



House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 067 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Tuesday, June 7, 2005

—
Chair

Mr. Massimo Pacetti

All parliamentary publications are available on the
"Parliamentary Internet Parlementaire" at the following address:

<http://www.parl.gc.ca>

Standing Committee on Finance

Tuesday, June 7, 2005

•(1145)

[English]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): We will begin the meeting. Welcome, everybody.

In the orders of the day, we have some committee business. We have two motions from Ms. Wasylycia-Leis.

Do you want to address your two motions, Judy?

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Yes, Mr. Chairperson.

With the indulgence of the committee, I would ask that these two motions be set aside. They are there just to indicate our concern about moving the process along, but I'm willing to see how events unfold over the next little while. If we're proceeding and there's cooperation and no obstruction, then I don't see the need for the motions, but I'll keep them set aside in case there becomes such a need.

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

So if that's okay with everybody...

Mr. Solberg.

Mr. Monte Solberg (Medicine Hat, CPC): I don't know if it is okay, Mr. Chairman. I think we should deal with these and determine what the will of the committee is, instead of having the member threaten to pull them out whenever it suits her. I think we should deal with this issue right now.

The Chair: As chair, I think we already dealt with this last week in a future business meeting. So I was going to have a vote on this and just have Ms. Wasylycia-Leis speak for two minutes. But if she's pulling her motions, there's no debate; there's nothing.

Mr. Monte Solberg: That's fine, as long as she is withdrawing them and she has to give 48 hours' notice again to bring them back.

•(1150)

The Chair: That's fine. That's clear.

We can go on to the next order of business.

[Translation]

Pursuant to the Order of Reference of Thursday May 19, 2005, we will now begin our clause-by-clause study of Bill C-43, An Act to implement certain provisions of the budget tabled in Parliament on February 23, 2005.

I believe we've received the Conservatives' and the government's amendments. Have we received the Bloc's amendments? They'll be

presented as we move through the bill. Have they been circulated? Everyone has received a copy of them? Fine then.

[English]

Mr. Don Bell (North Vancouver, Lib.): Where are the ones from the Bloc?

The Chair: We're going to get them as we go along. They're top secret.

Mr. Hubbard.

Mr. Charles Hubbard (Miramichi, Lib.): Mr. Chair, it seems highly irregular that we are starting clause-by-clause. There are amendments that some of us are going to present without any notice. In all fairness to whatever those amendments might be, it's going to be very difficult to decide in 30 seconds whether or not they will do well for us, or present difficulties. I had hoped there would be some notice for most of these amendments so we could review and decide on them in an honest and upright way, not get them right on the floor today to be decided on.

Mr. Brian Pallister (Portage—Lisgar, CPC): For clarification, it's my understanding that it's a rather longstanding practice, not of just this committee but many others, when dealing in particular with bills of this nature, to permit amendments, subamendments, and so on to be made at the time we review the bill clause by clause. If that is a practice we should adhere to, this is obviously a subject we could have some discussion on.

Given the repeated comments from members of the government party and the New Democratic Party about the need to expedite the discussions around these budget bills, it seems to me that requiring 48 hours' notice on every single amendment and/or subamendment is an obstructionist tactic. I'm curious as to why the government would decide that we should adopt that practice here.

The Chair: We're not going to talk across the table. Let me address it.

We had a future business meeting last Monday and we tried to set dates for witnesses and amendments. We couldn't come to a full agreement on the amendments, but we said we would try to get them in before Tuesday, which was yesterday. We haven't seen anything. So this is what we're faced with, and this is what we're going to have to work with.

Ms. Minna.

Hon. Maria Minna (Beaches—East York, Lib.): On the 48 hours, I understand that normally the amendments come to the table when you're discussing clause-by-clause. The only thing that normally happens, which is helpful for everybody, is we get our copy before we actually start the clause-by-clause. I presume at the beginning of the meeting you'll have that, and then at least we can follow. Otherwise, we'll be totally in the dark as we go through the process.

It helps us to work, so if you have them to share with us it would be helpful. It's very difficult otherwise. Normally the chair will say, "we're now at clause 30, there is an amendment by the Bloc, B-2", and then we can go to it and read it. That's all we're saying, Mr. Chairman. We're not suggesting any delays at all. I don't want any delays.

The Chair: We're going to try to start this. The first amendment we have is on clause 5.

(Clauses 2 to 4 agreed to on division)

The Chair: We're going to work with the reference numbers on the left side. We're looking at reference number 1892485, which is an amendment by Mr. Solberg.

Go ahead, Mr. Solberg.

Mr. Monte Solberg: Thank you very much, Mr. Chairman.

Essentially this allows for the speeding up of the personal income tax reductions that were laid out in Bill C-43. It employs a formula that would take the—

[*Translation*]

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Excuse me, Mr. Chairman. We would like to move our first amendment. It calls for the addition of a new clause 29.1 on page 31 of the bill. I believe you have a copy of the text.

•(1155)

The Chair: Mr. Loubier, if we could have the amendments... We're only on clause 5.

Mr. Yvan Loubier: I know, but this is on page 31.

The Chair: To which clause are you referring?

Mr. Yvan Loubier: To the proposed new clause 29.1

The Chair: We've just adopted clause 4. I know I talk fast, but we're not there yet.

Mr. Yvan Loubier: I apologize.

The Chair: We'll wake you up when we get there.

[*English*]

I propose we suspend so we can distribute the Bloc amendments and get organized a little.

•(1156)

_____ (Pause) _____

•(1207)

The Chair: Could we begin?

[*Translation*]

May we begin?

[*English*]

Since this exercise is going to be new for some of us, from what I understand, when we start the clause-by-clause, anybody who has the agenda with the orders of the day can see clauses 2, 3, 4, all listed. There are no amendments until you get to clause 29. So we're going to be following the orders of the day, unless there is a new amendment, and then we will notify you. But I'm going to be following this more or less.

[*Translation*]

Members can follow along in the amendment package.

