procedures to ensure that the products and services they offer are not used for the purpose of evading taxes. These i

-money laundering (AML) and anti-terrorist financing (ATF) reporting requirements. Banks have significantly increased their anti-money laundering controls and expanded their compliance departments in the past decade to meet increasingly stringent requirements from Canadian and international policy makers.

If a bank suspects an account is being used for criminal purposes of any kind it will report the activity and close the account.



Canadian banks with foreign subsidiaries or foreign branches must implement a compliance program to detect money

laundering and terrorist financing similar to what is required here in Canada. Banks use their Canadian anti-money laundering regime as a baseline and then overlay local regulations, policies, and procedures to ensure they are compliant with the laws of the jurisdictions in which they operate.

Compliance regimes are supervised by senior management at

Directors, which are appointed to oversee risk management and regulatory compliance with tax laws, securities laws, and other rules imposed by banking supervisors.

To ensure internal processes within banks are effective at detecting tax evasion, banks are subject to regular oversight

regulator, the [Office of the Superintendent of Financial Institutions] (OSFI). All bank employees must also agree to strict internal codes of ethics.

The use of offshore accounts

Canadians are permitted to hold accounts offshore in other countries, and there are many legitimate reasons to do so, including estate management, maintaining a vacation property or conducting business in that country.

-assessment system and it is the responsibility of individuals and businesses to disclose their foreign holdings to the Canada Revenue Agency (CRA) and pay the appropriate amount of Canadian tax owing. If a bank believes that a client intends to commit a criminal offence and evade taxes, the bank would report that activity and no longer do business with the client.

International efforts to prevent tax evasion

The banking sector has long believed that tax transparency and the exchange of information between tax authorities in different countries is the best way to combat tax evasion on an international scale.

With that goal in mind, the banking sector complies with and supports new standards being put in place by the OECD, known as the Common Reporting Standard (CRS). Under the CRS, all participating countries require financial institutions to determine the tax residency of account holders. If the account holder is found to be a tax resident of another country, information about the account holder and the account are automatically transferred to tax authorities in that country. Canada is one of over 100 countries that have implemented the CRS and these international efforts significantly enhance the ability of governments to tackle tax evasion.

Banks as taxpayers

Like many other Canadian businesses, banks are increasingly becoming export-oriented, growing their business operations abroad with well-established subsidiaries in countries across the globe.

As taxpayers, banks pay all taxes due on their business income in Canada and in other countries where they do business. The banking sector is one of the largest sources of tax revenue in Canada. In 2023, banks in Canada paid approximately $15 billion in taxes to federal, provincial and municipal governments across Canada.