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Chair

Mr. Massimo Pacetti

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● (1020)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Thank you to the groups for appearing, and thank you for taking time out of your day.

We're here, pursuant to Standing Order 83.1, on the pre-budget consultations for 2005.

I'm going to allow you a seven- to eight-minute opening comment period. I don't want to interrupt, but there are five groups, and if you take too long, the members won't have any time to ask questions.

The list I have in front of me begins with the Alberta Real Estate Association. You're the first group.

Ms. Poyen.

Mrs. Janet Poyen (Director, Government and Industry Relations, Alberta Real Estate Association): Thank you, Mr. Chairman, for the opportunity to speak to the committee today.

I would like to begin by endorsing the recommendations of the Canadian Real Estate Association in its comprehensive brief to the committee. With the exception of one action, one that we are lobbying against rather than for, I won't repeat the positions taken by our national association. Instead, it is my intention to provide a provincial and local perspective on those issues with which the Alberta Real Estate Association has direct experience.

First, then, is the issue that is causing us much concern. Last March we became aware of proposed changes to the Income Tax Act that we believed would have a devastating effect on real estate investment. After realtors spoke against the proposal, the minister asked the finance department to produce a more modest legislative initiative. We are led to believe, however, that the changes to be introduced this year are minimal.

The finance department proposes to limit deductibility of interest and other expenses incurred by investors in real estate to situations where the taxpayer can show they were incurred for the purpose of earning net income from a business or property. It will be made clear that an intention to receive a capital gain will no longer apply; the taxpayer's purpose must be to have a positive annual income stream from an investment.

It is common practice for small investors to buy properties that will not yield an immediate profit, or indeed any profit, until the property is sold for a capital gain. While we recognize that the current rules have led to abuse and the loopholes need to be closed, the proposed measures would significantly discourage future investment in real estate. The measures would prevent small investors, who make highly leveraged real property investments in good faith, from using eligible deductions and would favour large cash-rich investors, who would not have to resort to financial leveraging.

I would like to provide some positive input on the subjects of affordable housing and brownfield redevelopment. In previous submissions we have highlighted and commended the housing programs provided by the federal government. We believe the programs and the methods of delivery have been enhanced each year. We are also encouraged that a housing portfolio has been created for all programs related to housing and homelessness and that a major review of federal housing policy is under way. We particularly appreciate Minister Fontana's flexible approach to policy that is intended to ensure that a variety of measures are available to meet different housing needs.

AREA's three-year affordable housing initiative came to an official end in 2003. However, several ongoing efforts have resulted from this major initiative. First is the home program, which is a uniquely Alberta realtor initiative, which combines home ownership, education, and financial counselling with assistance in finding a home and, if appropriate, help with the down payment or closing costs. A revolving down payment fund is topped up by referral fees paid by participating realtors. To date, over 500 families have been involved with the program, and so far, 140 families have been able to buy homes.

Next are secondary suites. AREA has taken an interest in the topic of secondary suites since 2001 when the provincial government sought input on revisions to the provincial building and fire codes. We were most pleased, therefore, to learn of new measures that CMHC has introduced to support the creation of secondary suites. High-ratio mortgages can now be obtained for two-unit residences, and 80% of the gross rental income can be used for income qualification purposes.

It was also gratifying to hear that RRAP funding can be used for the upgrading of these suites. These measures will help with legalizing suites from a safety standpoint if the provinces have adopted the appropriate standards in their codes. At the present time, the Alberta codes require secondary suites to meet the standards of an apartment or a duplex.

A provincial MLA committee toured the province in 2004 to obtain feedback on relaxed standards in the fire code for existing suites, but its report has not yet been published. We are pleased to learn that CMHC is working with stakeholders to examine the barriers in the code and the implications of adapting the code to facilitate renovations for accommodating a secondary suite.

The municipalities also have a role to play, and the City of Edmonton, for one, is setting an excellent example. In a new long-range plan for affordable housing, the city has proposed to create an incentive fund and program similar to RRAP to assist homeowners in bringing secondary suites up to building code standards. As legalizing suites also depends on municipal zoning and bylaws, AREA is looking at Edmonton's strategies for dealing with such regulatory questions.

More can be done at the federal level to promote secondary suites. It is our understanding that they are not eligible for the GST rebate because creating the suite does not lead to the issuing of a separate title. If public funds are being invested in secondary suites, it doesn't make sense to discourage their development through punitive tax measures.

On aboriginal housing, Budget 2005 recognizes that adequate housing is an important component in strengthening social foundations, and it envisions transformative changes for aboriginal housing. “Ownership” is a key word. We know from our work with communities in general that ownership of a home leads to stabilizing family and community life. It is also true that taking ownership of problems and solutions is the only way an individual or a community can transform itself. For this reason, we strongly support National Chief Phil Fontaine's goal for a blended housing strategy where it is possible to have private ownership. We are pleased to learn that consideration is being given to the idea of a first nations housing authority. This will go a long way toward empowering the aboriginal community and facilitating the development of community-based projects.

AREA’s involvement to date with the aboriginal community has been limited to off-reserve housing in conjunction with the home program. Program administrators have been working in cooperation with CMHC and its aboriginal life skills program by accepting graduates of CMHC's one-day program into the second half of the home program education.

Home ownership education sessions in Edmonton, Calgary, Lethbridge, and Fort McMurray have been timed to coincide with the CMHC-offered program. As a result, it is estimated that 15% of the home program clientele comes from the aboriginal community. This has led to a number of “successes”, the term used when a family or individual ends up buying a home. More precise figures are not possible, as statistics are not broken down by ethnicity or source of clients.

On tax measures, in past pre-budget submissions AREA and CREA have described the crisis in the rental housing market and recommended specific tax measures to overcome the barriers to affordable rental housing. Last year we recommended a comprehensive examination of the tax and regulatory environment by the federal housing minister and his provincial–territorial counterparts. We appreciate that the 2004 report of the Standing Committee on Finance recommended a review of existing measures, in concert with other orders of government and stakeholder groups. We also acknowledge that the Conservative Party, in its supplementary opinion, supported the CREA and AREA position of previous years.