[*English*]

And if you don't have them, then we'll get them to you. We're going to try to make an extra 20 copies.

Hon. John McKay (Scarborough—Guildwood, Lib.): We can't start until I get back.

The Chair: Yes, we can, because Bloc 1 isn't until clause 29. So if we can get through Mr. Solberg's amendment, which is in clause 5.... Okay?

Hon. Maria Minna: We've already carried clauses 2 to 4, I think.

The Chair: We've already carried clauses 2 to 4.

So unless I have consent from everybody, and the bill carries, and I report it to the House.... Did I hear unanimous consent on that?

Hon. Maria Minna: Yes.

Mr. Monte Solberg: Do you want me to speak to clause 5?

The Chair: Yes, please, Mr. Solberg.

Mr. Monte Solberg: Mr. Chairman, as the committee may recall, when the throne speech came in—it seems like a long time ago now—there was an agreement that Parliament should work together to try to provide immediate tax relief for people on the low end of the income scale. That's effectively what this amendment does. If we were prepared to do this, I think it would demonstrate that we can bring a balanced approach to how we conduct business and also follow through on a commitment we made, at that time, that was unanimously endorsed by Parliament. That's effectively what this does.

I'll just leave it at that.

The Chair: Thank you, Mr. Solberg.

Mr. Loubier.

[*Translation*]

Mr. Yvan Loubier: Mr. Chairman, I wish to inform you that we will support the Conservative amendment calling for a tax cut for low- and middle-income taxpayers.

[*English*]

The Chair: Mr. McKay.

Hon. John McKay: Before we get too far down the road, recognizing that \$100 of increased deduction is a \$300 million item, I just want Mr. Solberg to explain the points of significant difference between what's in the budget implementation bill and his proposed amendment, so we all understand what we're voting on here.

•(1210)

Mr. Monte Solberg: Mr. Chairman, as you know, our party has made it clear that we think there has been a pretty dramatic leap in spending already. We're concerned about the emphasis on more and more spending while at the same time not fulfilling commitments to low-income Canadians who are really struggling today to get by.

We've seen reports from people like Don Drummond, who point to the fact that we haven't seen a significant increase in take-home pay for Canadians in 15 years.

This is just a small way of ensuring that these people get some help.

Hon. John McKay: With the greatest respect, Mr. Chair, that wasn't an explanation; it was a political speech.

What is the difference between what he's proposing and what's in the budget implementation bill? I'd like to know what the difference is.

Mr. Monte Solberg: Mr. Chairman, as the member knows, what this will do is ensure that future surpluses over \$3 billion would be allocated toward speeding up personal income tax relief. We think this should be the priority right now, given the fact that we've seen dramatic increases in spending in the last number of budgets.

The Chair: Sorry, Mr. Bell. Go ahead.

Mr. Don Bell: In trying to read this into the paragraph, if I could get clarification, then, basically what you're suggesting is that any surplus, over the amount that has been put in there for prudence, would then go to tax reduction? That's the bottom line.

Mr. Monte Solberg: That's correct.

Mr. Charles Hubbard: Mr. Chair, as you recall, when we prepared our recommendations to the Minister of Finance I attempted to bring forward a recommendation whereby Canadians earning less than \$10,000 per year would not be subject to federal income tax. At that time it was Mr. Solberg who put a motion to table my recommendation, and it's never been brought back to this committee.

This one today has a lot of implications. It's much broader than trying to help out those low-income earners. I have difficulty supporting it because my main concerns are those people who are having great difficulty supporting themselves and providing a good living for themselves and their families...whereas this one applies to all taxpayers.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Hubbard.

Can I go to Mr. Loubier, Mr. McKay?

If you're a witness, I'd like you to respond at the end, but if you're a member, then I'll give you an opportunity to speak.

Hon. John McKay: It's their amendment. Surely to goodness I have a right to ask for clarification.

The Chair: That's why I asked you if I can go at the end.

Okay, Mr. McKay, then Mr. Loubier, and then Mr. Penson.

Hon. John McKay: I just want to make it clear, for the purposes of the record, that the Conservative Party appears to believe,

therefore, that this debt relief in the amount of \$3 billion is essentially locked in. There will be no further debt relief beyond that \$3 billion. Any further moneys would be applied to the tax relief. That would be the priority that the Conservative Party would apply. Is that correct?

Mr. Monte Solberg: As the member knows, if you just look at the—

The Chair: I have Mr. Loubier, and then I think I have Mr. Penson.

[*Translation*]

Mr. Yvan Loubier: Mr. Chairman, after listening to the explanations given by the Conservatives, I'd like to change my mind. If I understood Mr. Solberg correctly, any surplus greater than \$3 billion — which, under current government policy, would be set aside as a contingency reserve — would instead be used to lower taxes. Consequently, there would be no funds available to meet other priorities and needs. Did I understand Mr. Solberg correctly?

[*English*]

The Chair: Yes, Mr. Penson.

Mr. Charlie Penson (Peace River, CPC): No. He was asking a question of Mr. Solberg.

The Chair: I'd prefer if you responded to both at the end, so you may be able to have a third question.

Mr. Charlie Penson: Mr. Chairman, I'm going to be supporting this motion. It's in the spirit of the amendment to the Speech from the Throne, which all parties agreed to a short time ago, back in October. It seems to me that we've lost a bit of sight on the need for tax relief for Canadians in this latest round of spending in order to buy votes, in order to survive in this House. It seems to me that this is trying to right that balance and get back to the spirit of the agreement that was reached by all parties in the House of Commons in the amendment to the Speech from the Throne.

•(1215)

The Chair: Mr. Solberg.

Mr. Monte Solberg: Thank you very much, Mr. Chairman.

What this does, Mr. Chairman, is basically speed up the introduction of the personal income tax cuts over a two-year period using the formula that you will find in the amendment, which is that we use surpluses in excess of \$3 billion to speed up those personal income taxes over the 2007-08 budget year and over the 2008-09 budget year. I think I have that right.

