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Chair

Mr. Massimo Pacetti

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•(1105)

[Translation]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning everyone. I call the meeting to order. Messrs. Dorais, Ralston, Tucker and McCloskey, welcome. Thank you for having accepted our invitation.

Pursuant to Standing Order 108(2) and section 89 of the Canada Customs and Revenue Agency Act, we are doing the statutory review of the act. We will deal with the agency's review report.

I understand, Mr. Dorais, that you have a statement to make and I am giving you the floor to do so.

Mr. Michel Dorais (Commissioner, Canada Customs and Revenue Agency): Thank you very much, Mr. Chairman. Let me introduce my colleagues. You have named them, but I would like to explain to the committee the reason why they are here today.

Dan Tucker was deputy commissioner responsible for human resources during the whole period that we are dealing with. He is leaving us to go to Halifax, at the University, but he is bringing along with him all his years of experience in the area of human resources.

Mr. McCloskey was part of the team when the agency was created. He coordinated the preparation of the report summarizing the first five years of the agency.

Finally, members of the committee are well acquainted with Mr. Ralston, who is responsible for finance issues at the agency.

I thank you for inviting us to appear to review the evolution and achievements of the agency. The report you've received earlier was prepared by the agency to facilitate your work, Mr. Chairman.

[English]

Five years ago, Parliament launched a major experiment in public sector governance. New legislation created an agency with unique characteristics designed to merge the best of what public and private sector governance had to offer. Parliament's reasons for passing the Canada Customs and Revenue Agency Act in 1999 was to give the agency the means to pursue three objectives: to provide a superior service to Canadians; to work more efficiently and effectively internally; and to develop closer partnerships with the provinces and territories.

What can now be observed, after five years, is that the agency has matured into a national organization that is able to better serve all taxpayers by improving revenue collection and by eliminating unnecessary overlap between jurisdictions. It is also clear that five years is a very short time to assess major changes in governance.

Overall, agency management recommends that members of Parliament take note of the progress accomplished so far, which is outlined in the five-year report, and consider allowing this experiment to be pursued and explored fully for at least another five years. I would add that we're not seeking any legislative amendments to the legislation governing the agency.

The key characteristics of the agency governance regimes are the following. The first is assigning the responsibility for human resource procurement, real estate, and administration to a board of management composed, by law, of individuals from the private sector, the majority of whom are nominated by the provinces and territories. The second is the retention of a minister responsible for program legislation, administered by the agency and with whom our government clients can work at the political level. The third is a commissioner responsible for ensuring day-to-day management of the agency under the board's guidance. And the fourth is a strengthened accountability regime arising from the fact that the agency is entrusted with taxpayer money on behalf of many governments in Canada.

[Translation]

Like all departments and agencies, the CRA is required to prepare a report on plans and priorities, as well as a performance report. However, it must submit two additional documents: a corporate business plan and an annual report.

The reliability of the agency's performance information is, uniquely, also subject to reviews by the Office of the Auditor General, named in the legislation as the agency's auditor.

To provide a context for the committee's review, I would like to highlight a few statistics that describe the agency and its work. We have 44,300 employees at the maximum level, that is at this time of the year, which represents about one-fifth of the federal public service. We collect \$313 billion on behalf of the federal, provincial and territorial governments and for several First Nations governments. We distribute nearly \$12 billion worth of benefit and credit payments to over 10.5 million eligible Canadians. We are considered a world leader with respect to innovations such as electronic filing and government online.

Of course, there is still some work to be done and improvements to bring about in the areas of tax compliance and the full assumption of the responsibilities that have been given to the board of management when the agency was created, particularly in areas such as real estate, where we still have an enormous amount of work to do to fully assume our responsibility.

•(1110)

[English]

In conclusion, Mr. Chairman, organizational changes and accountability mechanisms have enabled us to make significant achievements in regard to our priorities and objectives.

[Translation]

Over the past five years, we have built a strong and mature organization that is a leader in the public service. Our success to date indicates that our model is sound and that we are capable of taking more responsibility on behalf of various governments.

[English]

I welcome the opportunity, Mr. Chairman, to answer any questions the committee may have.

Thank you.

The Chair: Thank you, Mr. Dorais.

Mr. Pallister is first, and then I'm going to go to Monsieur Loubier and then Ms. Minna.

Mr. Brian Pallister (Portage—Lisgar, CPC): Thank you.

Thank you for your presentation, sir, and good luck to you, Mr. Tucker, in your new pursuits.

In discussing the difference between management and leadership, Steven Kelly says something along the lines of management being what determines how quickly you can get up and down the ladder, but leadership determines that the ladder is up against the right wall.

I would like to address a broader concern and give you the opportunity to respond.

In terms of Canada Revenue Agency's ability to adapt to challenges, one of the major challenges I think we have in this country is the threat to our tax base. Part of that emanates from the tone at the top as it is currently set by some in this country. It sets something of a bad leadership example I think of how responsible money management and accountability should work.

That said, I'm concerned with another problem as well that I see as a threat to the tax base. I'm sure you're aware that a recent Auditor General's report talked about the need for CRA to do an overall analysis of all threats to the tax base, and I'm curious as to what work the agency has done in that respect.

Mr. Michel Dorais: Thank you, Mr. Chairman.

I would not say in front of the committee that the tax base is threatened at this point in time, but always one of the agency's major responsibilities is to maintain the integrity of the tax base, not only on behalf of the federal government but also on behalf of all the provincial governments we are serving and for whom we are collecting the taxes, as well as the first nations governments, for whom we are also collecting some taxes. A number of measures are taken—the tax compliance—and in the last budget the agency received \$30 million in additional money to devote to the tax compliance activity, which will allow us to hire an additional 250 people to devote to that. I think the end objective is to ensure that the

agency is able to put a constant pressure on the compliance side to ensure the integrity of that tax base on an ongoing basis.

In terms of the exact measures taken, or the plan to follow up on the Auditor General's remarks, my colleagues may want to comment further on the details of it. It depends on where you want to end up on this one, or if the question could be more specific.