Earlier this year, AREA sent a letter to the Alberta minister responsible for housing asking for a national review of taxation policies with regard to housing. The Hon. Joe Fontana, who was copied on the letter, replied that a review had taken place, and that while there might be room for improvement in the tax policies, alternate approaches to stimulating the production of rental housing might be more effective. In a comprehensive toolkit approach to a new affordable housing strategy, we would hope that there is room for both approaches.

The Canadian housing framework announced in the 2004 Speech from the Throne was welcome news. We applaud the federal government’s efforts to encourage community-based projects. With our experience in working at the local level, we would recommend an added dimension to the current funding process. A true partnership-based framework must have strategies for dealing with the differences in communities. One community might have a good idea for a project but lack the capacity to carry it out. Another community might have a housing agency in place with many successful projects to its credit. The first community needs a capacity-building component added to its project proposal. The second community needs a free hand to plan its project so that maximum results are achieved with the resources available. This would mean block funding and the freedom to handle the administration of the project on its own, with an accountability process that does not interfere with efficient delivery of the program.

The one-size-fits-all administrative model is not efficient. The strategy should be to design programs that meet the organizational as well as the housing needs of the community. In this way, the process for approving applications could be streamlined and needless duplication of effort by the other levels of government could be avoided.

I don't know about time. I have something on brownfields that I'd like to talk about.

● (1025)

The Chair: I was just going to cut you off. You are way past ten minutes.

Mrs. Janet Poyen: Okay. I'll leave it at that and be happy to answer any questions.

The Chair: The only question I have—and I don't need to know right now—is this.

[*Translation*]

I'll put the question to you in French, to see if the translation is working. Some recommendations are listed on page 11.

● (1030)

Mrs. Janet Poyen: I presented them in September.

The Chair: Can you tell me which ones are not in line with what your national organization requested?

[*English*]

The next group up is the Alberta Urban Municipalities Association, with Mr. Hawkesworth.

Mr. Bob Hawkesworth (President, Alberta Urban Municipalities Association): Good morning, Mr. Chairman and members of committee.

I'm Bob Hawkesworth. I'm a city councillor here in Calgary and also president of the Alberta Urban Municipalities Association. I'm pleased to be here not only to present to you this morning, but also to welcome you to my home town.

Our association is a member-based organization. We serve all municipal urban Alberta governments; they include cities, towns, villages, and summer villages. There are about 280 of us, and we represent 85% of Alberta's population. We also provide business services to our urban members, and the value of those services last year was over $80 million.

I think you have already received a copy of the AUMA submission. We addressed physical, entrepreneurial, and human capital in that presentation. I'm just going to touch briefly on some of the key highlights of that document.

The development of physical capital is key to competitive communities. I'm really pleased this year to note that real effort and progress have been made to enhance the physical capital in Canadian communities, and that's through the new deal for cities and communities. Our association is very much looking forward to working with all orders of government to implement the new deal. I'm particularly including the component of sustainability planning, which I think is an important dimension.

Our recommendations in this area include that the new deal for cities and communities, when fully implemented, should become a permanent program with status in federal legislation, providing predictable and sustainable funding to Canadian communities. We'd also like to recommend that all orders of government commit to eliminating the infrastructure debt by 2015. Specifically, we would like to see the Infrastructure Canada-Alberta program, ICAP, renewed or replaced. At the moment, that program is due to expire on March 31, 2006.

Community infrastructure is also enhanced by strong federal infrastructure. We would also make a recommendation to the federal government that the finance committee support increased investments in those areas under federal purview or jurisdiction, such as Highway 1, Highway 16, and national parks, so that we're all working together to address the infrastructure of the country.

Alberta’s urban municipal governments have shown leadership and innovation in building entrepreneurial capital. I'd like to tell you about our energy aggregation program, in which we bring together our members and make a bulk purchase of electricity and gas. As part of that program, we promote the use of renewable energy—wind and biomass sources.

Our recommendation to the finance committee is that all orders of government support the development and delivery of energy management tools. In our case, we have collected, through our energy aggregation program, $1.5 million to assist in building these tools for our members. We would like to encourage you to match, or recommend that you match, the funds we have raised for those tools. We also recommend that the finance committee support the provision of tax incentives to businesses that operate in the renewable energy sector, thereby making the purchase of renewable energy more competitive.

Building Canada's human capital requires investments that ensure safety and security in our communities, a strong labour force with all types of skills, housing that is affordable, and recreational and cultural activities that are accessible to all. The need for affordable housing, especially seniors housing, is expected to grow considerably over the next 10 years.

Our recommendation is that the finance committee support additional federal investments in affordable housing through the Canada-Alberta affordable housing program and other innovative housing initiatives.

● (1035)

We also recommend that this committee identify seniors housing as a critical need in all communities and support the development of programs that emphasize the need for safe places for senior citizens.

I'd like to conclude my remarks by speaking more generally about sustainable community plans. It's important for the future of our communities that we keep the long-term future in mind. As you know, as part of the Canada-Alberta agreement on the transfer of the federal gas tax, every community is required to develop integrated community sustainability plans. Our association is working with our members to build templates to help them build those plans. It will help them comply with this agreement, but more importantly, these plans are going to enable our municipalities to look at issues in an integrated manner. We expect that these plans, and working through the planning process, will ensure long-term sustainability and enhanced quality of life in our communities. We're pleased that the Government of Canada will work with us in integrated, sustainable community planning.

I would also like to note that it would be helpful for our efforts to know that similar efforts toward sustainability will also be made at the national level. The better that orders of government can align their efforts, the greater the synergy they can achieve for the Canadians we collectively serve.

Thank you for hearing from us today. Our association looks forward to working with all orders of government to increase Canada's productivity and living standards by building the physical, entrepreneurial, and human capital of Alberta communities.

The Chair: Thank you, Mr. Hawkesworth.

I have just one quick question. You mentioned in your brief about an agreement coming due, but I don't see it anywhere.

Mr. Bob Hawkesworth: It was not in the brief, but I used it as an example.

The Chair: Which one is it again?

Mr. Bob Hawkesworth: It's ICAP, the Infrastructure Canada-Alberta program.

The Chair: Okay. When is that coming due?