Let me put it this way. It's for the 2007 taxation year and the 2008 taxation year, because you would not know how much surplus you had until, say, in late summer or early fall of 2006. So the earliest you could implement these sped-up tax cuts would be in the 2007 tax year, and then again in the 2008 tax year.

The Chair: Thank you.

Ms. Minna.

[*Translation*]

Mr. Yvan Loubier: I'd appreciate an answer to my question.

Let's look at these provisions for a moment. Has anyone considered what a tax cut of \$100 in the first year, and \$400 in the second year, actually represents in billions of dollars? If so, what are we looking at, in dollar figures?

Secondly, will there be any surplus funds left over to tackle the social and economic priorities of Canadians?

[English]

The Chair: Do you have a figure, Mr. Solberg?

Mr. Monte Solberg: Yes, Mr. Chairman, basically what this would do is this. Of course, you are moving the amount that would go towards debt repayment up a billion dollars from what is proposed in Bill C-48, and then the remainder of the money that would have been spent on Bill C-48 will be effectively used to speed up the personal income tax cuts that are already proposed in Bill C-43, and it would do it over a two-year period. In other words, we're not going beyond the surpluses that were already projected to be used in Bill C-48.

The Chair: Ms. Minna.

Hon. Maria Minna: Mr. Chairman, I would like to clarify something; it's important that I understand what we're discussing. I think Mr. Loubier at the beginning said he was supporting this because of tax cuts for low- and middle-income people. But now, as I read it, first of all it says "income for all taxpayers", but then it also says that anything over \$3 billion in fact goes to tax reduction, so there wouldn't be room for anything else. The way it's worded, that's how I'm interpreting it.

Mr. Monte Solberg: Well, it's worded the same way as the budget bill itself, except the years are different.

Hon. Maria Minna: Except that we don't know if the fisc can take that in the way you're recommending.

Mr. Monte Solberg: Mr. Chairman, this is basically the same amount of money this government is proposing to spend in Bill C-48.

Hon. Maria Minna: But you're saying that for anything over \$3 billion in the years you're recommending, all of the surplus should go to tax cuts and not to anything else. What do we do with other commitments that have already been made in the bill as well?

Mr. Monte Solberg: I guess I should spell this out. Basically, this would replace Bill C-48 in terms of spending into the future. It keeps intact everything that's already in Bill C-43 at this stage.

Hon. Maria Minna: How does it replace Bill C-48? I'm sorry, this just deals with income tax; it doesn't address.... So are you trying to use up the money on tax cuts so we don't do the affordable housing and the education in Bill C-48?

Mr. Monte Solberg: What we're trying to do is to ensure that we fulfill the commitment we made at the beginning of Parliament and provide low-income Canadians with an increase in the basic exemption. It would provide all Canadians with that, but it would certainly help people on the low end the most.

•(1220)

Hon. Maria Minna: How does this replace Bill C-48?

Mr. Monte Solberg: Well, it takes the money Bill C-48 was allocating for other priorities and it returns it to the people who earned it in the first place.

Hon. Maria Minna: That answers my question, that in essence your amendment puts everything toward tax cuts and eliminates any other possibilities, any spending in any other areas, which I have some difficulties with. I just needed to clarify that.

The Chair: Mr. McKay.

Hon. John McKay: The more you dig into this amendment, the murkier it becomes, Chair. It's clear that there would be no space left over for debt relief beyond the \$3 billion that's committed there. There's a direct allocation to tax relief that's a reflection of a political priority. Certainly there would be no additional funding beyond the \$3 billion available for any other program spending, no matter how needy the cause, because you would already have committed yourself to this pattern of tax relief.

You would have to do the calculation after the books close, and we would close the books, for taxation year 2006, around August 2007; then you'd have to calculate what the surplus is after that, and then you'd have to do some sort of retrospective application to previously filed tax returns in 2006. I'm not quite sure how I follow that.

The other issue is, if this is meant to replace Bill C-48, then possibly it should be directed to the clause-by-clause stage when we're dealing with Bill C-48 rather than dealing with Bill C-43. Bill C-48 is contingent spending and it's contingent for the years 2006 and 2007. This appears to be more open-ended tax relief focused on 2007-08, and I'm not even sure how you'd go about calculating it even if you thought it was a good idea in the first place. It's our view that this is not a good idea.

The Chair: Monsieur Loubier.

[Translation]

Mr. Yvan Loubier: I'd like to ask that question of the officials who are here today. Can you give us an idea of what it would mean, in dollar terms, to speed up the tax cuts by one or more years, as Mr. Solberg is proposing? Given the wording of the this proposed amendment, which is very similar to what is proposed in Bill C-48, does this mean that ultimately, less funds than even Bill C-48 provides for would be available for social housing, the environment and education?

Mr. Serge Nadeau (Director, Micro-Economic Analysis Directorate, Department of Industry): Every \$100 incremental increase in the basic amount represents anywhere from \$300 million to \$325 million.

[English]

For the second part, maybe Peter could comment.

Mr. Peter DeVries (General Director, Deputy Minister's Office, Department of Finance): Yes, the surplus is only slightly more than \$3 billion. This amount gets allocated to advancing the tax reductions, so there will be that much less money available to fulfill the proposed spending allocations set out in Bill C-48 for those two fiscal years.

The Chair: Thanks.

We'll go to Mr. Pallister and Mr. Penson.

[Translation]

Mr. Yvan Loubier: I have another question, Mr. Chairman. Would the proposed formula apply to all taxpayers, that is to high-income as well as to low-income earners? Or, as Mr. Penson and Mr. Solberg implied, would it apply instead to middle-income taxpayers?

Mr. Serge Nadeau: All taxpayers will benefit from an increase in the base amount. However, proportionally speaking, approximately 70 per cent of the savings thus generated will be directed to individuals or to families earning less than \$60,000.

Mr. Yvan Loubier: Thank you.

[English]

The Chair: Mr. Pallister.