Mr. Brian Pallister: I'll just quote the Auditor General's remarks. In this particular report, she says:

The Canada Revenue Agency does not have a consistent and integrated approach to identifying threats to the tax base to ensure its resources are allocated most effectively.

You've implied you don't think there are any threats to the tax base, yet the recent numbers we're seeing.... Just for example, in one category, the use of tax havens offshore, the numbers indicate dramatic increases in the amount of money going offshore to tax havens. You talked in your introductory remarks, or perhaps in this document—I don't mean to misrepresent what you said—about adaptability at some point, a willingness to respond to new challenges, and this type of thing. This tax haven issue is probably not a new challenge; nonetheless, it's an emerging one. I'm curious as to what work the CRA has done, perhaps in conjunction with other departments, on the issue.

•(1115)

Mr. Michel Dorais: Okay, Monsieur, I'm much clearer on the question now.

Effectively—and I explained to the committee last week—we see the issue of the tax haven as part of a much broader tax compliance issue. In other words, we have to be very careful not to make an equation between the money that leaves the country for investment in foreign countries and tax evasion.

Sometimes it is true that tax havens are used as part of a broader tax evasion scheme, and we have put in place a series of measures to address that. I will ask, with your permission, Mr. Kowalski to outline them, because I don't have them at my fingertips. I think five or six very specific measures have been taken as a result of these remarks by the Auditor General.

Mr. John Kowalski (Deputy Assistant Commissioner, Compliance Programs Branch, Canada Customs and Revenue Agency): Thank you very much, Commissioner.

Generally our strategy on tax havens focuses on arrangements and transactions in which people and businesses use a tax haven's bank secrecy laws, or perhaps ineffective exchange information provisions, to try to conceal assets or to conceal income subject to Canadian tax.

Mr. Brian Pallister: Mr. Kowalski, I don't mean to interrupt. I'm familiar with the measures you're referring to at this point.

I'm trying to get one step beneath that, to the area of policy-making. For example, the issue of interest deductibility for moving money offshore—that issue specifically—is one that's been raised. Numerous commentators have referred to it. I'm interested in how your department works—if you have concerns internally about the leakage of revenue, for example, by interest writeoffs on money used for job creation or entrepreneurial activity offshore. If you have concerns about that, what mechanisms have you developed, or what strategies do you use to address those concerns? How do you interface? Do you interface with the Department of Finance, for example? What research or what studies have you done to measure the degree to which this is potentially eroding the ability of our country to generate our own revenue flows?

These are the issues I want to hear addressed by you today. With respect to those comments, I know the area you're getting into and I'm somewhat familiar with it, but I'd like you to address these comments.

Mr. Michel Dorais: With respect to the link with the Department of Finance and the provincial department of finance, they're on a daily basis. Obviously, they're our major clients, and we are—

Mr. Brian Pallister: I'm sorry, Michel, but I'm asking you specifically on this issue, the issue of the deductibility of—

Mr. Michel Dorais: On this particular issue I will have to defer to Mr. Kowalski.

Mr. John Kowalski: In terms of that particular issue, our concern as tax administrators is that people comply with the law. We don't determine tax policy, as I know you appreciate; that is done by the Department of Finance. Our focus is ensuring people do comply with the act as it is written.

Mr. Brian Pallister: Being the first responder, as you are, do you not have a means for providing input to the Department of Finance when you see concerns, when you become aware? You obviously become aware in your work, as a department, of these types of situations.

Mr. John Kowalski: Very much so. As part of our ongoing regular audit work and our relationship with Finance, we do have a mature relationship with them in the sense that we do identify proposed legislative amendments—changes—that we think would be helpful from our perspective as tax administrators. We do submit those to Finance for consideration, recognizing that of course they have to consider many factors other than just what is perhaps desirable from our point of view. They deal with broader tax policy issues outside our purview.

Mr. Brian Pallister: So you do have a means of communicating concerns on issues like this to the Department of Finance for their consideration.

Mr. John Kowalski: Absolutely.

Mr. Brian Pallister: Have you done that on this specific issue?

Mr. John Kowalski: We make annual submissions to Finance on a wide variety of subjects, on areas that we think could assist us in protecting the tax base, and in terms of ensuring compliance with the law.

Mr. Brian Pallister: Have you addressed this specific issue with Finance in terms of communicating your concerns about it?

Mr. John Kowalski: It would include international transactions, tax savings, transfer pricing, GST measures, and the underground economy. There are a wide range of issues on which we have a dialogue with the Department of Finance on a regular basis.

The Chair: Thank you, Mr. Kowalski.

Monsieur Loubier.

[*Translation*]

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Good morning, Mr. Dorais. Good morning, gentlemen.

I would like to ask you two specific questions about the transfer of funds abroad.

A few years ago, the auditor general brought to light a situation that had happened, if I am not mistaken, on December 24, 1991, around midnight, when a group of senior officials made an advance ruling in the case of a family of investors. That family had transferred two so-called family trusts to the United States or elsewhere—at one point, they lost track of that trust fund—without having paid any income tax in Canada. I believe that you will recall that case. A citizen from Manitoba had even gone to courts in order to go to the bottom of this issue. Why is it that, on a December 24, at midnight, a group of senior officials from the Departments of Revenue, Finance and Justice made an advance ruling in favour of a Canadian family, after having made a different decision just a few weeks earlier?

At the time, we had denounced that situation and especially the fact that when such a family trust or other financial instruments of this kind—but mostly the trusts—were being transferred to the United States, such a trust could thereafter be transferred to Barbados or to any other country. Before that transfer, the taxpayer was not leaving behind any warranty, so that if, during the next ten years—that was the delay granted by the Income Tax at the time—the Canadian taxpayer was to realize the assets contained in the family trust, there was no guarantee that the income tax owed to Revenue Canada would be paid. The law has been amended and that loophole has been plugged. Investors who want to transfer this kind of asset abroad must now give a warranty to Revenue Canada. However, I wonder how thoroughly you follow-up after such powerful financial instruments have been transferred. How do you follow-up to make sure that the income tax payable to Canada on the assets realized in the next ten years are in fact paid? Do you have resources allocated to this? A few years ago, you did not have any.