Mr. Bob Hawkesworth: It comes due on March 31, 2006.

The Chair: Thank you.

The next group I have here is the Canadian Community Economic Development Network, Mr. Downing.

Mr. Rupert Downing (Executive Director, Canadian Community Economic Development Network): Thank you, Mr. Chairman and members of the committee.

We've provided a written brief entitled “Recommendations for Enhancing the Contribution of Community Economic Development and the Social Economy to Canada's Productivity”. I'll try to highlight just some of the key points from that brief.

I'm accompanied today by representatives of two of our member organizations. Hazel Corcoran is the executive director of the Canadian Worker Co-op Federation. Carmen Sparrow is from MCC Employment Development, an organization that has worked for many years here in the city of Calgary to increase the economic and social self-sufficiency of low-income Calgarians.

Our network is an association of non-profit community economic development groups and cooperatives, several hundred strong, from every province and territory across Canada. The work we do in communities is really directed at growing the social economy by building economic and social assets for unemployed, low-income, and disadvantaged Canadians and their communities to create new economic opportunities, at the same time as addressing the causes of poverty and social disadvantage.

According to recent research by the Institute for Advanced Policy Research in 2005, the social enterprises that community economic development organizations are creating made up about 2.5% of Canadian GDP in 1999. In 2004, Imagine Canada identified that the broad non-profit sector in our country represented nearly 7% of our GDP.

We believe that this social economy is an innovative component of our socio-economic infrastructure. It's directly contributing to Canada's productivity and prosperity by investing in skills development, human capital development, with some of our most disadvantaged citizens by generating and applying new ideas for blending business development and social development in these new forms of social entrepreneurship, and by developing regional and sectoral development strategies that directly contribute to the economic and social well-being of Canada's communities in urban, rural, northern, and aboriginal settings.

The rationale for supporting and investing in these kinds of organizations and approaches is very clear. The growing inequality amongst regions, communities, and populations has an aggregate impact on the overall economic productivity of a nation. The social and economic conditions that create these inequalities over time are interrelated and interdependent. This requires an integrated approach that builds on the capacity of civil society to move beyond top-down state interventions and mobilize social and human capital to achieve innovative and transformative outcomes by people, for people, in their own communities.

The Government of Canada joined a long list of nations across the world in 2004 in investing in the social economy in a structured manner. The 2004 budget saw the announcement of the social economy initiative that has brought $132 million over five years to invest in the social economy, in capacity building, in access to capital financing, and in research to ensure that we continue to achieve effective practices and outcomes.

That initiative was welcomed warmly by organizations across the country. For example, today in Red Deer, Alberta, the Alberta Community Economic Development conference is wrapping up. It has in attendance several hundred people from rural, urban, aboriginal, and northern communities across the province. With the support of Western Economic Diversification Canada, through the social economy initiative, they've announced the creation of an ongoing community economic development network to help develop effective practices and join up people working on the ground in communities in this new form of social entrepreneurship.

● (1040)

So this is a truly pan-Canadian phenomenon that's increasing its capacity and momentum with the assistance of the federal government's initiative, but there are still some challenges. Our recommendations really try to speak to where we could go next in terms of the 2006 budget to strengthen the work that's going on.

First of all, in terms of building entrepreneurial capital, we really focus on social entrepreneurship where there are entrepreneurs working in communities, creating business that are social enterprises, cooperatives or non-profit, that are generating both a fiscal return that's reinvested in communities and a social return in terms of reducing poverty and social conditions that are poor for citizens in communities. The learning curve that's associated with these new types of social entrepreneurship is quite steep, so we really need to see some strong investment in helping people to link up and learn about each others' practices and models and business strategies. Unfortunately, the social economy initiative is not doing that. It's not investing at the pan-Canadian level in enabling that kind of peer learning at the national level so that people can work together on developing their practices. So one of our recommendations is that we really need to see some investment in pan-Canadian learning and development activities for these social entrepreneurs from across Canada.

The second area is around financing for these entrepreneurs and these enterprises. The Government of Canada has invested $100 million over five years, and that's a very welcome breakthrough in terms of being able to access capital for enterprises that are very difficult to sell to traditional sources of capital in the banking world because of their blended kind of return and approach. But our entrepreneurs are very entrepreneurial, and they want to be able to access private flows of capital. Canada is really lagging behind many other jurisdictions it's competitive with in the global market in terms of providing the kinds of incentives and instruments such as tax credits that can be used by social entrepreneurs to leverage private flows of capital.

Here in western Canada, right now, we have six pension funds that are very interested in investing in a pooled community economic development fund, but we need to have the kinds of instruments available to the Government of Canada to be able to leverage that investment.

So one of the things we're recommending for this committee in particular is to request that Finance Canada sit down with the sector and create an advisory group, a working group, a task force; sit down with the sector and our financing organizations—there are many credit unions involved in this kind of financing—and work out ways that the Government of Canada can become a true partner in leveraging private investment in the social economy.

The other area the Government of Canada controls that is critical to the growth of social enterprises is its own procurement, and we really welcome the moves that have been made to try to open up, make transparent, procurement opportunities to SMEs, the small and medium-sized enterprise sector. But in many jurisdictions, such as the U.S. and the U.K., there has also been a particular effort to level the playing field for social enterprises to be able to compete for procurement opportunities. Most procurement opportunities offer a huge return, not just in the fiscal nature of the contracts but in the social returns that can be realized in terms of benefiting disadvantaged Canadians through social enterprises that put them to work and harness their skills and abilities.

The final thing I'd say about building entrepreneurial capital and the social economy initiative is that the social economy initiative itself is only providing funds for capacity building over a two-year period and is not currently being delivered in the northern territories. We think those things need to be corrected, along with new funds for the cooperative development initiative that is providing funds for technical assistance to new co-ops.

There are a couple of recommendations on human capital development. I'll leave those for your consideration.

On the issue of community capital, we of course also welcome, along with our municipal colleagues, the cities and communities agenda. We think it's a very important initiative. We think the investments in physical infrastructure are important, but we think there is a social infrastructure that also needs to be considered in the cities and communities agenda, and we recommend that there be some particular work done with community development organizations in the civil society sector to look at how social infrastructure and capacity can be built in communities alongside the investments through the gas tax agreements with the municipalities.

