

What is the underground economy?

- Businesses that do not properly collect taxes.
- Businesses that do not send collected taxes to the government.
- Individuals who do not pay sales tax on purchases.
- Individuals or businesses that misrepresent income to tax authorities.

“A definition: Economic activity which would be taxable were it reported to the tax authorities.”

Unrecorded annual economic activity is estimated at between \$70 and \$100 billion in Canada.

The Underground Economy: Global Evidence of its Size and Impact, The Frazer Institute. Edited by Owen Lippert and Micheal Walker, 1997.

How does it affect me?

- Disruptive to society.
- Undermines the government's efforts to protect society when banned goods and services are sold in the underground.
- Puts legitimate business at a disadvantage where legal goods and services are sold in the underground economy to evade taxes.
- Governments are forced to levy higher taxes to compensate for the lost revenue needed to pay for infrastructure and to deliver benefits to all citizens (e.g. health care, education, employment insurance).

Impact on Canadian society

“Tax evasion is not a victimless crime. It puts honest businesses at a competitive disadvantage and it causes honest taxpayers to bear the tax load of those who cheat. If left unchecked, it could lead to a loss of faith in the fairness of Canada's tax system.”

said Denis Desautels former Auditor General of Canada in his 1999 report.

What can I do about it?

There are three very simple things you can do about the underground economy:

Know about it! Recognize it! Talk about it!

By reading this handout you have already taken the first step. Try recognizing the underground economy when you see it. You would be surprised where it might turn up.

Talk about it! Talk about it with your friends and family. If more people know about the underground economy and how it affects them...why would they participate in it?

Examples of the impact of the underground economy on Canadians:

Impact on individuals

Fines from 10% to 200% of the tax evaded, up to 24 months in jail, and pay unpaid taxes with interest

Penalties of the amount involved in the misrepresentation (ranges from 50% to 100%)

Criminal convictions publicized in local news media

Higher taxes

Impact on society

Cutbacks to recreational facilities and public transportation

Fewer textbooks, less equipment, and larger classes

Longer waits in hospital emergency rooms

Higher taxes

**Responsible citizenship is
a matter of choice.**

How will you choose?