• (1120)

Mr. Michel Dorais: Mr. Chairman, I must unfortunately admit that I am not able to answer this specific question, given that I have been holding this position for only three months. My knowledge of this file going back to 1991 is, at best, theoretical. I will take note of this question and provide an answer to the committee later on, unless my colleagues have more specific elements to add regarding the follow-up.

[English]

Mr. John Kowalski: Of course, it would be inappropriate for me to discuss any specific tax situation. The matter that I believe is being referred to was thoroughly discussed at a parliamentary committee. My understanding is that the interpretation of the act that the Canada Revenue Agency gave was in accordance with the legislation as it existed at that point in time.

We have regular monitoring programs and audit programs that ensure compliance with the law on an ongoing basis. That is part of our normal audit program.

[Translation]

Mr. Yvan Loubier: I would like you to give a more specific answer to my question, Mr. Kowalski. When investors transfer this type of financial instruments, do you strictly enforce the law that was passed in 1998, which provides that they must leave some warranty in case Revenue Canada would have to recover some income tax when assets are realized? Are you well-equipped, at the Canada Revenue Agency, to ensure there is a follow-up of these transfers in order to check whether the assets are realized during that 10-year period?

[English]

Mr. John Kowalski: We are equipped to follow up on matters; however, again, I believe the item you're referring to involves a specific tax situation that perhaps would be inappropriate to discuss.

[Translation]

Mr. Yvan Loubier: I am not talking about a specific case. I am asking you whether, generally speaking, when this type of transfer is made, you are now well enough equipped to do the follow-up.

[English]

Mr. John Kowalski: In a general sense, we are equipped to follow up on matters, yes.

[Translation]

Mr. Yvan Loubier: I am very happy to hear this, because that has not been the case for very long.

I have another technical question of the same nature. In 1998, a bill was introduced in the House of Commons so that dormant companies involved in the international shipping industry could become eligible to avoid double taxation. I give the example of Barbados because that's the one that comes most readily to mind. In that country, the income tax rate is 1.5 per cent. Once that income tax is paid in Barbados, there is no double taxation when profits or dividends are brought back home.

In order to benefit from that treatment, the company, which may at present be dormant in the area of international shipping, must have what is commonly called its brain and management at the place of business. I give once again the example of Barbados. Decisions about management and administration must be made in that country.

Are you doing any monitoring of companies that pretend to have their brain and management in countries such as Barbados, that are considered tax havens and want to avail themselves of the Income Tax Act and some regulations in order to avoid being subject to double taxation?

Are you equipped to verify that? I asked the same question to the superintendent of financial institutions. He told me that his office was doing the odd check here and there. I believe that it is more up to you to do the checking and the follow-up required.

• (1125)

Mr. Michel Dorais: Mr. Chairman, with your permission and with all due respect to the honourable member, I would like to take note of his question and provide an answer to the committee later on. We did not bring the right team to answer this question, given that we were to present this morning the report on the structure of the agency and its enabling act.

The question is obviously quite relevant. I would like to be able to give a technical and appropriate answer, and I am not able to do so at this time.

Mr. Yvan Loubier: It's okay, Mr. Dorais. It's in line with the question put by my conservative colleague about the security of the tax base. If you want to give me a written answer—

Mr. Michel Dorais: My colleagues may have the answer, but we are not fully prepared to answer this kind of questions. However, I can certainly give a commitment to provide an answer.

Mr. Yvan Loubier: Thank you.

The Chair: Thank you, Mr. Loubier.

[English]

Next are Ms. Minna and then Ms. Wasylycia-Leis.

Ms. Minna.

Hon. Maria Minna (Beaches—East York, Lib.): Thank you.

I missed the last meeting—I apologize—so this might not be one you're able to answer.

Has the CRA studied the issue of the underground economy? Have there been any recommendations to the government about possible direction and policy to address this issue, with respect to this being an ongoing major issue for some time?

Mr. Michel Dorais: It is obviously something we not only have studied, but are studying. We are also studying it in consultation with our provincial clients and provincial colleagues. Last week I was in Quebec discussing and exchanging on tactics, issues, and information regarding the underground economy per se. We have some initiatives in the construction industry, for example, that are targeted to the underground economy.

Mr. Kowalski, do you want to elaborate a little on the studies we've done and the specific measures taken?

Mr. John Kowalski: We have a fairly comprehensive approach to the underground economy. When the Auditor General did an audit back in 1999, she found that it was a balanced approach, a multi-dimensional approach to addressing it. We try to promote voluntary compliance. We work with the provinces and we work with key industry associations, such as the Canadian Home Builders' Association, on the "Get It in Writing!" campaign. We try to strengthen our other programs through matching databases and third-party sources. We do have legislative amendments and enhanced audit techniques. We also focus on high non-compliance areas, such as the construction industry.

We have about 1,000 people across the country dedicated to addressing the underground economy. We do seminars, community visits, presentations at trade schools, educational tools, book and record reviews, the computerized matching of information that I mentioned, audits, and investigations. We have a full range, a full suite, of instruments that we bring to bear on the underground economy. We've also established a national federal-provincial working group on the underground economy to enhance our efforts in terms of working with the provinces on this issue, and we have some very interesting partnerships there too.

Hon. Maria Minna: You said you started in 1999. Have you seen a percentage change or shift in the size of the underground economy as a result of the actions in the last couple of years? Are there results?

Mr. John Kowalski: In terms of the size of the underground economy, when the Auditor General did the study back then, they reviewed a number of academic reports over a period of about 17 years. They found they varied anywhere from 3% to somewhere over 20% in terms of the underground economy as a percentage of gross domestic product. They determined that the appropriate level was around the 4.2%, 4.5% range, which was roughly similar to what Statistics Canada had found as well. Based on our experience, we're comfortable with those findings. We don't have any additional information to suggest that they would be other than those provided by the Auditor General and Statistics Canada.

• (1130)

Hon. Maria Minna: Okay. I want to go to something else just now. The report notes that the agency's relationship with the provinces and territories has generated economies and efficiencies for them as a consequence of two factors: the increasing number of programs the agency is being asked to deliver on behalf of the provinces and territories, and the increasing number of requests to provide data.