Mr. Brian Pallister: I'm going to cut to the chase. It should be clear to committee members that their support or opposition to this amendment is a reflection of whether they believe that the government's commitment to tax reduction should be upheld and speeded up in its application, or whether they would prefer that people pay higher taxes for a longer time to support the allocation of funds directed by the agreement between the government and the NDP.

If they agree with that method of budget-making and that method of allocating taxpayer resources, then they can't agree with lower taxes for working Canadians, and they'll have to oppose this amendment. If, on the other hand, they believe that the working poor in this country, the people who labour very hard for half the year to pay taxes, should get a break, then they should support the amendment. It's quite clear. We can't have it both ways.

• (1225)

The Chair: Mr. Penson, then Ms. Wasylycia-Leis, and then Ms. Minna.

Mr. Charlie Penson: We have to take this step by step. When this minority government came back last fall, there were negotiations on the Speech from the Throne, in particular on tax relief, and all parties agreed to it. It's pretty clear that when you have a change to the basic exemption, everybody gets it.

Mr. Loubier, I didn't say it was just for lower-income Canadians, but lower-income Canadians are going to benefit to a large degree. That was the agreement struck six months ago, after the election.

Then we had the budget that came down on February 23. Personal tax cuts were not in the category that I would think would be a benefit to most Canadians, because they were backend-loaded. In fact, there was only a \$100 change in the basic personal exemption for this year, which people have talked about as the "pizza budget"—\$16 for the average Canadian is all it meant. It was backend-loaded and it went on until it got to \$10,000, so people were surprised by that. In any case, there was some recognition that personal taxes were important in honouring the budget agreement.

Then, about two months later, we had the NDP budget. It came out with a bunch of priorities quite different from what the Minister of Finance had in his budget on February 23. On that day, I recall him saying that you couldn't tinker with this budget and you couldn't pick it piece by piece. All of sudden, though, they were willing to do that.

This is an attempt to get back to the spirit of the throne speech amendments, with which all parties agreed. I want to remind people here that anything over the contingency reserve, any surplus, goes to debt reduction.

Is that true, finance officials?

Mr. Peter DeVries: That, plus the \$3 billion contingency reserve, goes to debt reduction.

Mr. Charlie Penson: So that is the current situation. Anything that ends up as a surplus, plus the contingency reserve, goes to debt reduction, the way it sits right now. It doesn't go to spending on housing or any of that in any case. It goes to debt reduction. That's been the case for the last several years.

I suggest that we move forward. The intent is pretty clear in this motion. We should have a vote and try to move this clause-by-clause along.

The Chair: Ms. Wasylycia-Leis, and then Ms. Minna.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson.

I agree with Charlie Penson that we ought to look at this step by step and recall that in fact the budget was introduced on February 23, and five minutes after the Minister of Finance started reading that speech in the House, the leader of the opposition, Stephen Harper, exited the chamber and told the nation, through the media, that he was generally in support of the budget and saw no problems with giving his support for that budget.

At that time, the leader of the NDP remarked that we've had grave concerns about the fact that the Prime Minister had broken his promise from the election about not moving on any further tax cuts until funds had been restored to important programs that had suffered greatly at the hands of the Prime Minister, the then Minister of Finance, starting in 1995. We expressed concern about the presence of a continuation of corporate tax cuts in this budget, as well as deep concern about the absence of any movement in terms of dealing with concerns in the areas of housing and education. We noted also shortfalls in the areas of the environment and the failure of this government to meet its international commitment of 0.7% of GDP for international aid.

At that point, we opposed the bill because of those concerns and agreed that we would work very hard to try to get amendments to the bill or some change on the part of the government. We were fortunate enough to convince the Prime Minister and the federal Liberal government that in fact these concerns needed to be addressed. It was then that the government decided to incorporate our concerns into the budget and we ended up with the NDP better-balanced budget, which we're very proud of today.

What we're hearing today is a last-minute add-on. The Conservatives talk about the NDP doing things on the spur of the moment, without thought, and ill-planned. Here we are, criticizing something that's been in the works for a good couple of months and then turning around and doing something that hasn't seen the light of day at all and expecting support. So I would suggest that the Conservatives are suffering from the phenomenon of sour grapes—or maybe it's NDP envy.

•(1230)

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

Ms. Minna.

Hon. Maria Minna: Without getting into envies or what have you, I just want to ask this, because I want to get to the heart of the matter.

From what I understand, Mr. Penson has said that up to \$3 billion, the money goes directly to debt. But that's only if the government has not allocated the surplus to something else, like housing, the environment, or what have you, or as is the case in Bill C-48.

I think Mr. Solberg said earlier that this in essence replaces Bill C-48, which means that it will prevent the government from using the surplus moneys, over \$3 billion, for housing, the environment, and other issues. It basically ties the government's hands, and money cannot be used for housing and the environment. It must be used for taxes.

An hon. member: [*Inaudible—Editor*].

Hon. Maria Minna: Hold on. No, but that's what you're saying here. If there's any surplus over the \$3 billion, it must be used for tax cuts.

Then it says, just to go to what Mr. Loubier was asking earlier.... Actually, I'd like him to listen to this, because this is important, because we're having a discussion.

Mr. Loubier, I think earlier you were asking whether or not this applied to low-income or all income brackets. It says very clearly here that the amount results in a reduction in personal income tax for all taxpayers.

We've just read that 70% goes to the.... I'd like to target taxes much more than across the board, because I don't think they actually help. What it means is that anything over \$3 billion will go to tax cuts and cannot be used, as it is in Bill C-48, for housing, the environment, and other issues. It ties the government's hands to use money for other things for those years, other than what is here. I have some problems with that, because we have some specific commitments to cities, to housing, to children, and to the environment, and Bill C-48 does that very well—education, in particular.

The Chair: Thank you, Ms. Minna.

Monsieur Loubier, and then Mr. Bell.

[*Translation*]

Mr. Yvan Loubier: Mr. Chairman, after carefully reviewing this amendment, after listening to the explanations and after getting some answers from senior officials, we would be hard-pressed to support this measure, particularly as in the second year, according to our calculations, close to \$1.8 billion would be redirected to other areas, and not necessarily to priorities such as education and employment insurance. Consequently, we cannot support this amendment, which proposes something much different than what we were led to believe. It's unacceptable to us.

