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Chair

Mr. Massimo Pacetti

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•(1110)

[English]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning, everybody.

We started 15 minutes late because of the previous committee. Just to provide some fairness to everybody, we can go from 11:15 to 11:45 and dedicate the half an hour to discussing Bill C-259,

[Translation]

an Act to amend the Excise Tax Act (elimination of excise tax on jewellery).

[English]

I have Mr. John Duncan, MP for Vancouver Island North. I'll give you about 5 to 10 minutes for an opening statement.

Mr. John Duncan (Vancouver Island North, CPC): I don't need a lot of time. I did prepare a three-page document with a one-page attachment.

Does everybody have that document? It was supplied to the committee clerk in both languages.

Basically, we're here to discuss Bill C-259, which is an act to amend the Excise Tax Act to remove—

The Chair: Just a second, Mr. Duncan.

It's a three-page document, right?

Mr. John Duncan: Yes, plus a one-page attachment, which we handed out this morning. Do you have it?

The Chair: I have the three-pager.

Mr. John Duncan: The one page just explains what chapter 11 and chapter 43 are in the Excise Tax Act, because I make reference to it in the three-page document.

The Chair: Okay, please continue.

Mr. John Duncan: I don't think there's any point in my entering into what you can read for yourself.

The first part describes the current situation. Basically, this committee already recommended as recently as September that this tax be gotten rid of, this counterproductive tax. The Canadian Jewellers Association was formed to fight this tax many years ago. I talked to one individual in the industry who'd talked to the finance minister in 1947 and been given assurances at that time. Basically, nothing has been done. In the meantime, all of the other excise taxes that were imposed in 1918 have been removed one by one; this is the last remaining vestige.

The second part, the legislative context, describes the enabling legislation for this excise tax, which is paragraphs 5(a), (b), and (c) of schedule I of the Excise Tax Act. My bill called for the elimination of paragraph 5(c). I understood that would cover all jewellery. When we had debates, during the first and second hours of debate at second reading in the House of Commons, all members of Parliament who spoke on this—with one exception, Mr. Côté—assumed it referred to all jewellery as well. I only caught the fact that Mr. Côté from the Bloc had recognized a small distinction there—because my bill only talks about paragraph 5(c) and not 5(a), (b), and (c)—upon rereading *Hansard*, with the hindsight of having been told there might be a small glitch in the way we had described it.

What I'm requesting, then, is an amendment, because the clearest and simplest way to remove the excise tax on jewellery is to strike out all of section 5. The fourth part describes how this is within the scope of the bill. You have a one-page attachment to this document that describes subsection 23(11) and section 43 of the Excise Tax Act, which enumerate items of jewellery and are quite specific in including watches and clocks as items of jewellery. The obvious intention of my bill is to remove the tax in its entirety.

Now, in the February 24 budget—the fifth part of my document describes what actually happened to the excise tax in the budget—it was to be phased out over the next four years in 2% steps, so it would go to zero on February 28, 2009.

We have a very strong and growing diamond industry in the country. The Government of the Northwest Territories and the Government of Quebec have been very strong advocates of getting rid of this tax because it is impeding the growth of their industry. It is anticipated by the Mining Association of Canada that we will have the largest diamond industry in the world by as early as 2012. There are huge new revenue streams for the federal government as a consequence of the diamond industry, which is being held back unnecessarily by this tax.

•(1115)

So in conclusion, I am asking the committee to pass a friendly amendment to delete all of section 5 of schedule 1 of the Excise Tax Act.

That would conclude my presentation.

The Chair: Okay, thank you, Mr. Duncan.

Just before I even consider it a friendly amendment, apparently it's ruled out of order because I think watches are included in paragraph 5(a). I'm not sure.

I have it in French here. It's because in the first paragraph it says:
[Translation]

Clocks and watches adapted to household or personal use, except railwaymen's watches [...]

[English]

What I'm told is that *les horloges*, clocks and watches, are not considered a part of jewellery.

Mr. John Duncan: Is that a binding ruling? That's from the committee's legislative counsel? Is that what I understand?

The Chair: Yes, that's where it's from.

Do you want to speak on that?

Mr. Jean-François Lafleur (Procedural Clerk): Good morning, Mr. Duncan.

We just felt that on the first amendment it's been considered that clocks are not jewellery, so that's the reason we thought it would go beyond the scope of the bill, which is just addressing jewellery.

•(1120)

Mr. John Duncan: Well, that being the case, then I would request a friendly amendment that would delete paragraph 5(b) and paragraph 5(c) of schedule 1 to the Excise Tax Act, to repeal those so that the excise tax phase-out would apply only to clocks and watches.

The Chair: To only clocks and watches? What's the problem?