So I have two questions. First, how much has been saved by the provinces and territories as a result of the economies and efficiencies resulting from the relationship with you? I know there are some discussions with the Government of Ontario to take up the collection of corporate taxes on behalf of Ontario. Could you focus on that as well? Specifically, could you give me some updates?

Mr. Michel Dorais: Thank you, Mr. Chairman. Before passing it to Mr. Ralston, I'll say that in terms of numbers, a number is very difficult to obtain. That is because over the years, the nature of the business has changed, and the number of activities and the types of activities have changed.

In terms of Ontario, the negotiations are going very well. We are in constant communication with Ontario. Obviously the deal is in negotiation now. It is very difficult to point to a systematic or an exact number of what the economies realized by that would be. Obviously, when we bring together two functions that were separate, there are economies of scale, but the real economy is for the business community or the taxpayers around the country, who will have to deal with a single agency and a single tax base in order to do their reporting and all their activities with respect to collection of taxes; there is a transfer of real economy to the business community, because instead of having two government entities doing the same work, we have a single government entity, which means a single

audit system and a single set of visits. This is where the economies are.

For the country as a whole, I don't know if we've attempted to put a number. I don't want to put Mr. Ralston on the spot.

Mr. Jim Ralston (Chief Financial Officer and Assistant Commissioner, Finance and Administration Branch, Canada Customs and Revenue Agency): I think we have somewhat of a handle on the efficiencies that the agency itself has been able to gain, but in terms of the costs that have been avoided by provinces because of business they've given to us, I don't have those data at my fingertips, I'm afraid.

Hon. Maria Minna: My understanding is that for Ontario, about \$45 million would probably be some of the savings. Would that be about accurate?

Mr. Michel Dorais: I don't know. I can't confirm or deny that number. The number is definitely very high, but I don't know if \$45 million is an accurate representation of the economies. I don't have the number now.

Hon. Maria Minna: Okay. I want to go down to your human resources for a minute. In your report, you talk about important benefits gained by the Canada Revenue Agency because the agency is a separate employer, and of course there's more flexibility and so on. There's also mention of the agency being more entrepreneurial and efficient in management and administration.

I wondered a couple of things. The reason for its entrepreneurial... Are there quotas or benchmarks one would find? Does the staff have a quota to meet, for instance, in terms of what they collect—when you say entrepreneurial, it makes me think of specific things—and how does that affect the tenor of the service to the client?

Mr. Michel Dorais: Let me answer the last question first. There are no quotas in terms of collection given to employees, but—and I speak from experience, having been in 13 departments before this agency—we do have probably the most elaborate performance assessment system I've seen in the public service, starting from my own performance assessment right down to every single employee. It's a very elaborate set of objectives. Everything is measured in the agency, whether it's the amount of collection we do, the effort, the numbers of hours per dollar collected, or the amount of time it takes to open an envelope—everything is measured on a constant basis.

To answer the first of your questions, about what's different, I think what is really different is the presence of private sector individuals on the board of management. Four times a year, for three days at a time, they essentially deal with senior management in terms of productivity and in terms of measurement of performance. It is a real accountability relationship, akin to what one might find in the private sector with boards of directors. It is a very real accountability, and very oriented towards everything measurable in the agency.

Over a period of years, it has generated a different kind of attitude in the agency, one that's oriented towards measurements, performance, service levels, and standards. So the specific answer to your question is a whole series of standards and measures that cover the entire spectrum of activities in the agency. We can go into one in particular.

•(1135)

Hon. Maria Minna: I have one quick final question. This is the five-year review, so I'm curious to know if you see any changes to the size or mandate of the agency at this time that you would recommend.

Mr. Michel Dorais: To the mandate, I see no changes. I think the mandate of the agency is very clear, and the objectives Parliament has given to the agency are still very valid today in terms of performance and a better relationship with partners, provinces.

What I foresee is some change in scope over the next five years—the development of a larger client base. We talked about Ontario corporate taxes; this is a big one. There are also benefits administered by the provinces in other federal departments that the agency could handle in a very efficient and very economical way for both provinces or other departments. I think the mandate will stay the same, but the scope might be bigger in the end.

The Chair: Thank you, Ms. Minna.

Next is Ms. Wasylycia-Leis, and then I have Mr. Pallister again.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chair. I have three or four specific issues and then a broader issue dealing with the question of tax avoidance or tax havens.

First, I'd like to clarify the information we received in a *Globe and Mail* news report today, suggesting there is a different message coming out of the Canada Revenue Agency vis-à-vis the lifting of the 30% foreign content limit for registered retirement savings plans. According to this report, your agency is assuming the limit is gone, whereas the Department of Finance is suggesting that nothing is through yet, so don't rush to do anything or you'll be in trouble with the law.

Can you tell us what the official message is, and whether there is a contradiction between the two departments?

Mr. Michel Dorais: This is a very good question. I also read the article this morning. What happens here is that many budgets—in fact, all budgets—contain a series of proposals and measures that have immediate effect and take place immediately on the day of tabling of the budget.

It is a long practice and a tradition for the revenue department, and now the revenue agency, to administer those measures as if they take effect immediately, but the fact of the matter is the measures are not totally in effect until the law is passed by Parliament.

In this particular case, if the law is not approved by Parliament, people might have to do some readjustment to their investments, but the agency would not impose a penalty on people who, in good faith, have followed the announced budget measures as of the time of the budget, until Parliament decides and makes an explicit decision that it is not the desire of Parliament.

Ms. Judy Wasylycia-Leis: Thank you for the clarification. Obviously, we're hoping we can resolve the question of the present budget as soon as possible, but we're not certain how things will unfold.

The second report I wanted to refer to was also a *Globe and Mail* report. Last week it suggested there are problems in terms of sloppy security vis-à-vis the Canada Revenue Agency or tax collectors. Is

addressing some of the flaws in the system vis-à-vis a secure data collection system part of your long-term plan?

•(1140)

Mr. Michel Dorais: I'm glad the member raised that question, because it is a critical question for the agency.

