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Chair

Mr. James Rajotte

Standing Committee on Finance

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order meeting number ten of the Standing Committee on Finance. Pursuant to the order of reference of Tuesday, October 29, 2013, we are continuing our study of Bill C-4, A second act to implement certain provisions of the budget tabled in Parliament on March 21, 2013 and other measures.

I want to thank our witnesses for being here with us in Ottawa, as well as Calgary and Toronto.

Colleagues, we have about five hours of hearings ahead of us, so I look forward to spending this half day with you.

First of all, I want to thank Mr. David Spiro for being with us here today.

[*Translation*]

We also have with us Mr. Yvon Bolduc, from the Fonds de solidarité des travailleurs et travailleuses du Québec.

Welcome, sir.

[*English*]

From Calgary, we have Professor Jack Mintz from the School of Public Policy—welcome, Mr. Mintz—and by video conference from Toronto, we have Mr. Michael Colborne, partner at Thorsteinssons. Also from Toronto, we have Mr. Gabriel Hayos, vice-president, taxation, Chartered Professional Accountants of Canada.

Welcome to all of you.

Gentlemen, you have five minutes maximum for your opening statements and then we'll have questions from members.

We'll begin with Mr. Spiro, please.

Mr. David Spiro (Dentons Canada LLP, As an Individual): Thank you very much, Mr. Chair. I will preface my comments by noting that I'm here as an individual. I'm not here as a representative of my firm or of any of my clients. Accordingly, my comments and answers to questions will reflect my own personal views only.

By way of background, I've practised in the field of tax law for nearly 25 years. For 13 of those years, I practised with the Department of Justice in Toronto. Both before and after my time with the federal government, I've represented taxpayers and tax controversies and litigation with various tax authorities, including the Canada Revenue Agency.

Having seen the world from both sides, then, I'd like to offer a bird's-eye view of certain amendments to the Income Tax Act in Bill C-4, particularly those that are commonly referred to as loophole-closing provisions. In general terms, those provisions aim to preserve Canada's broad tax base so that our low corporate tax rates can be maintained. If our tax base is compromised in any significant way, new taxes will have to be imposed or rates of existing taxes will have to rise in order to make up the difference.

In today's competitive global marketplace, it's more important than ever for Canada to maintain its corporate tax rates at the lowest possible level to enhance job creation and investment in Canada. Of equal importance is the integrity and perceived integrity of our tax system. Canadians must be confident that all taxpayers are subject to the same set of rules. When some taxpayers take advantage of benefits that were never intended for them, other taxpayers lose confidence that the system is, indeed, just, equitable, and fair.

The loophole-closing provisions in Bill C-4 include measures aimed at precluding the enjoyment of unintended benefits from the use of, or avoidance of, various provisions of the Income Tax Act. For example, Bill C-4 aims at ending the use of leveraged life insurance arrangements by investors who took advantage of multiple tax benefits offered by various provisions of the Income Tax Act that were never intended to be used together.

Other provisions of Bill C-4 deal with character conversion transactions. Through the use of derivative forward contracts, investors could effectively convert ordinary income into capital gains, only one half of which would be subject to tax. Bill C-4 proposes to put all investors on a level playing field, so that ordinary income cannot be converted into capital gains through the use of derivative forward contracts.

Other provisions of Bill C-4 deal with synthetic disposition arrangements. Because the Income Tax Act is generally based on the legal attributes of transactions, one could avoid realizing a capital gain and thereby defer tax by transferring all, or substantially all, of the risk of loss and opportunity for gain in respect to a property, while at the same time retaining bare legal ownership of that property. Until there's a disposition in law, no capital gain will have been realized. From an economic point of view, though, the taxpayer has effectively disposed of that property. In those circumstances, Bill C-4 would deem a disposition to have occurred and a capital gain to have been realized as soon as the risk of loss and opportunity for gain is eliminated.

To prevent profitable corporations from artificially reducing taxable income by purchasing losses from other companies, the Income Tax Act restricts the use of losses where one corporation acquires legal control of another. In law, control is acquired when one corporation acquires more than 50% of the voting shares of the other. Bill C-4 proposes to treat the acquisition of economic control of a corporation in the same way as the acquisition of legal control for purposes of these rules. So when a corporation acquires more than 75% of the economic value of another company, the acquisition of control rules would be triggered, thereby precluding the acquiring corporation from using the losses of the other. Bill C-4 also proposes to extend the same acquisition of control rules to trusts. For trusts, the rules would be triggered when a majority interest in the trust is acquired.

Finally, there is an incentive for non-residents to fund their Canadian subsidiaries with as much debt as possible, as interest is deductible in computing taxable income in Canada. To preclude the undue extraction of profits from Canada, the Income Tax Act has thin capitalization rules that require that a certain debt-to-equity ratio be maintained by Canadian subsidiaries owned by non-residents. Bill C-4proposes to extend those thin capitalization rules to trusts resident in Canada, as well as non-resident trusts and branches of non-resident corporations.

Additional fine tuning to these rules may be required going forward, to the extent that any of these amendments affect transactions that are not offensive from a policy point of view. The Canadian Bar Association and the Chartered Professional Accountants of Canada have a joint committee that works closely with the Department of Finance to reduce the extent of any unintended consequences that arise from such changes.

Mr. Chair, I'd be happy to answer any questions.

● (1535)

The Chair: Thank you very much, Mr. Spiro.

[*Translation*]

Mr. Bolduc, you have the floor.

[*English*]

Mr. Yvon Bolduc (Chief Executive Officer, Fonds de solidarité des travailleurs et travailleuses du Québec): Thank you.

[*Translation*]

Thank you, Mr. Chair, for giving us the opportunity to come speak to you about the consequences of eliminating the tax credit for labour-sponsored funds and about the offer we have made to the government.

First, I would like to give you a few figures about the Fonds de solidarité FTQ. The fund has more than 615,000 shareholders, or nearly 15% of the Quebec workforce, principally from the middle class, people who are unionized and non-unionized. The proportion of unionized workers to non-unionized workers is around 50-50. 205,000 of our shareholders had never contributed to an RRSP before becoming shareholders of the fund. The FTQ also has 2,395 partner companies, principally SMEs in all the regions of Quebec, and it has invested $5.5 billion over the last 10 years, of which $2.2 billion were invested in venture capital.

Now I would like to explain first the consequences of the measure, and also to talk to you about the offer we have made to the federal government. As concerns the consequences of the measure, you have to understand there are three groups that will lose out: Quebeckers with savings, the Quebec economy, and finally, the entire venture capital industry in Canada.

Quebeckers with savings will lose a tax incentive that allows hundreds of thousands of Quebeckers to better prepare for retirement. In reality, these peoples' taxes will increase. Furthermore, the Quebec economy will lose out because eliminating the tax credit will reduce our cash inflows, which will immediately and significantly reduce our ability to invest in the economy. Finally, venture capital in Canada will also be affected. With less money to invest, there will be no choice but to significantly reduce investments in venture capital, and consequently, our fundamental role as a fund.

I will conclude my presentation by explaining the offer that we have made to the federal government.

● (1540)

[*English*]

Our proposal was as follows. In return for maintaining a tax credit and a review of the program in 2018, labour-sponsored funds in Quebec would firstly reduce the immediate cost for the government by 30%. This decrease could come from a cap on our cash inflows and, if necessary, a reduction in the rate of the tax credit.

Secondly, we would invest two dollars in venture capital for every dollar of tax credit for the duration of the venture capital action plan. More specifically, we proposed to the federal government to invest $400 million in private funds outside of Quebec and $550 million in private funds in Quebec—funds that would have the opportunity to invest across Canada.

Finally, we would also invest directly $1 billion in venture capital businesses in Quebec.

[*Translation*]

Labour-sponsored funds in Quebec have offered the federal government a total of $2 billion in venture capital, in exchange for reducing the tax burden and reassessing the situation based on the program's 2018 results.

In conclusion, I would repeat that if the bill is adopted in its current form, our cash inflows will be reduced by around $4.5 billion over 10 years, which means $4.5 billion less in retirement savings for Quebeckers. It also means there will be around $3 billion less to support SMEs or private funds over the next 10 years.

I respectfully entreat the committee to remove all provisions dealing with this tax credit from Bill C-4, and to urge the government to consider the offer of the Quebec labour-sponsored funds. At the very least, your committee could amend the bill to reflect the offer we have made to the government.

Thank you for your time. I am ready to answer your questions.

The Chair: Thank you, Mr. Bolduc, for your presentation.

[*English*]

Next we will go to Mr. Mintz in Calgary.

You have five minutes to make your presentation, please.

Dr. Jack Mintz (Director and Palmer Chair in Public Policy, School of Public Policy, University of Calgary, As an Individual): Thanks, Mr. Chairman. It's my pleasure to appear before the committee.

As you know, tax reform has been a topic near and dear to my heart, especially since I chaired the commission for Paul Martin, the Technical Committee on Business Taxation, back in 1998. We argued very strongly that it's very important to have a business tax structure that has internationally competitive rates but also neutrality, where we have a level playing field amongst different types of business activities to make sure we get a proper allocation of capital resources in the economy. I would echo many of the things that David Spiro said.

I wanted to point that out because I feel there were a number of changes made since 1998 that did a lot to bring rates down, but I think the governments could have done better in terms of achieving more neutrality. For quite some time I have also felt that the labour-sponsored venture capital corporation credit that has been in existence needed to get changed as well, as it had distorted venture capital markets.

I want to focus on this particular credit and start with some empirical observations that have been made by a number of papers. In fact, one of them is our own, which I'll show the committee, and it's one you can get off our website. It was by Jeffrey MacIntosh, entitled "Tantalus Unbound: Government Policy and Innovation in Canada". I recommend that the committee look at this paper because it provides a lot of interesting observations that are quite relevant to today's subject. This paper was peer-reviewed, and I think it expresses a lot of the state of economic knowledge as well as legal knowledge with respect to many policies that we use for innovation, including the labour-sponsored venture capital corporate credit.

To begin with some observations, this is one I found in an article I wrote. It seems that Canadian venture capital returns have been particularly low. In particular, this has been true of the LSVC credit. For example, in the past decade the average rate of return has been 3% per year, compared to the United States which has been 20% rate of return to venture capital. We've had a policy in place that hasn't worked very well. In fact, it's not surprising that many Canadian pension funds, when they do decide to invest in venture capital, often go to the U.S. where the rates of return are far better than what you find in Canada.

As Jeffrey MacIntosh notes, one of the reasons is the very small scale of many of the labour-sponsored venture capital credit firms. As a result, they have had very poor returns because of that low return. But even large ones have not done particularly well.

The Quebec Solidarity Fund, for example, as Jeffrey notes, over a 20-year period has had half the rate of return as treasury bills. Now if you're investing in more risk, you would expect a higher rate of return not a lower rate of return. This is actually a rather surprising result. In fact, in 2011, $8.8 billion had been invested in solidarity funds. However, only 4.9% had been what's called development capital assets, where you might find some investment in venture capital.