[*English*]

The Chair: Mr. Solberg, I want to wrap it up, so be quick, please.

Mr. Monte Solberg: Thanks very much, Mr. Chairman.

I think some members are labouring under a couple of misunderstandings. I'm happy to try to try clear those up.

First of all, if people will look at the amendment they'll note that what we're proposing is for surpluses that exceed \$3 billion to be used to speed up the personal income tax relief that's already in Bill C-43. Note that this is a different number from what is in Bill C-48. Bill C-48 advocates that surpluses in excess of \$2 billion be used to fund some of these new spending initiatives. This means there's a billion-dollar difference between these two proposals. Therefore, Mr. Chairman, if Bill C-48 passes, it means there's a billion dollars left over for the government to do with what it will. I just point that out.

Secondly, of course, Mr. Chairman, the finance minister, when he brings down his budget in the next year and in the year after, based on the best possible forecasts with respect to the size of the surplus, can go ahead and allocate money to foreign aid, to the environment, to housing, as he sees fit. It's completely within his power to do that. This doesn't change anything with respect to budgetary spending. All this does, Mr. Chairman, is to ensure that we actually take some meaningful steps to try to meet the commitment that we made as a Parliament to Canadians who are overburdened by tax.

It's true that this tax relief we're talking about will help people in all income brackets. But you know what, Mr. Chairman? It's also true that the same tax relief that the government was proposing would help people in all income brackets, but it would inordinately help people in the low end of the income scale in both cases.

•(1235)

The Chair: Thank you, Mr. Solberg.

Mr. McKay, quickly please.

Hon. John McKay: I just wanted to point out the irony of the honourable member's position. I think it was Mr. Penson who was criticizing the inadequacy of the government's clause 5 in Bill C-43, even though it's a cumulative total of about \$7 billion plus and that every \$100 is \$300 million off the revenues of the government. Apparently, that's quite inadequate as far as the Conservative Party is concerned. Yet they propose something similar, but only by moving up their priorities and eliminating any choices the government or anyone else would wish to make with respect to any surplus legislation. Apparently, for the Conservative Party, the government's position is quite adequate now.

Thank you very much.

The Chair: I'll call the question on the amendment. Again, we're talking reference number 1892485.

(Amendment negated) [*See Minutes of Proceedings*]

The Chair: Mr. McKay, you did not have your hand up. In future if you're going to vote, you have to vote.

Hon. John McKay: Sorry.

The Chair: Thank you.

Mr. Monte Solberg: I just have a point of order, Mr. Chairman.

The Chair: Yes.

Mr. Monte Solberg: Is the parliamentary secretary going to be voting on the clause-by-clause consideration while he's sitting as a witness?

The Chair: From what I understand, he's a member, so he will.

Mr. Monte Solberg: Okay. I just wanted clarification.

The Chair: It's a very good question, by the way.

Mr. Monte Solberg: I think it's appropriate. I think I wouldn't be doing my job otherwise.

The Chair: Shall clauses 5 to 8 inclusive carry?

Mr. Monte Solberg: Mr. Chairman, I just have a point of order, sorry.

Mr. Charlie Penson: Did we not vote on clause 5, Mr. Chair?

The Chair: Yes.

Mr. Charlie Penson: Well, you already have a vote on clause 5.

The Chair: That was just on the amendment, not as is.

Mr. Monte Solberg: Mr. Chairman, just to be clear on the process, what you will be doing then is, for any clauses that are not amended, you will just move through them, ask if they will carry, and then when you get to an amended one, we'll stop and debate it.

The Chair: That's right.

Mr. Charlie Penson: Just to be clear, Mr. Chair, we were only voting on the amendment on clause 5. Now we're going to vote on clause 5.

The Chair: That's right.

Mr. Charlie Penson: Okay. I think that should be a stand-alone vote.

The Chair: We're voting on clause 5. Is everybody okay?

(Clause 5 agreed to on division)

(Clauses 6 to 8 inclusive agreed to on division)

(On clause 9)

The Chair: We've got a government amendment on clause 9.

When we're voting, can people actually put up their hands? I know we have a lot of paper in front of us, but while we vote we don't have to read necessarily. So if we can, let's move this along.

Mr. McKay, do you want to speak on government amendment G-01 on clause 9?

Hon. John McKay: The clause 9 amendment....

The Chair: For the members, it doesn't have a reference number.

Hon. John McKay: Clause 9, on page 7, has no reference number. I agree.

The Chair: On the right side it says "Bill C-43", "Clause 9", "pages 7 and 8".

Mr. McKay.

Hon. John McKay: The amendment to clause 9 reflects discussions with other parties. The initial proposal was to have a removal of surtax over a number of years, and then what this does is reinstate the surtax removal schedule for corporations under \$50 million in capital. For those between \$50 million and \$75 million in

capital, it goes, in effect, to a half schedule, rather than a full schedule. And for those corporations in excess of \$75 million, the surtax will remain in place.

• (1240)

The Chair: It doesn't just fall off at \$50 million, right? It's a scale. That's why the formula is there.

Hon. John McKay: Yes.

The Chair: Okay.

Does anybody want to speak on that?

Mr. Pallister.

Mr. Brian Pallister: Mr. McKay, you referenced discussions with other parties. Can you be more specific? Which other parties did you have discussions with? When did those occur? What was the nature of the discussions? How long did the discussions take? Who was involved in the discussions? Can you give that type of detail so the committee can be aware of what went into the thought involved in changing this aspect of the original budget proposal?

Hon. John McKay: As you know, Mr. Pallister, the preferred configuration is in Bill C-43, which apparently your party at one point supported. Then your party decided that it didn't support that any longer, so we had to enter into another discussion with another party. The other party is the NDP. This amendment reflects that discussion.