In the speeches I've been giving to the staff since I arrived, I keep repeating questions that...what we do at the agency is collect money, and we distribute money in the form of benefits or refunds. The characteristics of that money.... It is not our money; therefore, the success of our operation depends on the trust that people have in the agency. If we lose that trust, we're out of business. It's as simple as that.

We repeatedly do audits, and the Auditor General is doing audits as well, on our security issues. Every time a single issue is raised, we take immediate measures to correct it. A whole series of measures has been taken. They're not medium or long term; they're very short-term measures. At this point in time, our systems are as safe as we can make them. Obviously, there's no such thing as a foolproof system—it does not exist—but the Auditor General herself said recently that she will file electronically with the agency and that she has confidence in the system, despite the fact that a series of measures will always need to be taken.

On security, we have a very detailed action plan. Mr. Ralston is responsible for the security of the agency, if the member wishes to go there.

Ms. Judy Wasylycia-Leis: I have limited time and I have two more big questions. One is a follow-up to our last discussion about the decision to close the 47 cash and counter services—tax offices—across the country by April 1 of next year. I'm wondering, first of all, if you are able to table any of the information you promised pertaining to cost-benefit analysis and needs assessment analysis that would help us to understand the decision.

Second, I will just point out to you that I took the effort of being at the tax office in Winnipeg on Friday, joining some of the workers who are raising this as a critical change in policy. I saw the incredible lineups and the kinds of people who use this service, and I just want to tell you that I think you ought to take a second look at this whole change. Even if it's a problem in terms of cost-benefit analysis, when you think about the model you bring to us and the service that's required and the kind of people who rely on the service, I think we're losing something important in terms of new Canadians, low-income Canadians, and seniors. My only question on this is whether you are ready to table any of that information now.

Mr. Michel Dorais: Not now. We do not have the detailed impact at this point in time. We are in constant discussion with the union representative—Ms. Starky can talk about that—because we have undertaken to put all the information on the table. The reality is that we want to give ourselves all possible chances to replace all the employees and to make all possible adjustments before we actually table a list or any of that information.

Ms. Judy Wasylcia-Leis: We will look forward to seeing that as a committee.

My last question has to do with the issue my other two colleagues have raised—tax havens, tax avoidance, taxes owed us by corporations. It is in the context of the recent Statistics Canada report showing that over the last 10 to 15 years there has been a shift in the neighbourhood of \$11 billion to \$88 billion of money going to offshore low-tax centres, and in the context of the two Auditor General's reports referred to, and in the context of a recent book by Brigitte Alepin pertaining to the rich who don't pay taxes, which was highlighted on *CBC Today*.

I know you've got money in the budget to do a better job on this, but, first, why did it take so long, when we've seen this trend over a decade or more? Second, of that \$88 billion, how much is legitimate? How much is sheer avoidance and money that, if you had better procedures in place and more staffing, we could actually keep in Canada? How much money is plowed through subsidiary companies and corporations to such tax havens? You've got money in the budget, but do you have the trained individuals and the capacity to deal with this problem?

Finally, I would just make a note about a related issue. That's Project Loophole, which my colleague from the Bloc mentioned. I think that case went on for years through the courts, because there was loose interpretation and no will to ensure that money was not sent offshore. I just don't want to see that continue to happen, and I hope we've learned something from it.

• (1145)

Mr. Michel Dorais: The points the member is raising, Mr. Chair, are very important. I just want to caution the members of the committee not to equate the \$88 billion in foreign investment to tax evasion. This is an issue of foreign investment policy; it may turn out to be a very good sign for the Canadian economy that people have money to invest throughout the world.

I would like to believe that all the \$88 billion is a legitimate investment that in the end benefits Canadians, but the reality is—and the member is right to point it out—a portion of that money is part of larger tax avoidance schemes and measures that involve tax havens and channeling money through foreign countries that offer a different tax system. The principle of Canadian investors taking advantage of an advantageous, for some reason, tax system in another country is something all countries are competing against, but it's not necessarily tax evasion there.

I'm not aware of the book that has been published, unfortunately, but I will get a copy as soon as I get back to the office to find out what's in there.

Mr. Kowalski, I don't know if you want to add to what I've said on that. Do we have enough? We will never have enough, and at the

same time we have a lot of money and we're putting a lot of effort into that; \$30 million is not insignificant. It means we will assign 250 people to these files over the next while, and that is a huge amount of manpower.

Do we have qualified people? We have, at the agency, amazingly qualified people. We also have to battle—wrestle, sometimes, not battle—with firms and individuals who are extremely thorough and extremely qualified in using all the possible loopholes, and some of the transactions are extremely complicated. It is not an easy matter, but the agency is certainly aggressively pursuing that; at the same time, so are most of the OECD countries. I'm going to Dublin in a couple of weeks to discuss these specific topics. We're not alone in that boat. Most of the OECD countries have the same kinds of issues and are stepping up the tax compliance element.

The Chair: Thank you, Ms. Wasylcia-Leis.

If the Canada Revenue Agency counters are not busy in the last week of April, I think we're in pretty bad shape as a country.

Next is Mr. Pallister, and then Monsieur Côté.

Mr. Brian Pallister: I want to go further with this compliance issue. The degree of relationship between the tone at the top in terms of how money is managed within a government and the increased likelihood that, in a voluntary compliance system like ours, people will not comply voluntarily when they see mismanagement exhibited by government seems self-evident. It's been the subject of some analysis, I'm sure.

I have an interesting article, from a study done in Russia in 1997, that shares some of the perspectives that they've had to deal with. Basically, people in that country said they would rather support society directly with their money than hand it over in taxes.

We're now seeing, with this particular tax season, at least anecdotal evidence of taxpayers submitting their cheques and putting stop payments on them because of their concerns that the money they're remitting is not going to be well managed, or not managed for the best interests of the nation as a whole.

I note some defensive comments coming from the members opposite. I want to make it clear that I'm not in any way impugning their integrity. What I am addressing is the issue that should concern all members: how revenue is generated in the country.