As Jeffrey MacIntosh notes, most of this capital has been funded in bonds, not very much in equity, of private companies. In fact, only 5% of the total solidarity funds have been invested as what you might think of as venture capital, according to Jeffrey MacIntosh in this paper that we published.

I think that is a very important result because it shows that the program has not worked as ideally as it should.

● (1545)

The Chair: Mr. Mintz, you have about one minute remaining.

Dr. Jack Mintz: Yes.

I'll very quickly say why there are three reasons for the problems of this credit, and why it should be abolished.

First of all, there's been a separation of control and ownership in the LSV and poor governance, and MacIntosh's paper goes into some detailed discussion of that. But, effectively, there has been a divorcing of the ownership and control of the funds. Therefore, the incentives have not been particularly good for better returns.

Secondly, there's been a crowding out of private equity investments by labour-sponsored venture capital firms. This has been shown in several papers that have been published in the past. But there is good reason for that, because what happens when you have a generous tax system that encourages investment in certain types of firms is you end up distorting signals in the market and you end up getting too many poor firms coming in and displacing the investments of good firms. That undermines the market as a result, which is one of the reasons why our venture capital market has had such poor returns, as I noted earlier.

Then, finally, it's not surprising that investors get such low rates of return because of the various tax benefits, including their RRSP deductions, which are piled on top of it. Really, they're only worried about the tax returns that they might get and pay less attention to the economic returns from getting their investments. Depending on the province, it can be almost three-quarters of the cost being covered. Therefore, it is really not sensible for our government to have a policy that is turning capital investments into poor rates of return.

Thank you.

The Chair: Okay, thank you.

We'll now go to Mr. Colborne, please, for your presentation.

Mr. Michael Colborne (Partner, Thorsteinssons LLP): Thank you.

Honourable members, thank you for inviting me to speak today on Bill C-4.

I'm a tax lawyer with a law firm that is Canada's largest law firm that practises exclusively in the area of taxation. I act for large and small mining companies both Canadian and foreign-based. That role I'm privileged to say has taken me around the world. It has taken me everywhere from the Atacama Desert to the far north of Canada. I spend a lot of time in remote and rural Canadian communities.

You can probably guess what I'm going to talk about today. I am going to talk about the aspects of this bill that deal with certain measures that repeal some deductions for mining companies. But before I get into that I'd like to start by saying it's fair to say, in fact it's fair praise to say, that this bill contains a lot of good measures. Like Mr. Mintz I'm a fan of tax neutrality. I am actually a fan of the invisible hand, and I do see the benefit of a broad base and a low rate. However I'm not an economist. I'm a simple lawyer and in some circumstances I can be convinced that there are exceptions to these rules and they should be made for circumstances where it's merited.

One of these I share with long-standing government policy is the marriage that we've had in place since at least 1972, and indeed in other forms before that. This measure is something that we call accelerated capital cost allowance and we also have accelerated deductions for certain types of other investments made by mining companies in relation to the construction of new mines.

Essentially what these measures do is allow you to take your capital out before you share the profit reward with the government in the forms of tax. These rules are being proposed to be repealed by the budget and I'll be magnanimous about this and say that the government is being very generous in terms of the way they're phasing the rules out. They recognize the fact that the timelines to build mines are long and a significant capital decision has been made long before the decision to repeal the rules was made.

I find it a bit ironic though that the proposal is made at a time when build costs are at an historical high and while mill prices, which are always volatile, are perhaps more volatile than ever in a situation where we have Canadian companies looking at investing in very mature areas like Canada where projects require very complex engineering and a lot of capital, and are very risky.

I think the historical reason for these rules is pretty clear in the record going back to 1966. You can read the Carter Commission and there are lots of reasons for these, but ultimately the government settled on these rules because they recognized that it was a good policy to provide an incentive for people to invest in capital-intensive, highly risky ventures in remote areas in rural Canada. They are a deliberate and conscious departure from tax neutrality. I think that government after government has realized to date that this departure is merited.

The reasons for the departure stated in the budget papers are that the repeal of these rules puts mining on the same footing as the oil and gas industry and it furthers the government's environmental objectives. I'm not an economist but I can tell you anecdotally that I don't think that we're comparing apples and oranges when we compare conventional oil and gas, or even oil sands oil and gas, and hardrock mining in mature areas of Canada. I will leave that to experts to think about.

As for the environmental objectives it's not entirely clear to me what the correlation is. The government says this is to assist their medium-term goals for the use of inefficient fossil fuels. At the same time the government is doing what I think are very good things in terms of funding and encouraging work training and the like in communities that service mining. So we have two messages that are being given by the government here and I don't see how they correlate to environmental objectives.

It goes without saying that mining companies are very large investors in rural and remote Canada, northern Canada. They may be the very largest outside the oil sands. I have read, and I am told by my friends, that some advocacy groups purport that some of the mining companies in Canada are the largest employer of first nations persons. I can tell you by having gone to talk to mining engineers and dealing with communities in terms of the impact benefit agreements that the effect that these employers have in these rural communities is enormous.

I've seen the other side of it—

● (1550)

The Chair: Mr. Colborne, you have about one minute remaining in your opening statement.

Mr. Michael Colborne: I'll be brief. Mining companies have a lot of flexibility in terms of their capital allocation choices. Factors such as this, while unlikely to really enrich the government purse much, can tip the balance between investment here on the ground in Canada and elsewhere.

In conclusion, it is my hope that the repeal of these rules is done with the full knowledge that it is a deliberate change and rejection of long-standing policy at a time when that policy seems as relevant as ever. It likely will have an effect on remote communities across the country. Personally I can't see it being a positive effect.

Thank you very much.

The Chair: Thank you very much for your presentation.

We'll now hear from Mr. Hayos, please.

● (1555)

Mr. Gabriel Hayos (Vice-President, Taxation, Chartered Professional Accountants of Canada): Thank you, Mr. Chairman and committee members, for inviting the Chartered Professional Accountants of Canada to comment on Bill C-4, which implements certain measures from the 2013 budget. I'm pleased to be with you via video conference this afternoon.

In my role as vice-president, taxation, I oversee the activities of CPA Canada's tax committees, including the tax policy committee and the commodity tax committee as well as the Canadian Bar Association/Chartered Professional Accountants of Canada joint committee on taxation.

We are generally supportive of the bill. It introduces technical tax provisions that are focused primarily on protecting the tax base. They include restricting corporate and trust loss trading; broadening Canada's thin capitalization rules; ensuring that capital gains tax cannot be avoided by a taxpayer entering into transactions that are economically equivalent to a disposition of a property; eliminating unintended tax benefits related to leveraged insured annuities and leveraged insurance arrangements; clarifying legislation to respond to court decisions; and restoring the intended tax policy results in the areas of farm losses, non-resident trusts, and future reclamation costs.

As you can appreciate, these can be very complex issues. If I could make one observation, it is that the proposed legislation was released on September 13 and the comment period ended October 15. The bill was then tabled three days later. I think we all would have benefited from a longer period of time to fully analyze, digest, and comment on legislation of such complexity.

CPA Canada has provided comments on some of these provisions through written submissions of the CBA/CPA Canada joint committee, including derivative forward agreements, synthetic disposition arrangements, and amendments to the thin capitalization rules.

Our comments were of a highly technical nature and detailed our concerns that in many instances the provisions are too broad in application. Consequently, they capture circumstances that do not appear to be intended by the government's public policy objectives. The joint committee will continue to work with Finance to modify these rules appropriately while ensuring that the tax base is protected.

We note that Bill C-4 makes certain changes to the capital cost allowance rules. Our comment here is focused on what has not been done. We believe that in future capital cost allowance rates should be reviewed for all classes of equipment so that they correspond to the true economic life of the asset. Updating CCA rates would encourage manufacturers and others to invest in the most modern, productivity-enhancing equipment available, thus ensuring their competitiveness in a truly global economy.

Finally, I would like to comment broadly on the introduction of various anti-avoidance rules in Bill C-4. We support these changes, but they open up the broader issue of anti-avoidance rules and tax evasion. Last week, CPA Canada released a white paper entitled “Corporate tax evasion, avoidance and competition: Analyzing the issues and proposing solutions”. I believe all members of the committee have been sent a copy of this paper.

The topic of tax evasion versus legal tax planning and the related concept of corporations paying their fair share of tax is big and is getting bigger. In fact, the OECD is working on behalf of the G-20 to develop global solutions aimed at stopping tax evasion. Our white paper offers some food for thought to Canadian policy-makers and influencers, and I commend it to you. We would be pleased to return to this committee sometime in the future if you decide you would like to explore the issues of tax evasion and tax planning.

Mr. Chairman, I wish you and your colleagues well in your deliberations on Bill C-4, and I look forward to your questions.

Thank you.

The Chair: Thank you very much for your presentation.

[*Translation*]

I will now give the floor to Mr. Caron for five minutes.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you very much, Mr. Chair.

My first question is for Mr. Bolduc.

Concerning the offer you made to the federal government, you said that you offered, if the government went back on its decision to eliminate the tax credit, to invest $2 billion directly over 10 years in the federal venture capital action plan, and cap the number of shares you would issue to reduce tax spending.

Is that correct?

Mr. Yvon Bolduc: Yes.

Mr. Guy Caron: When did you make this offer to the government and what was its response?

Mr. Yvon Bolduc: It was during a consultation session. There were two consultations. The first was in July. We submitted an official written offer on October 15.

Mr. Guy Caron: And what was the government's response?

Mr. Yvon Bolduc: We have not had any feedback on the subject.

Mr. Guy Caron: No response?

Mr. Yvon Bolduc: Not at all.

Mr. Guy Caron: Not even an acknowledgement of receipt?

Mr. Yvon Bolduc: They sent us an acknowledgment of receipt, but no discussion has been started on the proposal.

Mr. Guy Caron: You asked the government to go back on its decision concerning the tax credit, but were you prepared to make compromises?

Mr. Yvon Bolduc: Certainly. We were ready to cooperate with the government and, in fact, that was the spirit of the proposal. We think the federal venture capital action plan is a good thing for the venture capital industry. However, the fact that the program replaces what we have been doing in this area for several years effectively takes away a source of shared investment as well as an important...

● (1600)

[*English*]

leading source of fund of funds capital for independent funds in Canada.

[*Translation*]

In fact, that is what Canada's venture capital and private equity association said. That is what the government is eliminating. You have to see what that means. It is all well and good to have theoretical academic analyses, but on the ground, you have to see what will happen. If the fund has 615,000 shareholders, it must mean that we are doing something right. Our returns must be respectable.

Mr. Guy Caron: I am trying to understand the government's thinking. Initially, it gave only $400 million to the federal venture capital action plan. Over a period of 10 years, $400 million will have been invested.

Mr. Yvon Bolduc: That is correct.

Mr. Guy Caron: You suggested investing $2 billion in the activities of this plan.

Mr. Yvon Bolduc: Yes.

Mr. Guy Caron: Knowing that the government wanted to eliminate this tax credit, you asked it to in fact reduce it by 30%.