Mr. Brian Pallister: I would like to be clear, then. Your commitment to this particular process, a revenue generation in this particular proposal, is contingent on you maintaining a position of being in government. That's basically what you're saying, isn't it? As long as you're threatened with removal from government, you'll make changes of this or any other type.

The Chair: Order.

Mr. Brian Pallister: I want some clarification, because in previous testimony this witness alluded to the fact that this was not going to be changed, but it was simply going to be brought back in another form. So if that's the case, I want to give the witness the opportunity to give some clarity to this. If this is being deleted to satisfy discussions with another party, as the member has alluded to—obviously the New Democratic Party—then I'm curious that if the government so firmly believes this is a bad idea, why it is also a good idea at the same time.

Hon. John McKay: I know, Mr. Pallister, you have difficulties with the concept of walking and chewing gum at the same time—

Mr. Brian Pallister: Thank you very much.

Hon. John McKay: —but we are in a minority Parliament. We do have to deal with the realities of minority Parliament. And had your party not been so weak on Bill C-43, I don't think we would be having this discussion.

The Chair: If we're going to make comments, we'll make them through the chair, and we'll have no personal insults, because except for Mr. Pallister, I can pretty well—

Mr. Brian Pallister: Mr. Chairman, I have done my best to give the witness and/or committee member, depending on the hat he puts on, the opportunity to give some clarification around the rationale for taking this out of this bill, and at the same time, speaking of walking and chewing gum at the same time, making a commitment to bring it back in in the same form that he's taking it out of this bill.

I want to make it clear to you, Mr. Chairman, through you to the witness, that I believe he should make it clear to the Canadian people what his government's intentions are on this bill. Is he going to keep his word, and is his government going to keep their word to the New Democratic Party, or are they going to break their word to the New Democratic Party and reintroduce exactly the same provision in another manner? That's a simple question. The member is capable of answering simple questions, and I'd ask him to answer that one.

The Chair: Would you like another attempt at answering the question?

Hon. John McKay: The intention of the government is to reintroduce, on a separate legislative track, these amendments that we are moving to take out at this time.

The Chair: Thank you.

Mr. Loubier.

[Translation]

Mr. Yvan Loubier: Mr. Chairman, I too would have appreciated some added explanations. We heard from witnesses last week, and opinion was genuinely divided on whether to eliminate the capital tax in the case of all businesses or to target certain businesses, as the NDP were suggesting. To my mind, what's important is that Quebec and Canadian companies, whether small, medium-sized, or large, remain sufficiently competitive with U.S. and Asian companies. I realize the capital tax isn't the only problem, but it does make these companies less competitive.

I have no desire to vote, at the urging of the NDP, in favour of a measure that would create more unemployment in Canada than there would be if we were more competitive. I realize that the NDP, with the Layton budget, as we have dubbed it, has abandoned the unemployed, but it would be dealing them a double blow by tabling a motion that might not give every business an opportunity to compete with foreign markets, particularly the Asian market which is quite lively.

Let me put this question to officials: would a measure such as the one proposed which would reduce the capital tax for small- and medium-sized businesses, and not for large companies that also have a responsibility to maintain jobs, not do more harm than good?

I know that as far as the NDP is concerned, anything having to do with business is bad. However, we mustn't forget the men and women employed by these businesses that are struggling in the face of foreign competition.

• (1245)

[English]

Hon. John McKay: Mr. Chair, let me just speak to that briefly before I turn it over to Mr. Farber.

We are probably more concerned than any other party in this House about the competitive tax environment. Bill C-43 reflects our

efforts to develop a competitive tax environment, and we remain committed to that environment. We had scheduled our tax relief to take place over the course of five years. The first significant point would have been, on this particular area, in 2008. At that point, we would have anticipated a reduction in the surtax, which I think would have addressed the honourable member's concerns about competitiveness.

It's not the full panoply of things being done. We've undertaken capital cost allowance relief in other parts of the budget. Of course, we are enjoying the tax relief introduced in previous budgets.

Maybe Mr. Farber would like to add to that response.

Mr. Len Farber (General Director, Tax Policy Branch, Department of Finance): Mr. Chairman, there's not very much to add to that other than to say that competitiveness, particularly international competitiveness, is very important in order to maintain a Canadian advantage in the context of carrying on business.

The Americans had actually announced a proposed change to their manufacturing tax that would reduce their rates by 3.1%. The combination of the corporate tax rate reduction and the surtax was designed to maintain a competitive advantage, to ensure that we are competitive both in the North American environment and internationally.

[Translation]

Mr. Yvan Loubier: Mr. Chairman, do we have a tally of the number of companies that would be excluded by the initial proposal, as well as an idea of the total number of people they employ?

[English]

Mr. Len Farber: Mr. Chairman, the change itself, as you know, was originally proposed to be brought in over time, so it was going to be phased in over a number of years. What this is actually doing is exempting a fair number of those corporations—those up to \$50 million of taxable capital, being phased in up to \$75 million—from paying that surtax.

In that context, the small-business sector of Canada is a major employer, a very important employer of individuals, and a sector of the economy that ensures Canada does maintain a competitive advantage. So from that perspective, this amendment keeps a large number of those corporations within the whole.

[Translation]

Mr. Yvan Loubier: I have a question. The measure initially proposed in Bill C-43, before this amendment, would be limited to businesses with taxable capital of \$50 million and under. Other businesses would be excluded. Do we have an idea of the number of businesses that would be affected by this measure and the number of jobs that could be affected because the companies would not qualify for the additional benefit to help them be competitive?

We're mindful of the competition businesses face today, particularly from Asian countries. The main sectors adversely affected include furniture and clothing. It is critical for the government to bring in measures to alleviate the tax burden of businesses and to guarantee that jobs are created and preserved for the future.

Can you tell me how many businesses are affected by the exclusion measure and how this compares with the measure set out in the original version of the bill? Unlike the NDP, we are concerned...

• (1250)

[English]

The Chair: Mr. Farber, if you don't have the answer, I can give you a couple of minutes and we can go on to the next question.