Mr. John Duncan: Well, it would leave schedule 1, paragraph 5 (a) in place, which applies to clocks and watches.

The Chair: Yes, that's what we have. Yes, we have that, I think, with the second amendment. That's the second amendment.

Okay, those are in order, but what we're going to do is this. I'd like to give an opportunity to the members. We're not at clause-by-clause, so we already have these as proposed. I don't know if we have to address them as friendly amendments. When we get there, I guess we'll address them.

I'd like to allow the members to ask questions first, if that's possible, Mr. Duncan.

Mr. John Duncan: Okay, fair enough.

Mr. Monte Solberg (Medicine Hat, CPC): Thank you very much, Mr. Chairman.

Nominally I just have one question, and it has to do with simply eliminating the excise tax on jewellery versus phasing it out. As you know, we made a recommendation last year that this be phased out over a period of years, and the committee thought long and hard about this and debated and discussed. Now, after having tasted some victory, you're asking for some more, and I'm wondering how crucial it is to you that this occur immediately as opposed to accepting that you have some victory, because from what I understand, the industry's pretty happy with even getting a phase-out.

Mr. John Duncan: First of all, thank you for the question, but the industry has been fighting this tax basically since it was imposed. There were many promises from many administrations to get rid of the tax. In other words, the industry didn't believe any promises anymore.

Some in the industry feel that without this bill they wouldn't have received what was in the budget. It's not what they really want, because all of the complexity of collecting this tax is still there, all of the cost of imposing this tax is still there, and if it's a counterproductive tax, it's counterproductive at 8% and 6% and 4%.

My understanding is that the committee made earlier recommendations to abolish it in its entirety. September was a phase-out. My bill was already in place and introduced in the House, and I actually had no knowledge that the finance committee was studying the subject at the time. I also understand that the Bloc had a dissenting report and actually didn't agree with the phase-out. The Bloc was supporting an abolishment, even in September.

For example, the Government of the Northwest Territories was asking to appear before us during these proceedings. It has withdrawn on the basis that it's calling for the abolishment. It doesn't want to slow up the proceedings of this committee, which might lead to an abolishment, by putting another obstacle in its way in terms of time.

It's taken me two months, basically, to get to committee from a voice vote in the House of Commons. When we don't know how long this Parliament is going to be, I think it's very useful to try to push this through.

•(1125)

Mrs. Lynne Yelich (Blackstrap, CPC): Mr. Chairman, can I make a suggestion that we go to clause-by-clause?

The Chair: Is that a point of order?

Mrs. Lynne Yelich: It's a suggestion.

The Chair: No. I'm not going to view it as a point of order because I want to give all the members the opportunity to ask a question.

Mrs. Lynne Yelich: And then can we discuss it?

The Chair: Yes, if you want to raise it again after the members have an opportunity for questions.

I just want to clear up some of the things that were said. I have them here.

In May 2004 the committee, with Roy Cullen as chair, never tabled its report. The recommendation regarding the jewellers was as follows:

The federal government implement one of the following options: phase out the federal excise tax on jewellery over five years by reducing the tax rate by two percentage points per year; or increase, in increments over a five-year period, the thresholds at which a tax begins to be paid, eliminating the tax at the end of the period. In deciding between these options, the government should consider which option is the more expeditious and involves the greater administrative simplicity for the jewellery sector.

In this report, which was not tabled, there is in fact a dissenting report from the Bloc Québécois stating that the federal excise tax on jewellery should be eliminated immediately.

Subsequent to that, when the House came back, this committee did table a report in October 2004 with a recommendation on the jewellers, which recommended that:

The federal government implement one of the following options: phase out the federal excise tax on jewellery over five years; or increase, in increments over a five-year period, the thresholds at which the tax begins to be paid, eliminating the tax at the end of the period. In deciding between these options, the government should consider which option is the more expeditious and involves the greater administrative simplicity for the jewellery sector.

It's very similar, if not exactly the same. This report does not have any opposing or dissenting views attached to it.

I just wanted to clear this up.

[*Translation*]

Mr. Côté.

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you for being here today.

It is quite true that when the report was tabled, we did not issue a dissenting view. Mr. Solberg clearly explained the fact that we needed to arrive at some conclusion in order to resolve the issue. A phase-out of the tax involving a 2-per-cent reduction in each period seemed to be an acceptable compromise, even though such a system is far from ideal. Our preference would have been that the tax be eliminated immediately, but this was the compromise we reached at the time to allow the Committee to do what it had to do.

I must admit that a little earlier, I didn't really follow the discussion when you talked about an amendment that went beyond the scope of the bill. I'd like to come back to that point, because the discussion was moving along rather quickly.

The Chair: Yes. A friendly amendment was moved that was not accepted.

[*English*]

The subamendments are not going to be friendly, because they substantially change the substance of the bill. We're going to have to debate them.