Mr. Yvon Bolduc: Yes. We felt that, for the government, the tax credit was not really effective from a venture capital point of view. So we agreed to spend $2 in venture capital for every dollar of the tax credit. The fund is mainly concentrated in Quebec, but we reached an agreement with the Quebec government to make all investments made outside of Quebec in funds outside of Quebec eligible. It would also be possible to invest funds that we support in Quebec in venture capital outside of Quebec, while making these investments comply with the 60% rule.

Mr. Guy Caron: In that case, what would become of the federal government's venture capital action plan and the $400 million that will be invested over 10 years?

Mr. Yvon Bolduc: Once again, we believe that it is a matter of cooperation. Both sources of capital must be maintained.

[*English*]

Why not keep two sources of capital available?

[*Translation*]

One source of capital is working well. We have invested over $2 billion in venture capital. Can you name anyone else in Canada who has done that? We have invested $2 billion over the last 10 years. In venture capital alone, the last 3 years have given our shareholders a 9.7% return on their investment, whereas Thomson Reuters says the average return was 2%.

We are doing better than the other venture capital funds in Canada, and yet this source of capital may be withdrawn. In regard to funds that will be available, we still don't know if that matter has been settled or not. We are told that it has been. We have shown that we are able to provide capital to the venture capital industry all over Canada, and now this may be replaced by a program that has not been set up yet. No one knows exactly how the program will work nor if it will produce the expected results. Why not maintain these two sources of capital, at least for the next 7 to 10 years, after which we can decide if adjustments are necessary?

The Chair: Thank you.

Thank you, Mr. Caron.

[*English*]

Mr. Saxton, please, for your round.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Mr. Chair.

Thanks to our witnesses for being here today.

My first questions will be along the same lines and on the same issue, and that is the labour-sponsored venture capital tax credit. My first questions will be for Professor Mintz.

Professor, you've been quite critical of the labour-sponsored venture capital tax credits. In fact, in your opening remarks, you said that not only have these credits been ineffective in generating more venture capital, but they have also helped to finance poor projects that should have never been funded in the first place. That's a fairly negative review. Can you explain why, in your opinion, these tax credits are not achieving their intended results?

Dr. Jack Mintz: As I tried to say in my opening remarks, the rates of return to venture capital firms have not been particularly good. In fact, I would say the policy is broken in Canada, as we've had such a poor performance. I think we have to remember there's a difference between what the shareholders get as a rate of return and what the economy gets.

The shareholders will look at all the tax benefits they get on top of the economic returns that they might get from an investment in venture capital. But if you look at the actual rates of return, without taking into account taxes, the tax credits, and the RRSP treatment as well, the system does not actually generate very good returns. In fact, they're much inferior to what you find in the United States.

I think there are a number of reasons for that, as I've tried to explain. There have been a number of papers that have made it very clear that there's been a crowding out effect, that we've been squeezing out perhaps better performers in the market. I think it's been a policy that has not worked well. Theoretically, you end up encouraging too many poor projects coming into the market because of the way we subsidize equity, which is an important signal to the market.

● (1605)

Mr. Andrew Saxton: Then, in your opinion, are these funds primarily tax driven?

Dr. Jack Mintz: Absolutely.

When you look at a rate of return that's barely 3% for 20 years, and even for a solidarity fund it's been an inadequate rate of return over 20 years—only half of the treasury bill rate—surely we're not doing very well, especially compared with the United States, where you get far better rates of return on venture capital.

There's no question in my mind that we need a completely new approach to what we're doing. Trying to direct funds into low rates of return is not exactly healthy for the Canadian economy because we have to use resources that are taken away from others that could be better invested in the economy.

Mr. Andrew Saxton: In your opinion, then, people are simply investing in these funds to get the tax credit?

Dr. Jack Mintz: Primarily, because the actual economic returns are pretty poor on average.

Mr. Andrew Saxton: Are you familiar with the government's new venture capital plan?

Dr. Jack Mintz: Yes, I am, to some degree. I don't know all the details, since they weren't completely announced in the budget.

Mr. Andrew Saxton: Right.

In your opinion, can you tell us what would be a good plan to replace this?

Dr. Jack Mintz: I think one of the things we have to remember is that pension funds and others can't take advantage of the labour-sponsored venture capital credit, so there is a need for a new approach in Canada. When I chaired the savings commission for the Government of Alberta in 2007, we observed that one of the key differences between the United States and Canada was the lack of scale. With scale, you would get more experts, like scientific experts, who are involved with funds.

One of the successes in the United States has been these large-scale venture capital funds that have been operating there. To the extent that you can encourage a larger scale in achieving venture capital management, I think you might be able to start pushing the system into a far better one than we have currently.

I'm hoping that perhaps these partnership funds that some of the provinces have been doing, as well as what's been proposed by the federal government, might be the approach to achieve that. But I think we need some careful evaluation of that point.

Mr. Andrew Saxton: Okay. Thank you, Mr. Mintz.

Very quickly, Mr. Bolduc, there's been some testimony today against labour-sponsored funds and I'll quote from you:

[*Translation*]

“If ever the credit were to disappear, my message is that the fund is on solid ground [...] We have $9 billion in assets, not debts. Everything belongs to our shareholders.”

[*English*]

If things are so solid, why do you still need that tax credit?

The Chair: A very brief response. We are over time.

Mr. Yvon Bolduc: Allow me a few minutes here.

[*Translation*]

The fund's primary mission is to encourage people to save for retirement. Then its goal is to invest 60% of that money in economic development and job creation in all sectors of economic activity, that is to say in eligible companies, usually SMEs, all through the region, and to encourage innovation, productivity, and the creation and preservation of jobs. That is the fund's mission.

We project that if the tax credit disappears, there will be a decrease in incoming funds. Our mission of economic development will be reduced drastically. A study carried out by Deloitte and Secord shows that approximately 16,000 jobs will be lost per year and 400 SMEs will lose our support. Over a 10-year period, retirement savings will drop by $4.5 billion, at a time when saving for retirement is an enormous problem in Canada.

Our solution is to encourage retirement savings and redirect that money towards supporting economic development. In this sense, I am not just talking about venture capital, but also conventional capital. However, that is what is currently being eliminated. There are assets...

● (1610)

[*English*]

The Chair: Sorry to interrupt, but we are way over.

Colleagues, just as a reminder, you do have to allow enough time for witnesses to answer.

We will come back to this subject later on, I'm sure, but I do have to go to Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Mr. Chair, you shouldn't say that you “have” to go to Mr. Brison; you should indicate that you're “delighted”.

The Chair: With pleasure, I go to Mr. Brison.

Hon. Scott Brison: Thank you.

On the change to the labour-sponsored venture capital tax credit, the CVCA, representing the industry across Canada and also representing the companies that have received funding and investment, has come out very clearly against this change. The CVCA doesn't represent only labour-sponsored venture capital funds; it represents also venture capital funds like Round13 Capital, with John Eckert and Bruce Croxon, and all of these funds that are private sector funds that invest in innovation.

Given the challenges faced by the venture capital industry in Canada right now, is it not terrible timing to actually withdraw funding at a time when the industry's already struggling? What could be the effects of these changes on biotech and IT discovery five years, ten years, fifteen years out?

Mr. Yvon Bolduc: Well, I think you're absolutely right; the Canadian Venture Capital Association sees the elimination of the tax credit as being bad news, as being probably not the wisest decision to be made at this time. Why? Because we've become over the years a very important source of capital for VC in particular, and that has been acknowledged by the players in the industry.

We've been able to restructure, particularly in Quebec, a very strong industry. That places Quebec, in a table that was prepared by Thomson Reuters and based on the statistics of Thomson, in third rank worldwide if Quebec were a country. If we look at Ontario, where the tax credit has been abolished, they're trailing at the back here. We can table these documents for the committee.

My point is why not learn from what we've been doing right in Quebec and apply it across Canada? Why not find a solution that would be Canadian-based, where we would be able to continue to contribute to the development of the industry in Canada?

You know, we've learned a lot over the past 10 years. From that learning, I think we can certainly make the country benefit and the industry benefit. The CVCA is in accordance with that. We've become co-investors. We are not there to crowd out the money. We're co-investors, and we're a leading source of fund of funds capital.

Hon. Scott Brison: How important were labour-sponsored fund investments in early-stage technology-type deals over the last few years? It's my understanding, and I think CVCA has presented evidence, that there are deals, a lot of deals, important deals, that would not have been closed without the labour-sponsored funds participation. So these companies, these technology, biotech companies creating future wealth and innovation for Canadians, would not have been funded.

Mr. Yvon Bolduc: Just to give you an example, in the venture capital action plan program there was a decision made to support four funds, three of which we have started. Lumira, CTI, and Real Ventures were supported by the venture capital action plan. The other fund is Summerhill, and they were talking to them.

That shows that we're probably making good decisions in that field. Otherwise, I don't know why the venture capital action plan would have decided to go with those funds.

● (1615)

The Chair: You have about 30 seconds left.

Hon. Scott Brison: The point is that these investments in Atlantic Canada, and also in places like Saskatchewan, are nationally important.

To Mr. Colborne, I have just a final point on the changes to the mining tax approach. Would this imperil Canada's role...in the financing of 80% of the mining transactions in the world over the last 10 years? Could this have an effect on that success in the future?

The Chair: Just a brief response, Mr. Colborne, please.

Mr. Michael Colborne: It may. I think the greater risk is that the decision to employ capital in-ground, usually in existing mature mining areas, may be imperilled. I think that's the greater risk.

The Chair: Thank you.

Thank you, Mr. Brison.

I'm going to go to Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thank you very much, Chair.

Thank you all for being here today. This is a very exciting session. I wish I had a lot more than five minutes and I would love to have an hour with each of you to go over all the fine points.

I do want to focus my questioning on Mr. Spiro.

Our government, as you know, is committed to a fair tax system and we've been very earnest in closing as many loopholes as we can possibly identify. There are some that we closed in Bill C-4, which have been overly exploited in the last number of years—somewhat outdated—for example, synthetic dispositions and leveraged life insurance arrangements.

Could you comment on what those loopholes were costing the federal treasury? And how important was it to actually close those?

Mr. David Spiro: Well, Mr. Chair, I believe the Department of Finance would have all the numbers in terms of taxes to be recovered respectively, as a result of these changes, of plugging the loopholes, which I believe is an important part of preserving the integrity and fairness of the entire tax system. The government has been very diligent over time in addressing those kinds of concerns.

I think there are some measures in Bill C-4 that are anticipatory. The Department of Finance has picked up signals, either through the Canada Revenue Agency and its relationship with them, or on their own, that certain things might be on the verge of taking off in terms of fiscal effects. Others are simply things that have been in effect, like the leveraged life insurance schemes. Those have been used for many years and I'm sure the cost of that has been significant over the last number of years.

Mr. Mark Adler: Was the use of these loopholes widespread, from your experience in the field?

Mr. David Spiro: I know from my own experience the leveraged life plans for investors were certainly quite popular.

Mr. Mark Adler: Okay.