Tax revenue in a voluntary system is dependent on people who feel they're getting value for their money, is it not? Is it not a concern to the Canada Revenue Agency that the underground economy is going to be exacerbated by the lack of faith among the populace about the prudent management of the tax dollars they are remitting? Is this not a concern to the agency?

•(1150)

Mr. Michel Dorais: I think it is a concern. It is a concern to everyone. However, I have to mention that I've been following the tax season on a daily basis. I'd be lying if I said to the committee that everybody who's paying is smiling. That's not the nature of the business we're in. But we have not observed evidence of any change, or significant change, in the behaviour of taxpayers in this tax season.

That said, one must understand that at this stage of the year, although it's the busiest period, a large proportion of the income tax collected is already collected. In fact, we're in the business of reimbursing people more than actually collecting.

Mr. Brian Pallister: Again, what the Auditor General observed in last year's commentary was that there needed to be comprehensive information about risk to the tax base. The department responded with agreement, and said they were developing a compliance measurement framework. I'm interested in knowing where that's at and to what degree, if any, this compliance measurement framework is considering the specific risks I alluded to as a subcomponent of the number of other risks.

Don't misunderstand me here. I'm not talking about non-compliance because people don't understand forms; I'm talking about overt evasion, being motivated by a disrespect for the way money is managed once it's received by government. In your compliance research and business management directorate, in your compliance measurement framework, is this one of the considerations you evaluate in the process of determining what risks there are to the tax base, in a specific sense?

Mr. Michel Dorais: It certainly is something the agency constantly measures. We do surveys to find out what the attitudes of people are. We will gladly share the results of our most recent survey in detail with the committee. We do an annual survey to find out what attitudes people have toward the agency. We're also in the process of doing a correlation between compliance and the results of the survey.

At this point, however, nothing has been brought to my attention that would indicate a major or significant change in the patterns of behaviour of taxpayers over a short period of time. There are trends over longer periods of time, over the last five years, but not over the last months or the last year.

Mr. Brian Pallister: These obviously would be early days, and any information you give us would of course be anecdotal in nature, in any case.

That said, the overall risk management function that the Auditor General asked you to address—again, I believe it was one the agency concurred in—was that you would pursue the idea of some type of responsibility centre for risk management, something to that effect. Is such a centre in existence? And if it is, what resources are allocated to it?

Mr. Michel Dorais: I'm not familiar with the exact centre you're referring to. Maybe my colleagues are, but integrated risk is certainly something that I was immediately concerned with when I came in, but also, the board of management is very concerned with analyzing the various risks the agency has.

The factors that influence the behaviour of taxpayers are something we monitor on a constant basis.

Mr. Kowalski, do you want to add to that?

Mr. John Kowalski: In direct response to the Auditor General's observations, we did carry out a comprehensive compliance review of all the risks to the tax base that we were facing as a tax administration, and we did this over a period of about nine months in the last fiscal year. We went through on an agency-wide, cross-program basis and identified these risks, and then we tried to assess how prevalent they were in terms of their size, the number of people involved, whether they were growing or decreasing in scope, and whether they could spread to other areas. It was quite a rigorous, intensive process and—

•(1155)

Mr. Brian Pallister: To be fair, wouldn't it be shooting in the dark, too, Mr. Kowalski, because those who are not complying are, by their very nature, not able to be surveyed very effectively?

Mr. John Kowalski: We weren't surveying them per se, but we were doing our analysis internally based on information we had.

We confirmed that there were four key priority areas for the agency to address on an ongoing basis. The four priorities were aggressive tax planning, which is the whole tax haven issue internationally, or sophisticated tax planning, or that whole combination of factors; GST compliance and fraud on prepayment issues; the underground economy, of course; and the whole issue of the non-filed and nonregistrant program, as well as collections.

Those were the four broad priorities that we identified. For each of those, we developed and updated our strategies and our action plans in terms of pursuing them.

Mr. Brian Pallister: I have one final question, if I might—

The Chair: No, we're already over the time, and I want to try to get most of the members in. We've got a vote in 30 minutes, so I'm going to stick to the five minutes.

Monsieur Côté, and then Mr. Hubbard.

[*Translation*]

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you, Mr. Chairman.

In your report, Mr. Dorais, you mentioned that the agency wants to be diligent in ensuring that the intent and letter of the Canada Customs and Revenue Agency Act are fully observed. However, you mentioned as well that the internal systems of the agency are still very much a work in progress that will continue to evolve and grow in the future. In your introduction, earlier, you said that the agency was not asking for any legislative change.

If you were advised that some regulatory measures were going against some legislative provisions, what measures could you take in order to correct this situation?

Mr. Michel Dorais: Given that the agency is not entirely independent, the Minister of Revenue still holds enormous responsibilities and must report to Parliament for the whole agency. If legislative measures had to be passed in order to correct some of these problems, this would be the way to go.

Mr. Guy Côté: Could the agency decide on its own to tell the minister that a regulatory measure is going against some legislative provision?

Mr. Michel Dorais: Absolutely. This is part and parcel of the role that I have to play as commissioner, and also as the deputy minister of the Minister of Revenue. In this regard, I must advise the minister as to the various elements involving public policies.

Mr. Guy Côté: Thank you.

Mr. Michel Dorais: You're welcome.

[English]

The Chair: Mr. Hubbard, we're going to try to move this along.

Mr. Hubbard, and then Mr. McKay.

Mr. Charles Hubbard (Miramichi, Lib.): Thank you, Chair.

Just to be brief, when you were here the other time, I guess we asked about a committee that was reviewing charitable organizations and the complaints that might go there. It's my understanding that we were to receive a brief report on that to indicate to us how it is set up and how often it meets, and if there are minutes for it. Hopefully, you'll get that to the clerk as soon as possible.

I'd like today to ask a few questions about this board. We did meet previously, I guess, with a very important person on the board, but in terms of the board generally, does it reflect Canadian society? I would think that you work with the board on a monthly or semi-monthly basis; does it really reflect all of Canada in terms of our demographics and our taxpayers, enabling that group to give direction in terms of what Canadians are all about?