● (1045)

Thank you very much.

If there is time, Hazel Corcoran may have some additional comments.

The Chair: I'm sorry, there's no time.

The Edmonton Joint Planning Committee on Housing, Ms. McGee.

Mrs. Susan McGee (Executive Director, Edmonton Joint Planning Committee on Housing): Thank you very much, Mr. Chairman and members of the committee. Thank you for the opportunity to speak to you today.

I'm Susan McGee, the executive director of the Edmonton Joint Planning Committee on Housing.

The Joint Planning Committee on Housing is a community-based organization with a diverse board, representing many stakeholders involved in addressing Edmonton's housing needs. The committee is mandated with the development of Edmonton's community plan on housing and support services and monitors the plans and implementation as well as coordinating community initiatives. Joint Planning works closely with the Edmonton Housing Trust Fund and others in ensuring housing initiatives receive support in relation to how they address our community's priorities. We receive funding from SCPI—supporting community partnership initiative—the federal government, and the City of Edmonton.

Joint Planning has been very encouraged by recent developments in the area of funding for housing supply. With respect to the federal government's leadership in this area, there has been a considerable amount of activity of late. There is the $1.6 billion committed from the federal budget surplus, over which there is much speculation as to how it will be administered. In Alberta, the province and federal government signed phase II of the Canada-Alberta housing program agreement, which commits $63 million—$31.5 million each—over the next two years to increase the supply of affordable housing.

Early in 2005, a series of national round tables were held as part of a consultation process on a new housing strategy. The summary document toward a new Canadian housing framework, released in June, identifies numerous positive recommendations that we hear will be incorporated in a national housing strategy being prepared as a result. But there is no clear timeframe as to when it will be complete. On September 22 and 23, the federal, provincial, and territorial housing ministers met in Halifax, and presumably there will be outcomes from those meetings that will impact on a national housing strategy.

Closer to home, there are indications that the current supporting community partnerships initiative program will receive an extension and that a second phase of SCPI will be introduced with improvements to the current program. This is all good news, and there is great potential for the first time in many years for a meaningful impact on the housing needs of Canada's homeless and those living in substandard and inappropriate shelter. However, when I review documentation over the past few years referring to any of these initiatives, I am struck by how little has really changed. Whether combing through information from the National Housing and Homelessness Network, which advocates nationally for a comprehensive housing program, or from announcements and documentation from government programs and their websites, there is disappointing continuity. “We're working on it” is the message you get.

"Toward a New Canadian Housing Framework" attributes much of the problem to federal programs with short terms of one or two years, lack of integration of existing programs for housing supply with programs for support services, and the coordination of programs designed to address needs along the entire housing continuum. Funding agreements with provinces and territories have often failed to realize the envisioned increase in supply for a variety of reasons, and while SCPI has been cited as having helped significantly in building local capacity to address challenges, its administration is complex and it burdens already stretched resources.

With this in mind, the Edmonton Joint Planning Committee on Housing would be remiss not to take this opportunity to urge the Standing Committee on Finance to use the pre-budget consultation process to elevate the issue of required funding so that dollars promised are committed and so that federal programs respond to the urgent need for change expressed by experts and community organizations across the country. We need programs that recognize the complexity of homelessness and housing issues and the need for support service funding that is designed to provide integrated solutions. We need programs that build on the strength and commitments of local community organizations but do not burden them with onerous administration processes. We need stable, predictable, and multi-year funding programs, and yes, we need more of it.

The Joint Planning Committee and community-based organizations across the country are eager to work with the federal government to address our country's housing needs. We urge you to work with us collaboratively in ways that address each community's unique needs and to ensure resources are in place to make a real difference in our communities.

Thank you.

● (1050)

The Chair: Thank you, Ms. McGee.

From the Tax Executives Institute, Ms. Siegmund.

Mrs. Monika Siegmund (Vice-President, Canadian Affairs, Tax Executives Institute, Inc.): Good morning.

I'm Monika Siegmund. I'm a senior tax adviser for Shell Canada Limited, but I'm here today on behalf of Tax Executives Institute in my capacity as TEI's vice-president for Canadian affairs. With me is Vince Alicandri, vice-president of corporate tax for Hydro One Networks, who's here today as TEI's treasurer.

Tax Executives Institute is a pre-eminent association of business tax professionals. TEI's 5,400 members work for 2,800 of the largest companies in Canada, the United States, Europe, and Asia. Our Canadian members contend daily with the provisions of the Income Tax Act and Excise Tax Act, and with chapters in Montreal, Toronto, Calgary, and Vancouver, they make up approximately 10% of TEI's membership. Although my comments today reflect the views of the institute as a whole, these views are guided by TEI's Canadian members.

TEI has several recommendations for the committee's consideration for tax policy and administrative changes that we believe will foster economic growth and job creation and diminish the costs of tax compliance and administration, to the benefit of taxpayers and the government alike.

First, in its 2005 budget message, the government announced proposals to, one, reduce the corporate income tax rate from 21% to 19% over a period of years through 2010; and two, to eliminate the corporate surtax by 2008. Regrettably, the proposal was withdrawn from the budget legislation, though on several occasions Finance Minister Goodale reiterated the government's commitment to reintroduce legislation to follow through on its promise, saying, "These measures will...attract investment, generate economic growth and create well-paying jobs for Canadians."

TEI agrees with the minister's assessment of the beneficial effect of the tax reduction proposals, thus we are puzzled by recent announcements deferring the reintroduction of the measures. Having announced the rate changes, the government should stay the course rather than signalling instability to the capital and financial markets. Hence, we urge the standing committee to recommend prompt action to implement, as soon as possible, the phased reduction of the corporate income tax rate, as well as the elimination of the corporate surtax.