The bill also gives CRA a three-year extension to reassess the foreign income verification statement. Could you comment on how important that would be for CRA to reassess people who right now do not fall under that regime but who subsequently will? As well, how important will that be for closing, again, another avenue of tax avoidance?

Mr. David Spiro: As you know, the Canada Revenue Agency administers and enforces the Income Tax Act. They have a daunting task, especially when taxpayers do not fulfill obligations imposed on them under the Income Tax Act, particularly with respect to assets that they own offshore that may produce income that's taxable in Canada, because they are Canadian residents so all their worldwide income is taxable in Canada, sometimes with credit and sometimes not. But in any event, they have to report all of that income.

That form, T1135, which is called the foreign income verification statement, is an important part of that effort in terms of enforcement and tracking assets and income.

In Bill C-4 it has been proposed to extend the audit period, essentially, the period that the Canada Revenue Agency has to look at the taxpayer's affairs for a particular year. If the taxpayer hasn't reported income from a specified foreign property in their return for the year, and hasn't filed that form T1135, or hasn't filed it with all the required information on it, that then extends the audit period effectively for three years from the date on which the form was filed or was filed properly. That's an important enforcement tool for the CRA to have in its tool box in order to track down foreign income that should be reported on Canadian tax returns.

● (1620)

The Chair: There is one minute remaining.

Mr. Mark Adler: From your practice, have you seen a lot of cases that would verify that a lot of people are taking advantage of that loophole, if you will?

Mr. David Spiro: I think people are taking this obligation very seriously. I think the government is beefing up the form itself to require more detailed reporting and more specified sources of income. So I think people have taken heed of that step and are being very diligent in terms of reporting their foreign-based income.

Mr. Mark Adler: More resources would be needed to enforce that provision.

Mr. David Spiro: Yes, with the additional time given for reassessing, I think that's also of assistance to the CRA.

Mr. Mark Adler: We've had a number of organizations appear before committee that claim to be not-for-profit organizations. Is there a requirement for not-for-profit organizations that claim a profit in a given year to pay tax on that?

The Chair: Make this a very brief response, please.

Mr. David Spiro: They may no longer be a not-for-profit organization if they are in business and making a profit. That may actually take them out of that scheme.

Mr. Mark Adler: It may take them out of the not-for-profit scheme. Thank you.

The Chair: Thank you, Mr. Adler.

[*Translation*]

Mr. Côté, you have the floor for five minutes.

Mr. Raymond Côté (Beauport—Limoilou, NDP): Thank you, Mr. Chair.

Mr. Bolduc, I came to realize the importance of your investment fund when I learned that it included approximately 10,000 investors in the riding of Beauport—Limoilou alone. These investors are people who are putting money aside for their future, their retirement. I can assure you that when it was publicly announced that the tax credit would be eliminated, people reacted very quickly. I was paid some visits at my office and the things people said to me cannot be repeated in committee. Obviously, when someone's assets are affected, we can expect them to react strongly.

I would like to discuss another topic, that being your impact on SMEs and employment. You mentioned Deloitte's study. What I find fascinating is your countercyclical role in a recession. You help keep companies afloat and preserve jobs. I think that is probably one of the most positive aspects, especially given the comments made by the former secretary of the Treasury of the United States, Lawrence Summers, a few days ago. Among other things, he acknowledged the failure of austerity measures.

Mr. Yvon Bolduc: I can give you as an example the credit crisis that we went through in 2008-2009. I think that everyone around the table remembers that tragic and very serious period that was extremely important. While banks and other private funds withdrew from the markets, our fund committed $1.3 billion. How did we manage to do it? Our size, for one, and our mission, which is to invest in a countercyclical fashion. It also consists in supporting companies other funds would not. We take somewhat greater risks, but there is the tax credit to offset that. This is what balances the system.

The tax credit is an incentive to save, but it also helps the individual investor understand and accept the risks we take. That is the raison d'être of the tax credit, and that is what allowed us to invest $1.3 billion when no one else would. This allowed Quebec flagship companies, who benefited from our support, to go knocking on the doors of other financial institutions. Indeed, our capital is patient, unsecured and independent of the banks' capital. It completes the financial ecosystem in Quebec. That's why it is important and why 200 entrepreneurs stood up in the chamber of commerce to ask why such a measure had been taken.

It's important to understand that in Quebec the everyday person sees the importance of our contribution. I am in favour of jobs, innovation, business start-ups, retirement savings and financial literacy. In my opening remarks I mentioned that 200,000 Quebec taxpayers had invested money in an RRSP for the first time thanks to the fund. That is a huge number.

● (1625)

Mr. Raymond Côté: That is indeed a considerable amount.

In your opinion, will the government's proposed venture capital action plan completely make up for the venture capital you will lose as a result of eliminating the tax credit in Canada? As you said, you are not limited to the province of Quebec, we are talking about all of Canada.

The Chair: You have 30 second left.

Mr. Yvon Bolduc: We would like to work hand in hand with the Canada economic action plan. We propose investing heavily outside of Quebec, with the government of Quebec's permission. We believe it is a winning solution for all three parties. Both industry and government come out ahead, because there is a reduced tax credit; everyone contributes to make it a success. We also win because we can continue doing our work, which is to encourage savings and investments in Quebec, of course, but also outside of Canada, and at a lower cost.

Mr. Raymond Côté: Thank you.

[*English*]

The Chair: *Merci, Monsieur Côté.*

We'll go to Mr. Keddy, please.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you, Mr. Chairman.

Welcome to our witnesses.

I want to pick up a bit more from Mr. Bolduc on the labour-sponsored venture capital tax credit. You're tossing out some large numbers there, on investment that's been made, especially at an important time in a downturn in the economy.

I guess the question has to be asked, what's the return to labour on that? Is it more than simply going after the tax credit, or is this an investment?

Mr. Yvon Bolduc: Let's take the last five years, which have not been easy years. I think everybody would agree with that. Our overall profits were over $2 billion. The increase in the share value has been $6.20—a 28% increase in the value of the shares. We've been able to increase the number of net shareholders because people who are retiring are leaving the Fonds and new shareholders are coming. Over the last five years, we've increased the number of shareholders by 45,000.

That tells me we must be doing something right, and we must be doing our mission properly; otherwise, we would not have this kind of undertaking by the workers in Quebec. Of the shareholders, half are unionized and about 46% are not unionized. It's not a question of labour. It's become a fund recognized in Quebec as doing its job.

Mr. Gerald Keddy: I appreciate that, but I guess my question was, if you looked at the same investment and a return on that investment, what's the rate of return?

Mr. Yvon Bolduc: Overall, in the last three years, we've provided a return of 5.5% to our shareholders.

Mr. Gerald Keddy: That's the number I was looking for, thank you.

Mr. Yvon Bolduc: That’s 5.5% to our shareholders, without the tax credit. If you compare this performance with our mission, which is to invest principally in Quebec in SMEs with unsecured capital, that's a good return.

Mr. Gerald Keddy: One quick question because I do have others, but it's 5.5% annually?

Mr. Yvon Bolduc: Annually, that’s correct.

Mr. Gerald Keddy: Thank you.

To the chartered professional accountants, I want to pick up on the same line of questioning that Mr. Spiro answered. It's a great challenge for any government to make sure that taxpayers are confident in the tax system and that the tax system has a huge degree of integrity, quite frankly. One thing we've been doing to improve that public confidence is to try to track down Canadians who are investing their money abroad, oftentimes hiding that money abroad. I think we've done that.

Bill C-4 extends, in certain circumstances, the reassessment period for taxpayers who have failed to correctly report a specified foreign property on their annual income tax return. We heard from Mr. Spiro on that.

I'd like to hear from the Chartered Professional Accountants of Canada, on reporting specified foreign property and how those changes should affect that reporting.

● (1630)

Mr. Gabriel Hayos: In general terms, we're supportive of the changes and the new form that's come out. The form T1135 implements that. The three-year time period is important, to give the government more time to track down the people who are not complying. I think our only concern with the rules is, like a lot of these, that they have to be careful. The form creates quite an onerous reporting obligation on those who want to comply. There aren't sufficient exceptions for what is called “specified foreign property” actually located in Canada and under the control of the Canadian brokerage or banking industry.

Mr. Gerald Keddy: I think we can all appreciate—

Mr. Gabriel Hayos: I think our only concern here is to make sure they are dealing with the people who are the problem and not with the ones who are trying to comply.

Mr. Gerald Keddy: I appreciate that, and we all appreciate the importance of keeping the forms reasonable.

Do you have any idea on the numbers? We've heard all different numbers put forward here. Any idea on the number of Canadians who are actually not complying, or who are attempting to comply?

Mr. Gabriel Hayos: No, I don't have any statistical information on that.

Mr. Gerald Keddy: Thank you.

The Chair: Thank you, Mr. Keddy.

We'll go to Mr. Rankin.

Mr. Murray Rankin (Victoria, NDP): Thank you, Mr. Chairman, and welcome to all of our witnesses.

I'd like to take up where Mr. Adler left off with you, Mr. Spiro. I appreciate your being here. I know of your work at Dentons LLP, and your expertise in tax litigation is well known.

We're very concerned on this part of the committee about tax havens and international tax, in which you have a great deal of expertise. You talked in your remarks about the thin capitalization rules, and this bill purports to broaden them. You talked about its extension to non-resident trusts. But you also said there needed to be some additional fine tuning so these would not be offensive from a policy perspective.

I'd like any insights you might be able to provide about whether we're on the right track, and how we might do a better job on enforcement in respect of tax havens.

Mr. David Spiro: In my remarks, my intention was to mention the fine tuning, and this goes on in a number of different venues including the joint committee of Mr. Hayos's group and the Canadian Bar Association—lawyers and accountants with expertise in tax. They sit down, and they work very closely with the Department of Finance to fine-tune these rules so they don't exceed the scope of the policy.

In other words, if there are transactions caught by these rules technically that don't offend any policy, and therefore shouldn't really be caught by those rules, then there needs to be some amendment or modification, and those take place over time. Those are the technical amendments the Department of Finance people often come in and testify about, and they do this in the case of Bill C-4 as well. There are a number of those cleanup measures and amendments in addition to what was announced in the budget.

I wasn't speaking specifically about the thin capitalization rules. I was speaking about any of these amendments where sometimes the scope of them exceeds the policy or the mischief the Department of Finance seeks to address.

Mr. Murray Rankin: I appreciate that.

Now I'd like to ask a question of Mr. Hayos of the Chartered Professional Accountants of Canada. Thank you for being with us as well.

In your written report, you said a couple of things: one on process, and one on substance. You mentioned in your remarks these complex issues. The proposed legislation was released on September 13, and the comment period ended a month later. The bill was tabled three days after that, and you gently said you could have benefited from a longer time to analyze a piece of legislation of such complexity. I appreciate your bringing that to the attention of the finance committee. It is extremely frustrating when complex matters are not subject to adequate time for review, and I appreciate your association's raising that.

In the content part you addressed after that, you said you were concerned about the provisions in the context of synthetic disposition arrangements. You were also concerned that the amendments to the thin capitalization rules might be so broad in application as to capture circumstances that do not appear to be intended by the government's public policy objectives.