[*Translation*]

Mr. Guy Côté: So, we're going to look at them one at a time.

[*English*]

The Chair: Exactly.

Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): Was there a question?

[*Translation*]

Mr. Guy Côté: No, not really.

[*English*]

It's more of a commentary, in fact. We've been trying to help you achieve your goal as far as the bill goes. It may not be the perfect thing right now, but it was the kind of thing that would make it work.

Mr. John Duncan: Yes, and I understood that. But I've also talked to members of the Bloc who have been on this file for a long time—Mr. Loubier, Mr. Paquette, and others—and they would very much like to see this tax gone in its entirety.

In terms of the amendments, my bill says to get rid of paragraph 5 (c). The amendment I asked for, that paragraphs 5(a) and 5(b) also be gotten rid of, was ruled out of order by the legislative clerk; getting rid of paragraph 5(b) is the other amendment. It means we'd have paragraphs 5(b) and 5(c) gotten rid of. It would leave only watches and clocks as taxable.

• (1130)

The Chair: Monsieur Côté.

Again, I don't want to put words in your mouth, but I have to be very clear. Monsieur Loubier was not a member in the last session when there was a dissenting report.

Mr. John Duncan: No, I didn't suggest he was.

The Chair: On this report he was a member, and there was no dissenting report. I want to make that very clear.

Mr. John Duncan: They have an active interest in the file.

The Chair: Mr. McKay.

Hon. John McKay: Thank you, Mr. Chair.

I don't think there's much dispute that pretty well every member around the table sees this as a tax that is retrogressive in some respects. However, this committee has gone through this issue twice now, and as the chair has indicated, in both instances we have recommended a phase-out, after hearing witnesses from both the industry and the department. I don't recollect whether we had any other representatives from other levels of government.

The committee made a recommendation to the minister. The committee has, in my view, a fairly good working relationship with the minister, and quite a number of recommendations found their way into the budget after the committee concluded its hearings in the fall last year. Now, after having the committee's recommendation accepted virtually word for word by the minister, you're saying that's not good enough. I suppose there isn't anybody in Canada who thinks any reduction in taxation is good enough; they want it to be all gone now.

I want to comment on the minister's issue here. First of all he accepts the recommendation, and unlike the rest of us, he has to make the budget balance. Any time you reduce revenues, you have to find revenues from other sources, because there are no free rides when you're trying to balance a budget.

The second thing is that the industry—at least when they were in my office yesterday—seem to be perfectly happy with the proposal of the minister. In fact, they were quite supportive of the position taken by the government. Part of it was that they were very happy that their case had finally been listened to, but it also allowed them a phased-in adjustment period, and this was in their own interest.

The example given to me was of a jeweller who has \$1 million worth of inventory on which they have already paid excise tax. Now the rate has been reduced by two points, or whatever, and they think the market will allow them to recover that. With an accelerated reduction such as you are proposing, they don't think they can recover the excise tax they've already paid. Recovering 10% on \$1 million, or \$100,000, is a lot more difficult than trying to recover 2% on \$1 million, or \$20,000.

So this phased-stage process actually works for the industry, the consumers, and the resource sector. I think those are the reasons why the committee recommended this phase-in in the first place. The minister, having looked at the two options or combinations of options that the committee recommended, took the option that had the least administrative burden, because the administrative structure was already in place.

● (1135)

In our view, not only is this bill flawed because of its attempted amendments, but it also approaches a difficulty or an anomaly in the tax system in the absolutely wrong way. So I don't see, Mr. Duncan, how you actually have the industry's support for your proposal. I don't see how you can have committee support on this proposal, given that the committee has opined twice on this matter after having heard witnesses from all the sides.

Mr. John Duncan: I'll just respond to that. First of all, I'd like to say that there was every attempt to ensure that this bill—this is my opinion—did not reach this committee before the budget. There was a lot of time to do that, but there were scheduling problems.

Secondly, it depends on who you're talking to and who industry is talking to in terms of what they have to say on full repeal of this budget. I talked to a jeweller with exactly the circumstance you're talking about, which is a million-dollar inventory upon which this tax has been paid. That jeweller would be absolutely delighted to see the tax abolished, recognizing that when we replaced the manufacturing tax with the GST, there was an inventory adjustment that took place at that time. The jewellery industry is not asking for that, so there's going to be no additional cost burden on the government. My understanding is that the industry is willing to swallow that.

Leaving this phase-out in place leaves the entire administrative burden of the complexity of this tax in place. The complexity of collecting this tax is such that, for most jewellers, it cannot even be computerized, because they have to follow individual pieces through individual stages. If you look at the interpretation of what's considered taxable and not taxable in terms of repair, reconstruction, and some of the other phases, it becomes a very burdensome process.