Next, in October 2003, the Department of Finance released draft amendments to the Income Tax Act that would add a statutory reasonable expectation of profit test, or REOP test, governing the adaptability of many expenses. Although the department's goals are clear, limited, and supportable in principle, the REOP test and the other aspects of the proposed legislation are broader than necessary to achieve the department's goals. Indeed, the proposed changes would modify the tax treatment of interest and other commercial expenses that taxpayers and the Canada Revenue Agency have long considered fully deductible. For example, interest on borrowing to support investments and common shares of most companies would likely be disallowed under the legislation, much to the surprise of most Canadian shareholders. By disrupting settled expectations, the draft legislation poses a risk of confusing taxpayers and CRA auditors alike.

On several occasions the Department of Finance has acknowledged concerns about the over-breadth of REOP legislation and has said it will develop a more modest legislative initiative that would respond to those concerns while still achieving the government's objectives. TEI will be pleased to consult further upon release of a revised proposal. In the interim, we urge the standing committee to recommend that the statutory REOP test be set aside and the revised legislative proposal be substantially narrowed.

Our third area of concern relates to the reduction of withholding taxes on cross-border payments between the United States and Canada. Withholding taxes constitute unnecessary friction, especially where economies are highly integrated and dependent on the cross-border flow of goods, services, technology, and know-how. Since the United States is Canada's principal trading partner, as well as a key source of investment capital, the full benefits of free trade will only be realized by removing withholding taxes.

Just as important is the fact that the U.S. renegotiated treaties with several of its major trading partners to provide a nil withholding tax rate on many cross-border payments. To ensure that Canadians can secure similar benefits and compete effectively for increased capital investments, exports, and jobs, we urge the standing committee to recommend that the Department of Finance negotiate with the U.S. to eliminate the withholding taxes on all dividends and interest.

TEI's fourth recommendation relates to a draft of the proposed legislation for foreign investment entities and non-resident trusts. TEI is concerned that the proposed legislation to implement this regime would upset the careful policy balance that has been struck by the current foreign affiliate rules. The proposed FIE and NRT legislation has been revised multiple times since its first release in June 2000.

● (1055)

TEI fully supports the department's efforts to strengthen the integrity of the tax system while ensuring that amendments to the act are targeted and sustainable and is pleased to have participated in consultations with the Department of Finance on the legislation. We regret to say, however, that despite the department's efforts on this fifth draft, the proposed legislation remains over-broad, extraordinarily complex, and confusing. Fundamentally, we believe the draft legislation is unworkable and again urge the government to withdraw it for the reasons noted in our written statement. We believe that once an entity is trapped in the labyrinth of the FIE or NRT rules, compliance may prove impossible. Moreover, we question whether CRA will, any more than taxpayers, have the resources to properly administer these rules.

Finally, we note that the government has been fine-tuning the proposed legislation for more than five years. Given its mind-numbing complexity, taxpayers will need time to digest and understand the legislation and, after determining whether the information is available, modify company information systems to capture and report the additional required information; thus the proposed January 1, 2003, coming-into-force date for the legislation is unreasonable.

In order to give compliant taxpayers the opportunity to understand the provisions and ensure that their legitimate business operations are not inadvertently caught by this legislation, the coming-into-force date should be no earlier than taxation years beginning after December 31, 2006.

TEI's written statement includes other recommendations for improving the efficacy and administration of the current income and excise tax regimes. Specifically, we recommend adoption of a formal loss transfer system in the Income Tax Act to complement the current administrative concessions that CRA affords to taxpayers. The introduction of a loss transfer system would bring the Canadian system into line with that of most other countries in the world.

Similarly, we recommend expanding the GST relief provisions for transfers of property or activities amongst companies undertaking corporate restructurings. Even though no net GST revenue will ultimately be collected by the government, taxpayers and CRA must incur costs in reviewing the transactions. Further, corporate groups undergoing reorganization may have to borrow money and incur interest expense to fund a temporary payment of taxes; this is in substance a loan to the government.

In the case of both suggestions, the net loss in federal revenue is minimal, but the gains in efficient administration of the act would be substantial.

In conclusion, TEI commends the standing committee for holding pre-budget consultations again this year. On behalf of TEI, I thank you for the opportunity to participate.

Mr. Alicandri and I will be pleased to respond to any questions you may have.

● (1100)

The Chair: Thank you, Ms. Siegmund.

We have about half an hour—five minutes each.

Ms. Ambrose.

Ms. Rona Ambrose (Edmonton—Spruce Grove, CPC): Thank you, Mr. Chair.

Thank you to all the presenters for being here today.

I think my colleague Mr. Penson has some questions for Ms. Siegmund and the others, so I'm going to start with Mr. Hawkesworth and Ms. McGee, if that's okay.

Mr. Hawkesworth, you talked about the need for predictable, sustainable funding, as did Ms. McGee, and we hear that a lot. You talked specifically about the notion of enshrining it in legislation, but specifically about the gas tax return. I wondered if you could explore a little past that for me, because I think it still doesn't address the structural problems in how our fiscal transfer mechanisms operate right now in Canada.

I sat on the fiscal imbalance committee last year. It was to explore the fiscal imbalance between the federal government and the provinces; that is, that the federal government collects too much tax to cover its constitutional responsibilities. What we heard over and over again, travelling across the country, was that the emerging fiscal imbalance—the real fiscal imbalance that we're going to be facing in this country in the future—is the fiscal imbalance between the provinces and the municipalities. The real problem is the structural deficiencies that are inherent in the system because municipalities don't have revenue-raising power.

I'm wondering if you can expand on that, because I think it's something we need to talk about a little more.

Mr. Bob Hawkesworth: Thank you for the question. I think you have a good grasp of the issue.

We see significant surpluses at the moment at both the federal level and certainly in this province at the provincial level, whereas in our communities, where we're experiencing growth and extraordinary costs, we've also come through a period in which we were not making investments. That was part of the problem we were having getting our fiscal house in order in the 1990s. There were a lot of investments not made on a timely basis. So we have this legacy of deficits from the past, plus we're also at the moment trying to cope with significant growth in many of our communities. So we have a double whammy.

The only source of revenue, really, for municipalities is property tax. It's a tax we also share with the provincial government, which uses it to raise money for education purposes. So we're saying to our provincial government, “Why don't you, because of all your surpluses and other revenue sources, reduce your reliance on the property tax and leave that taxing room to us, and then you go fund education from other sources?” That way we would have a greater capacity to address our requirements without creating an onerous tax burden for those who pay property tax. That's partly a municipal-provincial relationship issue.