Maybe, Mr. Dorais, you could comment briefly on the board and whether or not you think it really reflects Canada as a whole. We wouldn't want 10 accountants or 10 schoolteachers, or even 10 politicians. Does it really reflect Canadian society?

Mr. Michel Dorais: It's very hard for me, Mr. Chairman, to make a judgment on that. It's also very hard for anyone in particular to effect that representation, because board members are nominated at the suggestion of provinces, so each province and territory nominates a person. The federal government nominates four, including the chair.

I had some discussions with the chair about representation. There is an attempt to do that, and there are areas of expertise that the chair is certainly pursuing. As vacancies appear, we'll make suggestions that I can pass to the provinces, but we don't control the composition of the board.

• (1200)

Mr. Charles Hubbard: I would be concerned, though, in terms of what the outcome may be, given the way it's been organized. I guess we're talking today about changes that might be made to improve the agency.

Mr. Chair, you have to realize that in this country, most taxes are paid by guys carrying lunch pails. Personal income tax is one of the largest contributors to the tax system. Do we have somebody who is carrying a lunch pail sitting on that board, or are they all upper management people, with white collars and striped suits, sitting there

trying to reflect what the agency should represent to the Canadian taxpayers?

Mr. Michel Dorais: Mr. Chairman, I would not venture to make the judgment, but I will undertake to give the committee the list of members and their CVs, so the committee can form its opinion.

Mr. Charles Hubbard: That would be very good for us to consider.

When we speak of productivity, you have some 40,000 employees, and you seem to indicate that of all the places you've worked, you have the best system to evaluate and to decide how effective that workforce is. I'm a little bit concerned with that, because when you say you've worked in 13 other places, maybe your agency could offer solutions to other departments on how they might get more productivity from their own employees.

Were you really saying that you were the best of all governmental departments in terms of productivity? That was a very strong statement to make. If I were a deputy minister somewhere, I would have to say, well, I'd better go and check with Mr. Dorais, who has such a good system at that agency that I'd better get the details over to human resources, where we get complaints about people not being very productive. Is that the intent, or is that what you really said to the committee, that you have the best of all the places you've been to?

Mr. Michel Dorais: Well, there are two elements to the questions.

I certainly would like to think this is the best place of all, but the reality is that I can compare it with 13 other places.

The reality is also that five years ago, Parliament tried an experiment to see if it could bring the private sector's modus operandi into the public sector's modus operandi and see what would come out of it. That's how the agency was created, with a minister and political guidance, and a board of management with administrative guidance and accountability. It was also given tools to innovate.

I think we have innovated, and I do think that many of the things that we see government-wide now have been tried in the agency. For example, the integrated services that the government is talking about now for government, we did five years ago in the agency. We can put some results on the table.

Mr. Charles Hubbard: Finally, Mr. Chair, in terms of administrative costs, we're talking about reducing costs. You handle nearly \$400 billion. In terms of the costs of administration, what percentage of operational moneys is spent on those, and what are your objectives? Are they 8% now and do you want to cut back to 6%? How do you measure yourself as being more effective in terms of reducing costs? In terms maybe of the costs at present, what percentage are they of the \$376 billion? Are you looking to get more efficient by reducing administrative costs to a smaller percentage? How can we measure whether or not costs are really being reduced as we go into the next five-year period?

Mr. Michel Dorais: We measure the costs of various types of activities every step of the way. It's dangerous to make an equation between the \$313 billion collected and the \$3 billion budget of the agency, because we not only collect money, but we also administer benefits, issue cheques, administer collection for various provinces, and have a whole set of agreements for different benefit management.... So the budget that the agency has serves a lot more purposes than just collecting revenue.

• (1205)

The Chair: Just to clear this up, Mr. Dorais, does the budget you have include the GST benefits you pay out, the child tax benefits?

Mr. Michel Dorais: No, it includes the administration of.

The Chair: The administration of.

Mr. Michel Dorais: Yes.

The Chair: But not the actual disbursement of the sums of money.

Mr. Michel Dorais: No, no. And I don't have the figures at my fingertips, but Mr. Ralston might have them.

The Chair: In your opening remarks, you said that you distribute \$12 billion. That \$12 billion is in GST and child tax benefits. Is that what that is?

Mr. Michel Dorais: Most of it, I think.

Jim.

Mr. Jim Ralston: First of all, when we're speaking about the finances of the agency, we're dividing it between two pots. First, there's what we call our "administered" activities. Basically, these deal with all of the tax revenue we collect and any payments we make out of that tax revenue—for example, a refund of input tax credits on GST. Then in a totally separate pot are the amounts appropriated to us by Parliament. They are generally just used to pay the operating expenses of the agency, but there are also some other payments—for example, benefits under the children's special allowance, and certain payments to the Province of Quebec for the administration of the GST in that province.

So what Mr. Dorais was saying was that in terms of the tax-related, that comes out of the consolidated revenue fund, basically, not out of our appropriations.

The Chair: That's the \$12 billion worth of benefits you were talking about in your statement, right?

Mr. Jim Ralston: Yes.

The Chair: Go ahead, Charles.

Mr. Charles Hubbard: Just on that, Mr. Dorais, there is a little typing error in that statement. I don't think "10.6 eligible Canadians" could be that fortunate; maybe sometime you can write in the "million" that you're really dealing with there.

I really didn't get an answer in terms of the ratio of administrative costs to overall handling of money. I don't think it is available, but it might be something that could be available. It might be a future yardstick that could measure how much it costs to administer the overall amount of money being transferred.

Mr. Michel Dorais: A lot of measurement is done. In fact, each office measures how much effort is put out per dollar collected.

The one thing we can document for the committee is that between 2002 and 2004, our operating costs were reduced by \$37.4 million, and ongoing savings come to about \$17 million. That we can document precisely. We also do a lot of reallocating internally, and the latest expenditure review has resulted in the agency finding \$110 million of economy.

So we can provide large numbers like these, aggregate numbers, to the committee. For very narrow numbers, each office is measuring their performance on a daily basis.

In terms of representativity, Mr. Chairman, I should have mentioned that the agency has 50 advisory committees of all kinds—first nations, handicapped, small business, large business, tax executives—that are advising us on a constant basis to ensure that we don't lose touch with the population. We can provide the list of those committees as well.