I wonder if you could spend a little bit more time on what you meant by that.

● (1635)

Mr. Gabriel Hayos: It is similar to what Mr. Spiro said: these arrangements as written in legislation often capture normal commercial transactions as opposed to capturing transactions where a real disposition is disguised as not being one. There are transactions that can fit in that are not dispositions and are treated as such.

Mr. Murray Rankin: I see.

Mr. Gabriel Hayos: In the joint committee, we made a submission on these concerns. I can bring them to the committee's attention if you would like to read the joint—

Mr. Murray Rankin: Thank you for your white paper on corporate tax evasion. You talked a bit about that in your remarks as well. You said the topic of tax evasion versus legal tax planning and corporations not paying their fair share of tax is big and getting bigger. Then you referenced the work of the OECD in that regard.

I wonder if you could talk a little bit more about any insights your organization might have on how we might address the issue of unfair tax planning, or tax evasion where the use of international tax havens is engaged.

Mr. Gabriel Hayos: First, I would tell you that I think Canada is actually doing on its own, unilaterally, a very good job. We have a general anti-avoidance rule, and you see the rules that are introduced in Bill C-4. I think the issue on an international basis is the ability of these different countries to collaborate where there are asymmetries between the rules of one country and another. At the moment I think the OECD has, while it's an ambitious plan, the only approach that will properly address this area.

In my view, Canada has to be very careful to not jump the gun in this area because, at the end of the day, there's still an issue of our tax system being competitive with other countries, and we want to make sure that we do things collaboratively and in a coordinated way. So that would be my comment to you.

Mr. Murray Rankin: Thank you very much.

The Chair: Thank you, Mr. Rankin.

We'll go now to Mr. Van Kesteren, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair, and thank you all for being here. It's a very interesting discussion.

Mr. Mintz, I was watching you while Mr. Bolduc was making his comments and his plea for continuance in the program that the government has. I want you to just air your concerns about that because I want to hear the other side. He makes a compelling argument, so I wonder if you could just tell us what we're missing here.

Dr. Jack Mintz: In terms of what's been missing, first of all, let's go back to the issue of neutrality. People make investments. Right now we have a general RRSP system that encourages people to invest in whatever they wish to invest in, but in the case of the labour-sponsored venture capital credit we have a special credit that is provided for investments that are supposed to go to venture capital. However, it doesn't necessarily go into venture capital. In fact, again I encourage you to read Jeffrey MacIntosh's paper, but just to quote from him, he said that with $4.2 billion—and this is in 2011—of the $8.8 billion that Solidarity had, $1.5 billion was invested in public companies—you should be getting a relatively good return if you're just making the market return on that—hedge-fund units, $216 million; bonds, $2.3 billion; and money-market instruments, $154 million.

The other part of the money, $4.27 billion, which are called developmental capital assets, are not all venture capital. In fact, in the end only a small part of that is actually invested in the private equity of smaller firms. Then the question is, why do we give a 15% credit for that to encourage savings? Why not just give 15% for everybody to invest savings if that's the idea?

The problem is, what we're doing is directing funds into relatively low rates of return, and that goes back to my point about venture capital. We're trying to encourage more venture capital in this country, and venture capital is risky. If you were making a relatively good economic return on venture capital, then because of the risk you have to earn more than, let's say, a treasury bill, which is a government riskless rate of return of say just 3% or 4%. We should be making in venture capital at least 8% or 10% on average over time, but that's not been the experience in Canada. We've been getting money in venture capital firms that are earning very low rates of return. Clearly, the policy is not working. It's not creating jobs as much as we think. In fact, if you just have money that's being invested in public companies or bonds, that's not really doing much either.

If we're misdirecting funds into low rates of return, then we're actually hurting productivity in this economy because what we're doing is directing capital into the wrong investments, and that's why neutrality is often very important because the market will sort out what are the best places to invest. If we feel that we need to play out some direct action on venture capital, and I think those are questions that need very careful examination, I think what many experts have concluded over time is that scale is very important. What's been achieved so far has been a lot of very small VC firms earning very low rates of return, and we're not achieving what we really think we were hoping to achieve. So it's been a failure of policy, and Ontario recognized this in getting rid of the same credit, and some other provinces haven't had it, including my own, Alberta. Frankly I think we do need a better approach, and this credit is not the one that's going to achieve it.

● (1640)

Mr. Dave Van Kesteren: I was listening to Mr. Colborne, who hasn't had a chance to speak. I'm sorry, I wanted to go to you, but I'm running out of time quickly.

You mentioned the unguided hand, and I think what you're saying, Mr. Mintz, is that we need to let the market follow where the best rate of return is going to.... It's just a natural occurrence, and we shouldn't mess with that. Do I have that right?

Dr. Jack Mintz: Generally that's the best policy. I've been very supportive over the years of things like the RRSP system and the tax-free savings accounts. These are general policies. They don't tell people how to direct their funds and they'll direct them properly. I think this particular incentive has been harmful to the venture capital industry because a lot of pension funds and others will not invest in venture capital in Canada because the rates of return are so poor.

Mr. Dave Van Kesteren: Thank you.

The Chair: Thank you, Mr. Van Kesteren.

Mr. Caron, we have two minutes if you want it. I'd like the time to change over as well.

Mr. Guy Caron: I understand. Thank you very much.

Mr. Mintz, I read Mr. MacIntosh's study and I must admit that it reflects a very poor understanding of what labour-sponsored venture capital funds did in Quebec.

You are concentrating on the return rate and trying to see that it's not only venture capital but that's the mandate of the fund. You were saying it hasn't been successful but it has been shown that if you are looking all the OECD jurisdictions, Quebec has a share of its GDP as the third-largest investment and venture capital under management after the U.S. and Israel. It's almost three times as high as Canada's and four times as high as Ontario's, so in that aspect it has been very successful.

I think it also explains why there is so much support for this especially from the Fédération des chambres de commerce du Québec, the Chambre de commerce du Montréal métropolitain, and Manufacturiers et exportateurs du Québec.

[*Translation*]

All of these organizations are against eliminating the tax credit because they understand the role these funds play in Quebec, especially their countercyclical role.

[*English*]

Ontario followed the prescription to scrap that tax credit after 2005 and as a result Ontario's share of Canadian venture capital has dropped dramatically since 2005. It is at 36%. With a much lower GDP Quebec is investing as much as Ontario in terms of venture capital.

The Chair: Mr. Mintz, can you respond to all that?

Dr. Jack Mintz: First, I think if you ask which policies are effective in Quebec you will find quite a few of them have been adopted by the provincial government with respect to research and development technology. We have to remember a whole bunch of policies have been directed at venture capital there. So you have to sort that out in terms of what is or is not effective.

As far as the drop goes in Ontario, yes, it has dropped. It has dropped in other provinces too. But I think something more endemic is going on in the field. I think it particularly has to do with the fact that the rates of return on venture capital have been particularly poor. Again, one just has to look at the Solidarity balance sheet. You may criticize Jeffrey MacIntosh's paper but I can tell you the referees didn't. Certainly those balance sheet numbers suggest there's not as much money going into venture capital as you think, so maybe that policy is not working very well.

● (1645)

The Chair: Thank you. *Merci*.

I want to thank all our witnesses for being with us here in Ottawa and Toronto and Calgary, and for participating in our deliberations on Bill C-4.

I will now suspend the meeting for two or three minutes and we'll bring our next panel forward.

● (1645)

(Pause)

● (1650)

The Chair: I call this meeting back to order, the tenth meeting of the Standing Committee on Finance, continuing our deliberations of BillC-4.

I want to thank our second panel for being here today.

We have, first of all, from the Canadian Restaurant and Foodservices Association, the executive vice-president, Joyce Reynolds. Welcome.

[*Translation*]

We also have Mr. François-William Simard, Director of the Federation des chambres de commerce du Québec.

Welcome.

[*English*]

We have, from GrowthWorks Atlantic Ltd., the president and CEO, Mr. Thomas Hayes. Welcome.

From iNovia Capital Inc., we have the president, Mr. Chris Arsenault.

We are scheduled to have, by video conference from British Columbia, Wildsight's executive director, John Bergenske. I'm hoping he's going to show up here as we deliberate.

Each of you will have five minutes.

We will start with Ms. Reynolds.

Ms. Joyce Reynolds (Executive Vice-President, Government Affairs, Canadian Restaurant and Foodservices Association): Thank you, Mr.Chairman.

It's nice to be back so soon. I appreciate the opportunity to talk to the committee today about parts 1 and 2 of the second budget implementation bill.

I'm going to keep my remarks very brief so maybe you'll catch up some time. I'm going to focus my remarks on the new penalties and criminal offences to deter the use, possession, sale, and development of electronic suppression of sales software that is contained in this bill.

I would also like to say that we are very supportive of the increase to the lifetime capital gains exemption, and of indexing it to inflation.

As we presented to the committee just this past Thursday, the restaurant industry is made up of thousands of small to medium-sized businesses—over 80,000 of them, as a matter of fact. They collectively serve 18 million customers every day and they provide rewarding jobs and careers for more than one million Canadians. Restaurants are the number one source of first-time jobs, and one third of us have worked in a restaurant at some point in our lives.

Many people have a romantic notion of opening their own restaurant, but reality hits when they see the incredibly long hours that restaurant owners must work, including holidays and weekends when the rest of us are out having fun. They give us a place to gather with friends, family, and colleagues, or sometimes just a place to grab a quick cup of coffee on the way to the office or a snack for the kids after school. They nourish our communities.

Restaurant owners are honest, dedicated business owners who pay their fair share of taxes and they want those who try to cheat the system to face the appropriate penalties.

A few years ago, the Quebec government addressed concerns around fiscal evasion by requiring restaurants to have sales recording modules on every cash register. This added a huge financial burden and red tape to thousands of law-abiding businesses to catch a few who were trying to cheat the system.

The Quebec government offered some financial assistance to business owners to install the black boxes. This was in response to concerns we raised, but restaurants had to bear the cost of the printers, as well as the cost to reconfigure their existing computer systems and point of sale registers. There is also the ongoing expense of maintenance of the equipment, which is considerable, along with ongoing training of staff to achieve compliance. These moneys could be put to better use creating jobs than penalizing companies that are already compliant.

Quebec's legislation also requires that every customer be provided with a printed paper receipt whether they want it or not. In businesses where speed of service is critical to success, this has resulted in significant service slowdowns, not to mention the environmental impact of millions of pieces of paper daily that customers don't want and leave behind.

We ask the federal government for a fairer and more targeted approach to fiscal evasion, an approach that would go after the source of the problem rather than the hard-working business owners who pay their taxes and operate in full financial transparency.

We support measures in Bill C-4 that introduce significant penalties and make it a criminal offence to create, supply, and use electronic sales suppression software. We think this is a smarter approach that gets at the root of the problem rather than unfairly targeting one industry. These measures will rightly target the underground economy, not the above-the-ground economy.

We look forward to working with government and the Canada Revenue Agency to ensure that our members are aware of these new measures.