We also know that the benefits to the national economy are significant when our local economies work, delivering goods and services, and we facilitate at the local level much economic activity. So we also believe that if we get this right with our municipalities, there will be some national goals that can be achieved as well.

Ms. Rona Ambrose: What do you see that the federal government can do in terms of making the tax system more...?

● (1105)

Mr. Bob Hawkesworth: We have to tell you that we've been very pleased with the way the new deal for communities has been working its way through. Certainly in Alberta we have a good relationship with the Alberta government, so the federal funding has been transferred to the Alberta government, and it will be distributed on an equitable basis to all our communities. We will be using those funds to invest in environmentally sustainable infrastructure. So I think we've got a good mechanism in place.

The problem is that we don't want the tap to run dry a year from now, or two years, or five years, when the first phase of the program wraps up, because investment in infrastructure is a long-term issue that needs to be addressed over a long period of time. We've already been through the experience of grants being stopped immediately, and it's a chaotic situation for us to try to manage. So we're looking for some long-term sustainability in the funding and revenue source. That's why our recommendation for the gas tax was that if we could enshrine that legislation, it would be an ongoing source of revenue we could budget for and we could make long-term, timely investments in infrastructure.

Ms. Rona Ambrose: So at this point you're looking for increased funding with the existing model, but you're not looking at any move towards changes to the taxation system to give municipalities more revenue-raising power.

Mr. Bob Hawkesworth: We are doing that with our provincial government, because for us, the taxing room or taxing ability is governed by provincial legislation.

Ms. Rona Ambrose: Yes. I was thinking that pressure can come from the federal government as well, so I wondered if you had made any strides there.

I have just a quick question for Ms. McGee.

The Chair: A very quick question.

Ms. Rona Ambrose: You talked about integrated solutions, and I know it's a very complex issue you're dealing with—the homelessness strategy and housing. Can you just talk a little bit about what you mean when you say “integrated solutions”, because you went over that quite quickly?

Mrs. Susan McGee: Certainly. We have through our dual entity role at the Edmonton Housing Trust Fund.... Projects come in with capital and there are programs in place for capital; it's an easier thing to get your head around. But when you're dealing with the complexity of the housing issue and you're dealing with people who need housing but also need support services.... They're dealing with mental health issues, they're dealing with addiction issues, and in many cases there's a dual diagnosis; they have ongoing support issues.

Often communities who are responsible for setting priorities and providing the funding for the capital to get the projects built are very aware that they may well be funding projects that aren't sustainable. It's because there is often no real commitment in place, other than perhaps with the regional health authorities, for support services to the people who are going to be housed, and we have to deal with that reality. If there's a commitment both provincially and federally to address the issue of housing and all of its complexities, we are much better positioned in our communities to meet our need by being able to fund those projects. The funding may be there from a capital perspective and we may be able to get the units and the beds out there, but we know that if we build it there may not be money to support the individuals and it's for naught.

The Chair: Thank you, Ms. Ambrose.

Monsieur Bouchard, Mr. Holland, and then Mr. Penson.

Just to remind the members, I'll mention there are five minute for questions and answers, so if you'd keep your questions and answers concise, we'd appreciate it.

Monsieur Bouchard.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chairman.

Thank you all for your presentations. My first question is for the Alberta Urban Municipalities Association.

You stated that affordable housing for seniors was essential. You also mentioned the Canada-Alberta gas tax transfer agreement and the need for planning. You focussed mainly on infrastructures in need of improvement.

I assume you're more knowledgeable about the situation in Alberta, but in your opinion, does the current state of Canada's infrastructures impede productivity growth?

● (1110)

[*English*]

Mr. Bob Hawkesworth: That's a very good question.

I think by and large we have good infrastructure in Canada; I think we need to acknowledge that. But I would say, in terms of economic activity in many of our large urban centres, one of the barriers to productivity is traffic congestion. We think of traffic congestion primarily for commuters coming to and from work, but where anybody delivers goods in a community, that would be an example of congestion adding significant cost to their economic contributions.

[*Translation*]

Mr. Robert Bouchard: My second question is for the Canadian Community Economic Development Network.

You spoke of social enterprise capital and of investors in need of assistance. In the social field, investors do not always have access to bank capital. If I understood you correctly, investors should be given opportunities to avail themselves of this capital, in light of their contribution to the social field. You also talked about affordable housing and current inequities.

When inequities exist, it's likely because pockets of poverty exist. Have you identified the causes of poverty in Canada and those policies that have helped the most to alleviate this situation? Would reducing poverty contribute to increased productivity in Canada?

Mr. Rupert Downing: Thank you, Mr. Bouchard.

[*English*]

The question of causes of poverty would make a good one-day discussion, I'm sure, but the evidence suggests there are deep-seated barriers for people to transform, or get out of, poverty.

Quite often, the research has shown us that people end up in poverty because of bad luck—because they have an injury, because they have an illness, because there has been an accident, because they have a period of unemployment—which leaves them out of the labour market and with reduced marketable skills in the labour market. This combination of circumstances beyond the individual's control leaves the person excluded from full social and economic participation. We also know from the evidence that families in poverty are likely to continue to be in poverty; unless they're given the kinds of supports that enable them to become more economically self-sufficient, they cannot escape that cycle of poverty and disadvantage.

There is also some connection to place; there is place-based poverty. There are neighbourhoods that have a long history of disinvestment—the downtown east side of Vancouver, for example—and areas that have gone through economic decline, such as resource-based towns. The southwest of Montreal, for example, went through major industrial decline. These interrelated factors affect families, individuals, and communities.

Our policy analysis is that we need to deal with all of those. We need to deal with supporting families to give them the supports in terms of child care and social development opportunities, affordable housing, and the supports to deal with their skills needs, so that they can get marketable skills and go back into the workforce or create their own enterprises, which is increasingly what people are turning to do through the social economy. The communities can work together collaboratively to transform their conditions, to create their own sources of investment and development. It's that community paradigm that we think is a key missing ingredient in our policy arsenal in terms of being able to reduce poverty in Canada.