Mr. Len Farber: Mr. Chairman, let me give you some broad global numbers that we do have.

Of the total number of corporations, being 1.3 million corporations in Canada, the ones that will benefit from this amendment will be 507,000 corporations.

I'm responding, Mr. Chairman, to a specific question on numbers of corporations affected, so of the universe of corporations.... I'm sorry.

Mr. Yvan Loubier: One-third of all companies.

Mr. Len Farber: Approximately, yes, a little bit more than a third, 507,000 versus 1.3 million. So a little better than a third.

[Translation]

Mr. Yvan Loubier: This means that 70 per cent of businesses are excluded, when in fact they are facing foreign competition head on and incurring job losses around the country as a result.

I fail to understand why the NDP supports this proposed measure, particularly since, given the expected federal government surpluses, there is no need to deprive 70 per cent of businesses of a comparative advantage like this. There are adequate surplus funds to allow the government to invest in education, social assistance and social housing. There is no need to sacrifice this comparative advantage and it makes no sense to do so.

[English]

The Chair: Thank you, Monsieur Loubier.

I have Mr. Penson, then I have Ms. Wasylycia-Leis and I think Mr. Hubbard, yes.

Mr. Charlie Penson: Mr. Chairman, I'm very much against this amendment the government has brought in. I can't understand how a government that had members sit around on this committee for the last dozen years and listen in pre-budget hearings, listen in studies that the industry committee has undertaken on competitiveness, and heard the testimony from Canadian companies that said we need to lower our cost of doing business.... We're a major exporting country, and we don't have as good an effective real tax rate as they have in the United States, which is a major competitor. I can't understand why this government would give in to this kind of a deal with the NDP.

I can see Mr. McKay sitting at the table giving the political answer, but the department officials surely must be having some trouble swallowing this, Mr. Chairman. Quite frankly, it's not good enough. The signal that's being sent to our business community now is just astounding, and I think Mr. Stewart-Patterson identified it the other day when he testified at committee. The Chamber of Commerce roll their eyes and can't believe what's happening here,

that the government has been hijacked and has basically cut out the biggest share of our Canadian companies from corporate tax relief.

And when Mr. Farber gives the story of how many Canadian companies will still benefit, it really doesn't mean anything unless you have some kind of analysis of how much each of those companies do in business. It really doesn't mean all that much. We have to be competitive. We've heard that time after time; the need for tax cuts has been consistent since I've been on this finance committee and before that the industry committee. I think the fiscal policy this government's following is really awful.

Mr. Chairman, it seems to me that the Liberals' formula for small business is first of all you take a large business, subject it to Liberal fiscal and economic policy for ten years, and then you have a small business. And that's where they're going; they're bringing everybody down to the lowest common denominator, and that isn't good enough in a competitive environment around the world these days.

The Chair: Thank you.

Ms. Wasylycia-Leis, Mr. Hubbard, and Mr. Solberg.

Hon. John McKay: Let me respond to that, if I may, please, Mr. Chair—

The Chair: Mr. McKay, I have three other speakers and then I'd like you to respond.

Hon. John McKay: I'm a witness here on this particular issue. My amendment—

The Chair: Yes, and I'm the chair. Nice to meet you.

Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson. I would like to address this matter briefly, since it does involve the proposal by the NDP to the Liberal government as part of the overall NDP better-balanced budget.

Obviously in the interests of being fiscally responsible the members of the Bloc and the Conservatives would have been more critical of the NDP had we simply proposed a \$4.6-billion investment. However, we were fiscally responsible and we did arrange to ensure that money was taken from those areas that would have the least impact in terms of our ability to grow as an economy and be, in turn, invested in areas where there would be major bang for the buck, where in fact we would see job creation happen, where in fact the problem of unemployment would be dealt with in a very significant way.

I think Mr. Loubier may agree with the impact of that kind of investment. He will also know that the corporate tax breaks, without these changes—this or the other two being proposed by the Liberal-NDP proposal—will still leave \$9 billion every year until the year 2010 in terms of corporate tax reduction.

So keep in mind that we have a situation with profits going up dramatically in the corporate sector, corporate tax breaks going up significantly, putting us on par with American corporate tax rates, by all reports, and finally, with investment in Canada going down. So this is an attempt to counter that trend and to ensure that Canadians are able to benefit from the surplus dollars that we're now seeing.

•(1255)

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

Mr. Hubbard, Mr. Solberg, and Mr. McKay, and then we're going to vote.

Mr. Charles Hubbard: Thank you, Mr. Chair.

I guess the more we talk the easier it is to get confused with this.

On the new term here, "the taxable capital employed in Canada," which certainly differs from clause 9 in terms of the words "employed in Canada", what is this amendment bringing to us—"employed in Canada"?

We have a lot of companies that have business—I think it's the leasing companies—both in Canada and in the United States and other countries. Perhaps Mr. Farber, or someone, could really explain what he means by having changed this "taxable capital employed", which is not really a usual term in terms of investment.

Just for this committee, what is the meaning of "employed in Canada" ?

Mr. Len Farber: In fact, it is the same terminology that we have used before for the capital tax provisions, and this is basically the methodology that we use in terms of dealing with capital tax, if it is capital that is employed in Canada.

For example, you don't want to give benefits to companies that are using purely resources offshore. So they'll get the reduction of the surtax for capital employed in Canada.

I didn't want to leave any misunderstanding when I was giving the numbers of companies that were actually affected. In terms of the numbers, they were the numbers that I had indicated. It's about 40% of corporations in Canada. But what's important in that context is that even without these changes, there is still a Canadian corporate tax advantage. It's just that these changes would have added to that advantage.

So vis-à-vis the North American economy, we still enjoy, for general income for 2008, which is the year this was supposed to be taking effect, an advantage on the income tax rate of 3.7%; on the corporate rates, including capital taxes, 3.2%; and for manufacturing, we have an advantage of 2.8% on the general corporate rate. Including capital taxes, it's 2.2%.