I have a letter from the president of the Canadian Jewellers Association to the chair. It's dated February 10, and it says:

...we would like to reinforce the industry's support of the full repeal properties of Bill C 259. There is an historical precedent that full repeal was granted to all other perceived "luxury" categories since the early 1900's. We ask for the same treatment for the jewellery industry.

This letter was written at a time when there was a sudden recognition that my bill might not be perceived to be all-encompassing of all jewellery.

Hon. John McKay: But you don't have a letter written subsequent to the passage of the budget.

Mr. John Duncan: No, but I didn't think that would be a necessity. I've had meetings with the Jewellers Association since the budget.

Hon. John McKay: As have I, and my view of what they are saying is that they are extraordinarily pleased with the phase-in approach.

Just as one final point, it's one thing to swallow 10% on \$1 million dollars, but it's another thing entirely to swallow \$20,000 on \$1 million dollars. So I find that you may actually be working against the best interests of the industry.

The Chair: I want to try to finish on time

Quickly, Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): I'm sorry I missed part of this, but I'm glad to have come in at this point. As I understand it—in fact, I went to my office to look for it—there was a letter sent by the Jewellers Association on February 24, right after the budget. I don't think they were as unequivocal in their support and excitement as Mr. McKay would have us believe, but they certainly appreciated the fact that the government had made a step in the right direction. They said that although they were expecting more, they were happy with this as an alternative.

I just wanted to put on the record that I've supported you and your bill in the past. However, given the fact that the government has moved, and given the fact that where they've moved to is fairly consistent with our committee report, I feel I have to support the budget initiative at this point, not your particular private member's bill. But I give you the credit for getting us to this stage.

● (1140)

The Chair: Okay, I think we're exhausted. I need somebody to propose something, or do you want the chair to do it?

Hon. John McKay: As a point of order, before we get to clause-by-clause, I propose that we dismiss this bill. For the reasons that were outlined in my questioning of Mr. Duncan, we as a committee have expressed ourselves, as you read into the record twice on this point, Mr. Chair, taking into account at that time the nuances that are required when you do a phase-out of a tax as opposed to a complete cancellation of a tax.

Another example is corporate tax. You don't just willy-nilly go from 28% to zero. You do a phase-out, and similarly with personal income tax.

Mr. John Duncan: You're not phasing out corporate taxes.

Hon. John McKay: I know, but we're phasing it down.

Similarly, we phase down personal income tax by moving thresholds and rates. So that's in part the reason we have supported the phase-out of this tax.

We don't disagree that it's a regressive tax. I don't think that's the point.

We also have a working relationship with the minister, who takes into account things extraneous to the arguments that the honourable member would put forward—that is, how am I going to replace money such as will be lost by virtue of elimination of this?

Those are my reasons, and my third reason is essentially that I'm not sure this is an industry-friendly proposal. From the conversations I've had, it is quite the contrary.

The Chair: I'd prefer to go, if I may, to Mr. McKay's motion to dismiss the bill, because I will need unanimous consent to go to clause-by-clause. I'm not sure if we can get that.

Can we vote on Mr. McKay's proposal to dismiss the bill?

(Motion negatived)

The Chair: Okay, it's five in favour of dismissing the bill, and six opposed.

If we want to try going to clause-by-clause, we have two minutes, but I need unanimous consent. Do I have unanimous consent to go to clause-by-clause?

An hon. member: No.

The Chair: As chair, I don't see any new evidence in terms of having it change our mind. We've already done this; we've already deliberated it. What's going to happen is that if we go to clause-by-clause, we're going to have to revisit the whole scenario. So we're

going to have to bring in witnesses, because we have witnesses who have requested to appear, and this is going to be another long, drawn-out process. We have governments that want to appear, and associations and groups, so we're going to have to reopen the whole—

Mr. Monte Solberg: If they want to appear, then that speaks to Mr. Duncan's point.

The Chair: Yes.

I'm just warning the committee what this entails.

Mrs. Lynne Yelich: I understand that one of the witnesses who did want to appear has faxed or sent you a letter saying he would forfeit that if you would advance to clause-by-clause, because it is very important.

● (1145)

The Chair: That's probably one of the witnesses, but we have a number of witnesses who want to appear. So we're going to reopen....

I'm just letting the committee know that's what's going to happen. We'll send out the notices for the clause-by-clause. I think there are other members who will want to make amendments. I think I received three from Mr. Duncan.

Are these your amendments?

Mr. John Duncan: It is my understanding that they were tabled by Lynne Yelich.

The Chair: Are they Conservative amendments? Yes.

The first one is ruled out of order, and the second and third are going to have to be debated in committee. You'll get a notice.

The meeting is suspended.

[*Proceedings continue in camera*]

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