● (1115)

The Chair: Thank you.

Merci, Monsieur Bouchard.

Mr. Holland is next.

Mr. Mark Holland (Ajax—Pickering, Lib.): Thank you very much to all the presenters today for coming out and giving some excellent presentations.

I'm going to start off on the issue of the new deal and municipalities. Let me state unequivocally that there must be a national imperative to continue the new deal. It can't be a flash in the pan. It can't be something that we did and checked off, and then we moved on to other things; it must be something that continues and moves along.

Actually, I would agree with Ms. Ambrose's comments about the emerging importance of the imbalance, if you will, between, on the one hand, the resources and ability of the local municipalities to do their work and to gain revenues and, on the other hand, the other orders of government, because there are so many things they have to do, and ultimately they are often the drivers of some of these things we want to achieve.

That brings me to my comments and question on social housing, in particular for Ms. McGee, and for Ms. Poyen if she wants to jump in on it.

I think there are two problems here. One is that we have this trap right now. I'll talk about the greater Toronto area. If we increase subsidies for people to be able to afford to move into the places that already exist, there is such a scarcity of places for people to move that it inevitably increases the rent that much more and knocks out the affordability.

Right now, in Durham Region, which is an area just outside Toronto, we have a vacancy rate of 0.3%. It doesn't matter how you subsidize people, that's just not going to work, so we have to get new housing stock there.

One of the things we have to do in partnership with municipal orders of government, as an example, is—and I'd be interested in talking, because you talked a little bit about secondary units—learn how we can foster, at the federal level of government, innovation in how communities are made. Essentially, I think it's imperative that affordable housing be built into the communities right from the beginning—that you have secondary units, that you have streets built on grid networks that allow a multiplicity of different types of housing inside a relatively condensed area. How can we foster that?

You talk a little bit about some changes to the GST, but I'd be interested in what else we can do to push that, because I think we have to address that housing stock. We have to do that as soon as we possibly can, because even as we build it, it will take some time for it to come on.

Mrs. Susan McGee: There are two important elements. It strikes me that what you raised in terms of Toronto is a community and localized problem, and a solution needs to be.... Toronto's problem is going to be very different from Edmonton's, and, quite frankly, Edmonton's problem is very, very different from Calgary's problem. That's why it's so critical that the municipalities and whatever local mechanism they choose to function—in our case, through the Joint Planning Committee—be recognized and be the medium for those programs. I think that's important.

In terms of the city of Edmonton, we have the Joint Planning Committee on Housing, and we have our community plan, which focuses more on the lower end of the spectrum and on the continuum of housing in terms of homelessness, emergency housing, transitional housing, and social housing. Cornerstones was recently approved by city council, which addresses and brings into play the issue of secondary suites. It has a very innovative review of some of the land use planning issues that the city can use to encourage housing through its own mandate and to ensure that 5% of all new developments involve and include affordable housing. Those are within the mandate of the city, but it needs support.

In addition to that, within Cornerstones there's the intention of the city to provide $5 million of matching dollars per year for five years to new housing—and the city is looking to the federal government and the province to participate in that. That's an immediate check on participation and a program that's been developed. I think that with success, other municipalities will do the same thing; I think municipalities are very eager to ante up, as it were, to solve this problem.

But it's that kind of financial support and participation from the federal government, as well as proactive support through administration—as we have done, through Joint Planning with CMHC and Service Canada—in helping to solve the problems and in really being the facilitator.... The federal government is so huge and there are so many different programs that may support what the community needs, the more the federal government can actively relieve the community of trying to figure that out on its own, the better.

● (1120)

Mrs. Janet Poyen: I'd like to add to that if I can, Mr. Holland.

You talked about rents going up because of the demand. Many of the housing projects that are being undertaken now are being done with the proviso that the rents remain affordable. It's all of those activities taking place at the community level, the deals being made at the community level, that are so important. It's just not something where you can say, well, across Canada, this is the way it has to be. It has to be done on a community level. Our experts here, Susan and Bob, will certainly attest to that.

As far as secondary suites are concerned, you really have to think of it in two ways, including the renovation of existing suites that have to be brought up to fire code standards for safety purposes. There is a ton of illegal suites right now that the municipalities are turning a blind eye to because it's affordable housing; they just can't turf those people out, so they're taking risks with the safety of those people, for sure.

You also suggested something about planning new houses with secondary suites in them. That's something that should be addressed by the Home Builders Association. I think they are doing that. The building code right now is reasonably stringent and should perhaps stay that way as far as new development is concerned. But for existing suites, we'd like to see a relaxation of the code so that it's feasible for people to turn their spaces into second suites.

The Chair: Thank you, Mr. Holland.

Mr. Penson.

Mr. Charlie Penson (Peace River, CPC): Thank you, Mr. Chair.

Time is short. I'm sorry that we don't have time to explore these things a little further.

I want to make a comment to Mr. Hawkesworth, and I'd like to direct a couple of questions to the Tax Executives Institute.

Mr. Hawkesworth, I was a little surprised in your response to Ms. Ambrose's question that the municipalities you represent aren't more interested in actually getting their own recognized level of government, not a delegated one, so you would have the power to raise revenue without having to go hat in hand to other forms of government. We've heard a number of times at this committee that a number of municipalities, and the Canadian association, are exploring that. I would support and welcome that as well.

I'd like to ask two quick questions of the Tax Executives Institute. You talked about the corporate tax cut and the on again, off again nature of it; I don't know if anybody can follow it lately. I'd like to know, first of all, what you think the urgency is in this regard. I know you've talked about how important it is to investment.

Also, on the interest deductibility that you've raised, or the deductibility of other expenses on property, the Supreme Court seems to have told us what the right course is, but the taxation department hasn't been able to come up with a definition that you and others like. I wonder if your group could give us some language that we could include in our report to recommend that government follow in order to get this right.

● (1125)

Mrs. Monika Siegmund: I'll deal with the second issue first.

On the test for reasonable expectation of profit, as you're aware, the Stewart case at the Supreme Court of Canada gave very clear guidance. We actually think the words of the case were fine. It talked about the fact that as long as there was an absence of a hobby, or a personal benefit, or a personal purpose to this, ordinary commercial expenses should be deductible.