Thank you.

● (1655)

The Chair: Thank you very much for your presentation.

[*Translation*]

Mr. Simard, you have the floor.

Mr. François-William Simard (Director, Strategy and Economic Affairs, Fédération des chambres de commerce du Québec): Thank you, Mr. Chair.

Members of Parliament, members of the Standing Committee on Finance, Ms. Bertrand sends her apologies for not being able to come here this afternoon because of an unforeseen event, so I am replacing her today.

First of all I would like to thank you for allowing the Fédération des chambres de commerce du Québec to present its point of view today on the gradual phasing out of the federal tax credit for labour-sponsored venture capital funds. This is a critical issue for our members. Our organization represents close to 150 chambers of commerce in Quebec, 60,000 companies and 150,000 business people. Furthermore, 1,200 companies are directly linked to our federation as members. Many of them have become what they are today thanks to the support of one of the workers' funds. That is why we are asking the federal government to uphold the current tax measures, and to not replace the workers' fund tax credit by venture capital programs.

We adopted this position after having consulted our members. Recently published studies and statistics confirmed to us that we are on the right track. These studies and statistics clearly demonstrate that workers' funds are essential for economic development in Quebec and that they significantly contribute to collective prosperity.

Since 1990, savings invested in companies have created and maintained close to 500,000 jobs in Quebec. As you know, startup businesses, which face a number of challenges including growth, profitability and access to capital, were able to count on workers' funds as a source of financing in addition to that of financial institutions.

Many of our members therefore benefited from the support of these funds, allowing them to start doing business and gradually become profitable and flourishing companies. According to data taken from a 2010 study by the firm SECOR-KPMG and Regional Data Corporation, each year workers' funds invest close to $750 million in companies that have a major impact on the economy. That means investment in over 2,200 Quebec companies, including small, medium and large-sized businesses.

I would like to give you two examples of companies that have benefited from these funds. The first one is Enerchem International Inc., a company that operates two plants in Quebec and creates biofuel and ecofriendly chemicals from waste. It benefited from an investment by the Fonds de solidarité FTQ of $4.3 million from 2002 to 2008. The second one is the Osisko gold mine in Malartic in Abitibi, which, since 1999, has benefited from $33.3 million to start up its open-pit mine. We are well aware that access to capital is crucial in the exploration and startup phase of a mining project.

These figures speak for themselves, but that's not all. Governments can also benefit from this arrangement. They recover the tax credits given to fund shareholders within three years through increased economic activity.

In addition, workers' funds have been useful over the years in educating thousands of people about finances. Thanks to these funds, workers have made investments and improved their financial situations. What's more, it encourages workers to save. Out of almost 4 million workers in Quebec, close to 1.8 million of them do not pay into a group pension plan. We should therefore be thrilled that the funds are a savings option chosen by 600,000 people in Quebec, which is 15% of the labour force. These are positive points that simply cannot go unnoticed.

In conclusion, I would like to underscore that maintaining the tax credit for workers' funds unites Quebeckers, whether as citizens, employees or employers.

Through these remarks and other communications we've had over the last months, I hope to have demonstrated that the business community speaks with one voice to call on the government to reconsider its position and uphold tax credits for workers' funds, and to work together to find a solution.

Thank you for your attention.

● (1700)

The Chair: Thank you for your presentation.

[*English*]

Next we'll go to Mr. Hayes, please.

Mr. Thomas Hayes (President and Chief Executive Officer, GrowthWorks Atlantic Ltd.): Thank you, Mr. Chair, for the opportunity to appear before you and your colleagues today to address important issues that relate to the venture capital ecosystem in Canada.

In its March 2013 budget, the federal government announced a surprise phase-out of the long-standing 15% federal tax credit for Canadian investors who have chosen to support budding entrepreneurs across Canada who want to start and grow their businesses. This federal tax credit has resulted in the levering of billions of private dollars of risk capital, from millions of Canadians, being invested in thousands of early-stage companies since the early 1980s.

In fact, since the program was created by the Mulroney government, well over one third of all venture capital available in Canada has come from labour-sponsored venture capital funds in British Columbia, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Prince Edward Island, Newfoundland and Labrador, and, of course, Nova Scotia, my home province.

The decision to phase out the federal tax credit came as a complete surprise and shock to the VC industry in Canada. There was no consultation with entrepreneurs, no consultation with existing shareholders in labour funds, no consultations with fund managers, and to my knowledge no consultation with the provincial governments, which, in certain cases, also provide a matching provincial tax credit to investors in these funds.

Since this decision was announced by the federal government in March, the industry players most affected by this change have worked hard to convince the federal government of the negative unintended consequences of this phase-out. Many documents have been prepared by knowledgeable persons on the negative impact this will have on the supply of capital to our entrepreneurs and the negative impact this will have on the retirement savings of many Canadians who invested in these funds. Reports have been submitted; letters have been written; petitions have been presented; and briefings with senior officials of the Department of Finance have been held, all to no avail.

The Canadian Venture Capital Association, an industry group representing all parties in the Canadian VC ecosystem, has gone on record as opposing this phase-out and has clearly articulated why this decision should be reviewed and a better solution should be found before serious damage is inflicted in the marketplace.

We are told the federal government is changing its approach to ensuring that an adequate supply of venture capital is available to Canadian entrepreneurs and companies by directly investing $400 million of new capital into the industry. Many of us in the industry are strongly supportive of this initiative known as the VCAP program and we remain supportive. But this support for VCAP was never based on the idea of phasing out the federal tax credit of 15%, which generates much-needed private investment dollars that can be used to grow and diversify our Canadian economy. Think of it: the federal government puts up 15¢ on the dollar to raise an additional 85¢ on the dollar—that's what I call significant leverage at minimal risk to the federal treasury. And remember, no one forces Canadian retail investors to invest in this asset class. Tax credits aside, retail investors have a wide array of investment choices, including thousands of mutual funds, available to them, and fund managers must demonstrate a reasonable expectation of return on investment to investors or they'll go elsewhere with their savings. With this announced phase-out of the tax credits, ongoing fund liquidity becomes a major challenge and how this affects the fortunes of the existing companies in our portfolio is a serious issue.

Perhaps, in closing, I can use a quick example to illustrate the point I would like to make. In 2007, the fund I manage made a $500,000 investment in a Halifax-based early-stage company in the pharmaceutical space called Sampling Technologies Inc. This company was started by three local pharma reps who came to the conclusion there had to be a better way to distribute drug samples from doctor to patient. Drug companies can now provide physicians with STI smart cards rather than physical samples. The patient takes the card to the pharmacy where they are issued the sample at no cost. This new system cuts costs, improves patient safety, and provides real-time information to the drug company on the distribution of their samples. STI—

● (1705)

The Chair: You have one minute.

Mr. Thomas Hayes: —just like every other early-stage company struggled in the first few years trying to find its feet and, as a result, we invested a second round of $1.5 million to provide them further runway to achieve success. The product offering was refined; new products were developed; new senior managers were hired; and the company has now blossomed into one of the most innovative and fastest-growing marketing solution companies in Canada. Employment increased from seven when we invested to well over sixty well-paying, high-value jobs in Nova Scotia. I think it's fair to say that without our equity capital in those early years this company would not have achieved the results it did, including recently attracting $17 million in new capital from a Toronto-based private equity firm. Our $2 million investment was recently turned into a $6 million exit for our fund shareholders.

With the phase-out of the federal tax credit, our ability to make follow-on investments like this one in existing portfolio companies may be seriously compromised, forcing these companies to look for other sources of capital under duress. These companies may have to accept punitive terms from new investors or not raise the necessary capital at all, thereby negatively affecting the asset value for our fund shareholders who are generally middle-class Canadians. How ironic would it be if one of our companies had to accept a new round of funding at a lower valuation from one of the new VCAP funds sponsored by the federal government? That's what I would call a negative transfer of wealth.

I have some other comments I'll make, hopefully, in the Q and A session.

Thank you.

The Chair: Okay. Thank you very much, Mr. Hayes.

[*Translation*]

Mr. Arsenault, the floor is yours.

Mr. Chris Arsenault (President, iNovia Capital Inc.): Good afternoon, Mr. Chairman and members of the committee. My name is Chris Arsenault and I am the CEO of iNovia Capital.

I would first like to thank the members of the committee for inviting us here today. We are very pleased to share with you our comments and concerns concerning the bill's provisions aimed at gradually eliminating the labour-sponsored funds tax credit.

I will briefly introduce iNovia Capital so that you can see where we fit in the ecosystem of Canadian venture capital.

iNovia is currently one of the largest venture capital fund managers in Canada. We manage some $270 million allocated among three different funds. The most recent one, Fund III, was closed just under two years ago and invests in information technology startup companies.

Since iNovia capital was launched in December 2001, it has invested in 47 Canadian high tech startups. Of that number, 27 are still active and remain in our 3-fund portfolio. These three companies now employ 1,250 people. They have attracted over $330 million in Canadian and foreign capital and have generated over $260 million in revenues in the past 12 months. There is no doubt that most of these companies would not have been launched or succeeded as well without the involvement of iNovia and our partners.

Our first investment fund of $46 million was created in December 2001, with the Fonds de solidarité FTQ holding around 21% of the capital owing to an investment of $10 million. Fourteen university spin-offs have been created.

Our second fund was created in April 2007 from a total of $112 million from some 30 investors. Some of the largest investors in this fund are the Fonds de solidarité FTQ Fondaction and FIER Partenaires, of which the Fonds de solidarité FTQ and Fondaction are major partners. Taken together, these three entities account for over 30% of our Fund II, which has invested in more than 17 Canadian startups since 2007.

Finally, our Fund III was launched in December 2011, using $111 million committed by 27 investors. Teralys Capital is our largest investor and partner, having put in $50 million, or 45% of the fund. The Fonds de solidarité FTQ holds a 33% partnership in Teralys Capital.

● (1710)

[*English*]

As you can see, iNovia is a very active investor in early-stage technology companies in Canada. The highly innovative companies we back are creating high-paying jobs and are making Canada a place to build industry leaders.

I offer a few examples. We backed and enabled the growth of a company called CoolIT, based in Calgary. Now with 20 employees, it is already establishing itself as a worldwide leader in computer liquid cooling. A four-year-old company out of Montreal, Beyond The Rack, now has over 300 employees, generating over $100 million in revenue. That company has three VC funds, all backed by the Fonds de solidarité FTQ.

iNovia, as is the case for many other Canadian VC funds, has been very fortunate in being able to benefit from the direct and indirect financial implications of the labour-sponsored funds. I believe it's safe to state that none of our funds, II or III, could have existed without the direct or indirect financial implications of the Fonds de solidarité FTQ and Fonds d'actions.

Labour-sponsored funds, and more particularly the Fonds de solidarité FTQ, have become a vital part of Canada's venture capital ecosystem. iNovia fully endorses the opinions expressed by Canada's Venture Capital & Private Equity Association in its July 23 letter addressed to the honourable Minister of Finance, Mr. Flaherty. With all due respect, we believe the federal government has understated the importance and impact labour-sponsored funds have on the Canadian economy. We therefore respectfully request that the government reconsider its proposal to progressively eliminate the federal tax credits of labour-sponsored funds as proposed in the 2013 budget.