So in a North American context vis-à-vis these particular changes, there is still a corporate tax advantage.

The Chair: Thank you.

Mr. Solberg.

Mr. Monte Solberg: Thanks very much, Mr. Chairman.

It's also true, according to Jack Mintz, that Canada is getting hammered when it comes to effective rates. In fact, if I remember Mr. Mintz's study from January, he randomly selected 20 countries and found that Canada was in the top three in terms of effective tax rates, so we have a big challenge.

I just want to point out, Mr. Chairman, that this is important in the current context. Today GM is holding their annual meeting in the U. S. They're being hammered; their stock is down, they're actually

losing money today, and that should concern people from southern Ontario and Quebec. Ford is in an awful way right now, and I would argue, Mr. Chairman, that we need to move quickly today to ensure that workers have jobs all across this country. One of the ways to do that is to implement these tax cuts the government initially promised and now wants to withdraw.

I would finally ask our witness, Mr. Chairman, now that the government says it's withdrawing them and wants to then bring them back in another form, whether this will be the last iteration, or will we hear that the NDP has come back again with another demand and that the government will withdraw them again?

•(1300)

The Chair: Thank you, Mr. Solberg.

Mr. Loubier, *rapidement*, and then Mr. McKay to conclude.

[*Translation*]

Mr. Yvan Loubier: Mr. Chairman, I listened to the arguments put forward by Ms. Wasylycia-Leis and Mr. Farber. Admittedly we hold a 3 per cent competitive advantage in North America in the area of corporate taxes. I grant you that, and the figures back up this statement. However, the problem is in fact the overall competitiveness of businesses. We cannot look only at the situation in North America to assess the competitive position of business and their ability to maintain and create jobs. We must look at the global picture. We know that our greatest competition comes from Asia. For instance, 800 jobs were lost in Huntingdon. A total of 428 jobs were lost at Tembec, ostensibly because we were not competitive enough. A deliberate effort must not be made to exclude companies that cannot compete with Asian businesses. The only thing it leads to is layoffs and rising unemployment.

I don't understand why the NDP is bound and determined to propose this kind of measure when given the expected surpluses, we can accomplish both objectives. We can address social priorities and the competitive position of businesses so as to create jobs, and keep unemployment in check. For that reason, we plan to vote against this amendment.

[*English*]

The Chair: Thank you.

Mr. McKay.

Hon. John McKay: I, like other members, have sat on this committee and listened to the arguments in favour of a competitive tax environment. I generally agree with the thrust of those arguments. We're competitive, as Mr. Farber has said, on tax rates. We addressed in the budget some competition issues with respect to CCA rates. This was intentional, to deal with the surtax, which was an issue that was raised repeatedly in the committee, so in some respects the minister has heard and listened to the testimony and to the members in their analysis of this testimony. I only wish the Conservative Party had thought this through before they withdrew their support for the budget; then maybe we wouldn't be having this argument.

With respect to Mr. Solberg's example of General Motors, I think General Motors is losing something in the order of \$2,200 per vehicle on a global basis. You also note that Oshawa, I think, is the number one plant in the entire GM industry, which argues in favour of Ontario and Canada being very competitive in a global sort of way vis-à-vis pretty well any competition GM would have.

I think that in some respects our mix of tax rates, depreciation, and surtax may not be the best, but we were making steps in the right direction. It's a pity the Conservatives withdrew their support, but I want to emphasize again that the government's commitment is to reintroduce the measures on a separate legislative track.

Thank you.

The Chair: Thank you.

All in favour of the government amendment?

(Amendment negated) [See *Minutes of Proceedings*]

The Chair: We're going to go directly to clauses 9 to 29. Shall clauses 9 to 29 carry?

[*Translation*]

Mr. Yvan Loubier: Mr. Chairman, are we on clause 29?

The Chair: No, we're on clause 29.1.

This is a new clause.

Mr. Yvan Loubier: I would have thought clause 29.1 was part of clause 29.

The Chair: Apparently not.

Mr. Yvan Loubier: Fine then.

Mr. Chairman, we are opposed to clause 13. However, we're in favour of the other clauses, through to clause 29.

[*English*]

The Chair: Shall clauses 9 to 12 carry?

•(1305)

Hon. John McKay: Let's just slow this down here a little bit.

For clause 9, we had an amendment that was defeated. Then call the vote on clause 9.

(Clause 9 agreed to)

The Chair: Next are clauses 10, 11, and 12.

Hon. John McKay: No, it's clause 10 and clause 11.

The Chair: What is wrong with clause 11, Mr. McKay?

Hon. John McKay: We're opposed to clause 10 and clause 11.

The Chair: We'll do one at a time.

Before we adjourn, and seeing how it's going so quickly, we're going to call for a meeting at 6:30 with supper, or 7 o'clock without supper. We have votes at 5:30, and we'll finish by 6:30. I leave it up to the members.

Monte.

Mr. Monte Solberg: Before we set a time, I propose we actually sit down and talk about this in camera so we can figure out when we can deal with this. We want to deal with it, but we want to make it work for everybody.

The Chair: So will it be 6:30 with supper? We can always cancel supper, but I have to order it now.

Mr. Monte Solberg: In camera, Mr. Chairman.

The Chair: Right now? Everybody has to go, so we won't have a chance to talk about it until 3:30. Talk among yourselves.

Thank you.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

**Also available on the Parliamentary Internet Parlementaire at the following address:
Aussi disponible sur le réseau électronique « Parliamentary Internet Parlementaire » à l'adresse suivante :
<http://www.parl.gc.ca>**

The Speaker of the House hereby grants permission to reproduce this document, in whole or in part, for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

Le Président de la Chambre des communes accorde, par la présente, l'autorisation de reproduire la totalité ou une partie de ce document à des fins éducatives et à des fins d'étude privée, de recherche, de critique, de compte rendu ou en vue d'en préparer un résumé de journal. Toute reproduction de ce document à des fins commerciales ou autres nécessite l'obtention au préalable d'une autorisation écrite du Président.