As a group, we certainly had consultations with the Department of Finance and have consulted with them on numerous occasions about the overall intent of the legislation. We understand what their concerns were. It really related to the growth income of another case, where instead of being considered net income, the court found for gross income.

None of us was implementing that. We were assured by the Department of Finance that certainly none of the corporations we worked at should ever have been stuck with a problem in the legislation. Yet when we looked at the draft legislation, virtually all of us in the room came up with situations where we didn't know, if we incurred these expenses for new businesses, if we would have deductible expenses or not.

Mr. Charlie Penson: Ms. Siegmund, I'm sorry to interrupt you, but why do you think that happened? If the Supreme Court gave that kind of direction, what's the problem here?

Mrs. Monika Siegmund: I think they're afraid of a few rogue types of taxpayers. I'm not sure.

Mr. Charlie Penson: Do you have those concerns?

Mrs. Monika Siegmund: No. I think the Supreme Court decision is very strong. We don't think we need specific legislation. I think if you could adopt some of the words right out of the Stewart case, it should do the trick.

I'll let Mr. Alicandri answer your other question.

Mr. Charlie Penson: Thank you.

Mr. Vincent Alicandri (Treasurer, Tax Executives Institute, Inc.): In terms of the urgency, I think it has been recognized by governments around the world that you need to have a competitive tax system. It has become much better in Canada. It has become more competitive since corporate tax rates were reduced over the last five or six years, but in relation to the U.S. rates, we're unfortunately still not there.

If you look at a very high level and see that the U.S. rate is 35%, you then add some kind of average tax rate to that. When you compare that to the federal-provincial rate, the one I'm most familiar with is for Ontario, which is about 36%. You then add another 3% for capital tax costs, as estimated by the federal Department of Finance, and then you add another 3% in costs for withholding tax. Since a lot of our investment is foreign investment, you end up with a very high tax rate.

Mr. Charlie Penson: Essentially, you're saying that the effective tax rate is much more than what people would see on the surface.

Mr. Vincent Alicandri: Correct.

Mr. Charlie Penson: The difficulty is that the effective tax rate in many jurisdictions in Canada is much higher than our competitors. Therefore, capital would flow elsewhere, or does flow elsewhere.

Mr. Vincent Alicandri: Correct. As Mr. Goodale recognized, I think lower tax rates spur economic activity and investment in a country.

Mr. Charlie Penson: He said that a number of times, but we don't see any move to change it.

Mr. Vincent Alicandri: I wonder why.

Mr. Charlie Penson: Thank you.

The Chair: Thank you, Mr. Penson.

I also have a quick question to the Tax Executives Institute on the withholding taxes. Canada has withholding tax on dividends and interest paid to the United States, but doesn't the United States have the same type of withholding tax?

Mrs. Monika Siegmund: It is cross-border. It is mutual. But the treaty is being renegotiated between Canada and the U.S. right now. We're recommending that it be one of the things we discuss, as Canada has discussions with the United States, because the United States has entered into a number of tax treaties that provide zero withholding tax from the U.S. on payments outbound from the U.S.

It is something the U.S. has agreed to do with other countries. We think it should agree to do so with Canada, as Canada is its largest trading partner.

The Chair: From what I understand, you have some chapters in the United States as well.

Mrs. Monika Siegmund: Yes, we do.

The Chair: Your message should perhaps be made to their congressmen and senators as well.

Mrs. Monika Siegmund: We're giving the same message.

The Chair: I only want to make sure. In our report last year, I would say we had a minimum of five to ten recommendations to align ourselves more towards the United States in terms of a taxation policy or different types of issues. But I went down to Washington to meet with a few senators and congressmen, and it didn't even resonate at all.

I would ask that perhaps your institute could do some lobbying on our behalf, because there doesn't seem to be two-way cooperation in terms of a tax policy. We turn around and make a change to try to match their tax policies—I'm talking about tax policies here—and they turn around and change them, without recognizing what we've done to try to ease trade to make it better for businesses and other groups or people making investments in either Canada or the United States.

I would say that would be the message we've understood. I think if you look at past reports, we've also indicated that we'll try to do the same for the CCA and taxation, but then they turn around and make changes. If you can relay that message, I think that would be appreciated.

Ms. Poyen, can you let me know what the two recommendations are that you said are not in agreement with your national group? Do you have those?

● (1130)

[*Translation*]

Mrs. Janet Poyen: I didn't quite understand you because you were speaking in French.

[*English*]

The Chair: When you started your presentation, you stated that you were not in agreement with one or two recommendations from your national organization. I'd just like to know which ones.

Mrs. Janet Poyen: I did?

The Chair: I thought that's what you said. But I don't listen very well, sorry.

Mrs. Janet Poyen: What I said, or what I meant to say, was that our national organization has a lot of resources, and they can research things, so I agree with all of their recommendations. I just said I wasn't going to repeat those, or reinforce those, except for the one where we are protesting...or we're against the recommendation against something. But it's against federal action, not against our association.

The Chair: Which one on page 11 is it? That's the question.

Mrs. Janet Poyen: It isn't there.

The Chair: So it's not a recommendation. Okay.

Mrs. Janet Poyen: I took the opportunity, because I'm here, to discuss the same issue as the tax group—that is, the reasonable expectation of profit.

The Chair: Very good.

Thanks again to all the groups.

Mr. Hawkesworth.

Mr. Bob Hawkesworth: In response to Mr. Holland's question, would you allow me just one suggestion that you might want to give some consideration to?

I'm not familiar with the tax system, but as I understand it, under current tax rules, if you donate land for environmental purposes to, say, Ducks Unlimited or Nature Conservancy, it gets a certain tax treatment. If you donate land for an affordable housing project, it gets another tax treatment. If you could make the tax treatment equivalent, it would encourage a lot more philanthropy and the private sector participating with us in making land available for affordable housing in our communities.

The Chair: We had this issue before the committee last year. It's complex.

Anyway, thank you for the presentations. They were all well appreciated. It's difficult when you have groups from different sectors, but that's only normal for our committee. Thanks again.

The meeting is adjourned.

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