The Chair: Thank you, Mr. Dorais.

To the members, we're voting at 12:25 p.m. I'm going to give a chance to Mr. McKay, and then we'll try to call it at around 12:15 p.m. I have a couple of questions I want to ask.

Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

I want to pursue a line of questioning that other members have been pursuing, and that's with respect to tax leakage, various offshore schemes, and things of that nature. I understand the concept of double-dipping, where you borrow the money in Canada, you ship it off to a tax treaty nation, you send the money off to another country in which you earn income, and they expense it and you expense it, etc. What I'm not following is why, once the money arrives at the tax treaty country, you then lose, if you will, the tax consequences of that exercise. It seems to shift into some concept of active income and passive income, and then you get into such concepts as where the central controlling mind is of the corporation and things of that nature.

It's not clear to me why the veil cannot be lifted on those schemes.

• (1210)

Mr. Michel Dorais: The member is pointing out what makes a tax haven versus a country where you invest money. In a sense, there is nothing wrong with Canadian funds being invested in a foreign country. It's when it hits a country that is either refusing to share information with Canada or has a bank system that enforces strict secrecy rules that we lose track of the money. This is where trouble starts.

I wish most of the schemes were as simple as the member has outlined. But most of them would not fit on a large page in terms of convoluted transactions that may end up in more than one tax haven country and flow back and forth from that country into another country.

What we can do is put pressure on those countries, which we do. We're not alone in that battle; we're with all the OECD countries.

Mr. Kowalski, do you want to add anything?

Mr. John Kowalski: I would, perhaps just mention that we do have a number of tools in our arsenal to address the kinds of issues that were identified. We have very strong audit programs, both regular programs and specialized ones, in tax avoidance and international issues. We have a series of foreign reporting requirements and tax shelter reporting requirements. We have specific anti-avoidance provisions that address some of the items you mentioned: foreign accrual, property income rules, foreign affiliate rules, transfer pricing legislation. Where those are perhaps lacking, we also have the general anti-avoidance rule. That one allows us to address transactions that are seeking access to benefits that simply weren't intended by Parliament. We can do that even if it involves a tax haven country.

The GARR does extend to treaties. We have a broad network of 83 treaties to avoid double taxation. We have the \$30 million, which the commissioner mentioned earlier, and we have a very comprehensive program, a body of work, with international organizations, whether it's with other tax administrations or with tax organizations such as the OECD, to try to address these kinds of issues as well.

So we do have quite a few tools at our disposal to address the issue.

Hon. John McKay: As you know, there's a bit of controversy as to whether the GARR rules actually apply to treaties in convention countries. Hopefully, that will be clarified very shortly.

Having said that, is that rule of sufficient strength for you to be able to address the tax leakage that might be going on?

Mr. John Kowalski: We currently have a general anti-avoidance rule case before the Supreme Court of Canada, which was heard about a month or two ago. I would expect that the Supreme Court will provide further guidance as to the application of the GARR rule and how broadly it can be used. We're comfortable that we are applying it appropriately and that it does have strength behind it. We are following the approach that was laid out by the Federal Court of Appeal, and, as I say, we will see what the Supreme Court says to that extent.

As you pointed out, the proposed legislation on GARR is to clarify that it does apply to tax treaties. We always thought it did. It was our understanding that it was the government's intent, the CCRA's intent, and we've always provided tax rulings on that basis. We've administered it on that basis. We believe the provisions of a tax treaty are there for the real residents of the country; they're not there for notional residents. If need be, we will use GARR to address issues.

Hon. John McKay: Thank you.

Mr. Michel Dorais: To complement the answer to the honourable member's question, the list of advisory committees is contained in annex D of the report we've tabled.

The Chair: I have a couple of quick questions.

As a Quebec resident I have to fill out two tax returns. Apparently there was an analysis of the Quebec tax return, and there are 100-and-some items that are defined differently than the federal return.

Is that going to be minimized at all? I know there's some talk. Can you make a comment on that?

Mr. Michel Dorais: The talks I have had with the Quebec jurisdictions were not in terms of harmonizing issues. I, too, am a taxpayer in the province of Quebec and have to live with the differences.

Our working relationship with Revenue Quebec is extremely close, and we're constantly trying to work to remove irritants. When we can work together we do, Mr. Chairman.

•(1215)

The Chair: So there's nothing close to harmonization?

Mr. Michel Dorais: Not that I'm aware of.

The Chair: On the corporate side, is it just in Ontario that there's ongoing discussion? How about the other provinces, like Alberta or Quebec?

Mr. Michel Dorais: No, Ontario is the one with which we're having active discussions right now.

The Chair: Is there not any pressure from the business groups that will require this from other provinces other than Ontario?

Mr. Michel Dorais: Business groups have voiced their support for a harmonized tax base because it makes their life a lot simpler. It has a very direct day-to-day effect on the business requirements to report, so there is a real economy for them.

The Chair: Just as a quick comment on the international taxation office, there seem to be problems with it. Every time I try to get an answer it doesn't seem to be in sync, whether it be for individuals or for corporate.... They're just small issues in terms of assessments.

How does the international taxation office run?

Mr. Michel Dorais: I don't know.

John, do you want to comment on that?

This is one part of the agency I haven't visited yet, Mr. Chairman.

Mr. John Kowalski: The international tax office has the responsibility for all international issues, non-resident returns, primarily responding to inquiries and so forth. It certainly does its best to maintain appropriate levels of service to non-residents and to Canadians who have questions about international issues. Again, it's very much a function of volume of work and the capacity to respond to it. We certainly will have a look at it to see whether any improvements can be made.

The Chair: I have a particular situation where there are non-residents selling Canadian property, and they're not getting an assessment. It's been two years. I don't know if that's reasonable, because if we compare it to the individual or corporate side, it gets turned around sometimes within days, or let's just say months.

Mr. Michel Dorais: I have certainly noted your concerns, Mr. Chairman.

The Chair: Seeing that the members have no more questions—and we have a vote—thank you again for appearing.

The meeting is adjourned.

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