Mr. Chairman, I wish to thank you and all committee members for listening to iNovia's position on this matter. It will be my pleasure to answer any questions.

The Chair: Thank you very much for your presentation.

We'll begin members' questions.

[*Translation*]

Mr. Caron, you have the floor.

Mr. Guy Caron: Thank you very much, Mr. Chairman.

Mr. Simard, you represent the Fédération des chambres de commerce du Québec, but you are not the only one to support the Fonds de solidarité FTQ and Fondaction, that is, the Quebec model.

Other organizations, such as the Board of Trade of Metropolitan Montreal, the Regroupement des jeunes chambres de commerce du Québec, Manufacturiers et exportateurs du Québec, as well as Canada's Venture Capital and Private Equity Association, are all opposed to a decision to phase out the federal tax credit.

Why do you think that is?

Mr. François-William Simard: I don't know if one could say there's unanimity but one can certainly say that in Quebec there's a rather broad consensus within society, within political parties, within the public and within businesses that labour-sponsored funds have had a very significant impact on regional economic development, among other effects.

Unfortunately our board is not necessarily the best example of good governance standards because it is made up of approximately 80 individuals. However, one of the advantages of having so many members is that we are in a position to take the pulse of businesses all over Quebec. When we raised this issue, people were very clear: the federal government must reconsider its position quite simply because these funds do not play the same role that, for example, strictly private funds play.

It is important to understand the distinction. First, the investment horizon is not at all the same. The investment horizon for strictly private funds is approximately five years, whereas the horizon is much more long term for labour-sponsored funds. That makes a very big difference for business startups that are much riskier in the beginning.

I think there are two more factors that explain this consensus. Labour-sponsored funds are present throughout the regions and they invest throughout the regions. I have a list of the numerous investments that have been made in all areas of Quebec and that I would be happy to share with you later.

Furthermore, these funds involve all sectors. Rather than focus on specific sectors, these funds truly focus on all sectors. This also makes a difference for some businesses that need funding but that aren't necessarily within a trendy sector.

Mr. Guy Caron: Thank you.

Mr. Arsenault, I was very impressed with your remarks. You drew an extremely interesting connection between the work done by labour-sponsored funds, and the labour-sponsored funds in Quebec, and private capital funds.

Earlier today we heard from Mr. Jack Mintz. He told us that he doesn't see any reason to have this tax credit. First, it intrudes into the market and prevents the private sector from developing. Second, he says the rate of return of Canadian labour-sponsored venture capital funds is lower than that of American venture capital funds because of these tax credits and the involvement of labour-sponsored funds. Could you give us your perspective on that?

• (1715)

Mr. Chris Arsenault: I read the report and I quite simply do not see what that has to do with us. It does not reflect our reality. In Quebec, this fund was a key partner from the very beginning, more than 13 years ago.

[*English*]

When I think about the Fonds FTQ, I've never seen them as a competitor in any deal. I saw them as a partner, and a transparent partner. For us, their substantial investment in each fund has enabled us to actually do what we do. We are a top-tier fund in North America, and we can compare ourselves to the best returns in North America.

Okay, we still have a long way to go. Canada has a long way to go. This is innovation and technology, and I'm sorry, but if you want to build category leaders, you need to have people who understand the long-term prospects of it, and long-term investments require long-term commitments of 10 to 12 to 13 years from limited partners. In our case, the Fonds have enabled us to actually play that role.

[*Translation*]

Mr. Guy Caron: My last question will be brief, Mr. Simard.

Mr. Sean Keenan, the director of the Sales Tax Division in the finance department appeared before this committee, and I asked him if the government had done any impact studies for this measure. I wanted to know if there had been an impact study in terms of the level of risk capital in Canada, in terms of the level of savings of individuals in Quebec, and whether a comparative study was done on the impact of the offer made by the workers' funds, which called for the government to not proceed with this measure. He stated clearly that there had been no impact study for those three cases. What do you think the impact of the government's measure would be in those three cases?

Mr. François-William Simard: An impact study has not been done. Unfortunately, I missed the beginning of the testimony of the previous guests, but I heard Mr. Bolduc mention that if the federal government decides to go forward and uphold this decision, for them, I believe it means that they will lose 16,000 jobs. I am not sure if he said that 400 or 4,000 businesses would no longer have access to these funds. I will let you figure out the numbers, but for us, this is very worrisome.

We have always said it. Of course, we are more active in the Quebec Federation of Chambers of Commerce and in Quebec's National Assembly, but no matter which decision is made, we are asking for some economic impact studies to be done. For several years, we have been repeating ad nauseam that this is very important to us. We would be very pleased if we could obtain this data, if we could get it from an independent organization like the federal government. We think that it would support our arguments.

The Chair: Thank you very much.

Thank you, Mr. Caron.

[*English*]

I'm going to go to Mr. Keddy, please.

Mr. Gerald Keddy: Thank you, Mr. Chairman.

Welcome to our witnesses.

I have a couple of questions for Ms. Reynolds, with the Canadian Restaurant and Foodservices Association.

As a point of clarification, in your testimony you talked about the requirement of giving a receipt. Can you explain that a little further? I can tell you as a consumer, any time that I don't get a receipt I assume I've made a contribution to the underground economy.

Ms. Joyce Reynolds: In our industry we have 18 million transactions a day.

Mr. Gerald Keddy: Of course.

Ms. Joyce Reynolds: When people are purchasing their coffee and their muffin in the morning most of them actually don't want a receipt. They don't want to take the receipt and they leave the receipt behind.

Mr. Gerald Keddy: I appreciate that, but you have to explain this to me because I seldom pick my receipt up.

There is no purpose for me to pick that receipt up, but I know when I have a transaction and there's a receipt involved, that I've not made a contribution to the underground economy. As a business person, I would want to have a receipt so I can tally all my information up at the end of the day and know exactly where I am.

How can we get away and not have a receipt?

Ms. Joyce Reynolds: We have no objection to a requirement that you have to provide a receipt upon request. We have absolutely no problem with that. They will always provide a receipt upon request. The issue is that you have to give it to the customer whether they want it or not. That's the issue.

Mr. Gerald Keddy: Often we don't want it.

Ms. Joyce Reynolds: Yes, that's right.

Mr. Gerald Keddy: The other part that you touched on in your testimony was about the zapper technology that changes the receipts. We know this technology is out there.

We've tried to close in on that as a government. What has the restaurant association done on your part, as the industry that is directly affected by this?

Ms. Joyce Reynolds: We've worked very closely with Canada Revenue Agency.

Mr. Gerald Keddy: And we appreciate that.

• (1720)

Ms. Joyce Reynolds: We've come up with guidelines and checklists for our members which we put on our website. Then we distribute it to our members on occasion, the five things that Canada Revenue Agency is looking for when they inspect your business.

We try to increase awareness and educate our members about what the responsibilities are in terms of their reporting.

Mr. Gerald Keddy: On the issue of tax fairness and the issue of making sure everyone plays by the same set of rules, I was a little shocked learning and doing research into this zapper technology that actually businesses often have the technology in place and they don't even realize it's in place. We have to come up with some type of a much more simple test for people to know, for businesses to know, whether they're compliant or non-compliant.

Have you looked at that? Have you tried to talk to your individual membership about that?

Ms. Joyce Reynolds: I have to tell you, when this fiscal evasion issue first surfaced in Quebec we would have questions put to us about how prevalent zappers are in the industry. We have absolutely no idea.

For us, it's very difficult. We know that a lot of our members were very concerned about the cost of the solution that Quebec put forward, but no one is going to voluntarily tell us that this is something they've purchased from their point of sale supplier, or something like that. It's our belief that it's out there, not only in our sector, but in all retail.

We're prepared to work with the government to get at the source.

The Chair: You have 30 seconds.

Mr. Gerald Keddy: Maybe just a comment, Mr. Hayes, and hopefully you'll get a chance to reply to this to someone else.

When we look at the LSVCC tax credit there are a number of players out there who have a differing opinion than yours. The Organisation for Economic Co-operation and Development, as well as venture capital industry stakeholders...there are a number of OECD group countries that are looking to shut this venture capital source down.

The Chair: It's not really fair to the witness to make a statement and then not allow him to respond.

Mr. Gerald Keddy: Fair enough.

The Chair: I'll come back to you, Mr. Hayes.

Mr. Gerald Keddy: I'll catch you later.

The Chair: Okay, thanks.

Mr. Brison.

Hon. Scott Brison: Mr. Hayes, earlier today Jack Mintz spoke of a crowding out of private investments in the venture capital industry. People I know in the venture capital industry have not described a crowding out by too much investment in the last while; in fact, they have described a dearth of investments. It's been a real challenge.

You referred to the leverage of private capital. Your message is exactly the opposite of Professor Mintz's message, and you're in the industry. The chamber of commerce, representing venture capital firms and companies within which they have invested—Mr. Arsenault, again, an industry participant....

What do you think of Professor Mintz's assertion that there has been a crowding out of private investment by labour-sponsored funds, particularly given your figures that one third of Canadian VC is actually labour-sponsored venture capital?

Mr. Thomas Hayes: Mr. Mintz is a very well-known and highly regarded economist, but I guess it proves that we don't get it right 100% of the time. Some of this misinformation that has been out there for years is outdated and factually incorrect.

There is a dearth of venture capital. The issue here is access to capital for entrepreneurs, and that's exactly why the federal government is taking measures to address it through the VCAP program. At the same time, to remove one of the prime sources of risk capital in the Canadian economy makes no sense from my perspective, and from a policy perspective.

The crowding out argument that we have heard over the years is just not factual, and this is exactly why the Canadian Venture Capital Association has strongly opposed this move. On the one hand, the government is taking a positive step in creating the VCAP program, but all of the positives of that could be offset by the negative impact, the unintended consequences, of removing the federal tax credit. The leverage is tremendous. It's 15¢ on the dollar from the federal government which attracts 85¢ of additional investment.

● (1725)

Hon. Scott Brison: When will the VCAP program be fully operable and firing on all cylinders?

Mr. Thomas Hayes: That's a good question, and that's a concern that many in the industry have. In fact, some would suggest that the industry has gone on hold in terms of the private sector players waiting for these details to be announced.

I honestly don't know. We've been very supportive of the program and we encourage the federal government to move along as quickly as it can. But it could be a couple of years before cheques are ready.

Hon. Scott Brison: Would the organizations that each of you represent support not moving forward with these changes to the labour-sponsored venture capital tax credit until the VCAP is fully operable? That would give us more of an opportunity to study and consider the potential impact.

Should the government at least put on hold these changes until the VCAP program is operable?

Mr. Thomas Hayes: I can only speak for myself. Obviously an ideal situation would see a reversal of the decision that the government announced in its March budget, but realistically I don't think that's going to happen.

From my perspective, I would like to see the Department of Finance agree to review the implementation plan they have currently outlined, to sit down with the industry and work out a system that would provide us with more runway and a softer landing, that would protect the interests not only of the portfolio companies we have currently invested in but also the middle-class Canadians who are shareholders in these funds.

We ask that you extend the runway, extend the transition period, which would allow a much better outcome for everyone involved.

Hon. Scott Brison: Thank you.

Ms. Reynolds, the EI account will balance in 2015; we have seen this from the most recent economic update. But the government wants to freeze the EI premiums where they are until at least 2017.

Would it be good for your industry if we were to immediately reduce EI premiums after the account goes into balance, as opposed to keeping them high for the next several years?

The Chair: Just give us a brief response, please, Ms. Reynolds.

Ms. Joyce Reynolds: Yes.

The Chair: Okay, that's brief enough. Thank you very much.

I'm going to take the next round. I want to follow up with you, Mr. Hayes. We've been dealing together for years and I've always appreciated your input, your advice. I don't think it's fair, though, to ask taxpayers to provide both indirect and direct support for the venture capital sector.

My impression from discussions with you over the past number of years is that, even prior to the fiscal financial crisis in 2008, the venture capital sector was not doing well and some changes needed to be made.

There was the 2011 Expert Review Panel on Research and Development. From this panel the government has taken the approach that it ought to redirect more support into direct support. That's why the venture capital plan is as it is.

Would you prefer that the capital plan be stopped and we simply revert to the indirect support? I don't think it's fair to ask the small business owner or the restaurant owner to provide support for the venture capital industry in both the direct and indirect measures. At least it's not fair to pursue this to the extent that it seems you're asking for today.

Mr. Thomas Hayes: Well, I'm on the board of the Canadian Venture Capital Association. For the past three years or so, we've been encouraging the federal government to look at additional ways to assist in creating a greater supply of VC. There has been a dearth of VC available to Canadian entrepreneurs over the last number of years.

Mr. Mintz is correct when he says that the returns in the VC industry generally have not been great in Canada over the last number of years. That is not attributed to the labour-sponsored model; that's private funds throughout Canada. That is changing. In our own fund, our rates of return have changed significantly in the last couple of years. I think the labour model is a very effective tool for unleashing private capital. As I said, 15¢ generates $1 in investment. How much more leveraged can you get with that model?

I compliment the federal government for also trying to bolster and introduce new measures through VCAP. But whenever we were involved in talking about other measures the federal government could take, in all of the consultations across the country, we never thought for a moment that the government would remove what we consider to be a very effective program to introduce an untested one. It was announced two years ago, and we still haven't seen a cheque written to an entrepreneur seeking capital.

● (1730)

The Chair: But with respect, you say the model works. My understanding, from our conversations over the years, is that the model was not working. The finance department minces no words whatsoever. They call this an inefficient and ineffective tax subsidy.

You heard Jack Mintz, in the earlier panel, say that the rate of return is low, and he also mentioned how it's invested in normal equities. There are some very strong criticisms of that model, so the government is responding by saying that it's not fair. I'll point to Ms. Reynolds and her organization. It's not fair to tell the average taxpayer or small business owner that he's going to continue to provide additional support indirectly and directly to the venture capital industry. We have to make choices here.

There is a plan in place to provide $400 million of direct support. Would you say we should cancel that and go back to indirect support?

Mr. Thomas Hayes: I'm a believer in the labour-sponsored model and the accomplishments it's achieved over the years. I think there are a lot of myths and there is a lot of misinformation.

If Mr. Mintz were going to use rates of return simply, he'd do away with the BDC venture capital program, if you looked at their rates of return over the last 10 years. Is that what he's suggesting? I don't think so.

The federal government has always been actively involved in—

The Chair: But as you and I both know, there has been a lot of criticism of the BDC venture capital plan as well, which is why this new fund is being established, in part.

Mr. Thomas Hayes: Look, I'm not here to criticize the new fund. I've been very supportive of that initiative. But it's an unproven model, whereas in the labour fund model we have a proven model that works. Over one third of all of the venture capital that's been made available to Canadian entrepreneurs has been generated by that model.

We just led a round of financing for a New Brunswick company. We haven't announced it yet. We approved it last week. We're putting in $1 million of investment and we're bringing three other funds to the table, for a total round of $4 million. That's what we do: we bring other investors to the table from within the region and outside the region to help entrepreneurs grow their businesses.

The Chair: Mr. Hayes, I have a challenging time squaring that with this model that has been in place for years and years, with a lot of the comments that we've had—with discussions you and I've had earlier—about the venture capital industry in Canada. I'm struggling with that.

Mr. Thomas Hayes: The discussions I've had with you earlier were around some of the challenges, the structural challenges, of the labour model when it comes to the annual limits. When the program was created in the 1980s, the RRSP deduction was $7,500 and the labour fund deduction was $5,000. The RRSP deduction today is around $22,000, I believe, and the labour fund model is still at $5,000, so the issue was in the distribution channel. Investment advisors didn't want to support the product because they didn't earn enough commission in selling it. Those were the kinds of things that I was suggesting needed to be changed.

The Chair: Okay.

We'll have to continue that discussion. My time is up, unfortunately.

Colleagues, we now have our witness from Kimberley, British Columbia. I think I have agreement from the parties.

Mr. Bergenske, could I ask you to give a brief opening statement? We're sort of halfway through our panel here. If you give a brief opening statement we'll then return to questions by members. Could you make a two-minute opening statement?

● (1735)

Mr. John Bergenske (Executive Director, Wildsight): Okay, that's fine.

First of all I want to make sure the members have the maps I forwarded, which are somewhat helpful for this discussion.

The Chair: Yes, they do.

Mr. John Bergenske: Okay, great.

I had hoped to present a brief overview today of some of the history, but also some recommendations in terms of disbursement of the Dominion Coal Blocks. Very briefly, the coal blocks do lie in a critical wildlife corridor between the two world heritage sites of Waterton-Glacier International Peace Park and our Rocky Mountain system that includes Banff. Because this area is seen as so critical to wildlife, and as a global opportunity to maintain wildlife populations in the Rocky Mountain system in the face of climate change, we feel that any disbursement of these particular lands is critically important. It is important that there be particular covenants placed on these lands.

Those concerns grow out of three specific areas that we've been looking at. The first one was the fact that the UNESCO mission of 2009 was very clear about the importance of this area and the need to minimize barriers to wildlife connectivity in that zone.

As well, it called for a moratorium on mining developments in the corridor. That was followed up in 2011 by the Flathead Watershed Area Conservation Act, which was legislated in British Columbia to ban mines, oil, and gas within the Flathead River. I note the federal government's announcement supported that and suggested that, should there be lands in the Dominion Coal Blocks sold, the areas within the Flathead would maintain that ban on development.

Thirdly, on the Species at Risk Act, which presently applies to those lands, we are very concerned that this application to federal lands be carried over to any change in the status. I think the other piece of important background is the Ktunaxa Nation, of course, is engaged in treaty negotiations with the Government of Canada and the Government of British Columbia at the present time. There's a responsibility to consult and reach accommodation with the Ktunaxa Nation before moving forward with changes.

Our suggestions in regard to any disbursement of those lands are that these particular pieces of background information have to be taken into account and actually addressed when that sale takes place. Along those lines, we're suggesting there are several options, the first of which is perhaps a conservation covenant on any of the blocks that should be sold that would include the conditions of the no mining, oil, or gas development within the Flathead watershed. Also...to fully apply sections 32 and 33 of SARA, on no harming, killing, or harassing of listed species, as well as section 58, the protection of critical habitat.

The issue in the Elk Valley itself is a very, very significant one. That is around selenium loading in the river. The provincial government in the spring of this year mandated the Elk Valley water quality plan, which is presently just basically getting rolling. That plan has at the table the governments of Canada, British Columbia, the Ktunaxa Nation, the United States, and the State of Montana. At present, the mandate for that plan is to make sure that there is no further loading and, in fact, that we reduce and gradually bring the health of the Elk River back in place. It's our feeling that sale of these lands could definitely jeopardize that plan, should there not be very clear conditions around selenium and cadmium nitrate loading included in the plan.

With that, I'll leave that in the hope that through questions we can get maybe a little bit deeper into that. I'm very interested in the location of the lands in terms of their importance to wildlife, but also in terms of what they mean economically to the region.

Thank you.

● (1740)

The Chair: Thank you very much.

We are going to go to members' questions with Mr. Rankin, please.

Mr. Murray Rankin: Thank you.

I'd like to welcome you, Mr. Bergenske, to our proceedings. I've long admired your work, formerly with the East Kootenay Environmental Society, and now as executive director of Wildsight. You're certainly a prominent environmental leader in British Columbia and I salute your work on this file as well.

There are the two coal blocks that are at issue. My first question is, are you referring to both of those—the northern and the southern one—in the same way? Would you apply the recommendations you've made to both?

Mr. John Bergenske: I think they do have to apply to both, but I think there is very much an opportunity, not only for both blocks, but for possible a subdivision of those blocks to look specifically at the values that are on those blocks and then to be able to apply the wildlife management conditions specifically to areas. The area in terms of selenium loading I think that would very much apply to all of the area and I think it's important to note that block 73, the smaller of the two blocks, is in fact totally surrounded right now by lands on which Teck operates, which is the major player in the coal blocks.

The other block, which is independent and would probably have the higher value in terms of wildlife, only has a portion of that block in which the coal values are seen on assessment to be very high.

Mr. Murray Rankin: So therefore it might be possible.... I understand your recommendations apply to both, but the conservation covenant certainly on the southern, larger block, you're arguing for that and for the application of section 58 of the Species at Risk Act, critical habitat, certainly on the southern block.

The selenium loading issue, though, is probably more pertinent to the northern block since it's surrounded by coal land anyway and would likely be the more likely of the two to be developed. Am I right about that?

Mr. John Bergenske: I think you're right. I think it has to be taken into account on both blocks should there be development, but certainly the likelihood of development is on the northern block. It also would likely not be until the distant future at which time we would hope the Elk Valley water quality plan would account for whatever was going to have to happen on that block.

Mr. Murray Rankin: You referenced the Flathead Watershed Area Conservation Act, the British Columbia statute. I was pleased that you also noted that the federal government seems to have supported that initiative. I'm wondering therefore if it's likely or conceivable...or if you're able to provide some current information about the status of the proposed Flathead national park and the relevance, if any, of this southern Dominion Coal Blocks land. Is the federal government talking about a Flathead national park and if so, would this be potentially included in such a park?

Mr. John Bergenske: The coal blocks themselves are not within the area of the park proposal in the maps that you've seen. The national park within the Flathead is a very important piece of core area for wilderness and wildlife, but the connectivity corridor, which moves up through the Rockies, is as important and it's where the Dominion Coal Blocks lie.

So there are two parts to the work that we're doing with the coalition of groups here and one of those is the national park itself and the other is the connectivity, which means there would be other types of activity taking place, but what we want to see on that land are certain types of covenants or basically a management plan that ensures that wildlife connectivity is maintained into the future.

The Chair: One minute.

Mr. Murray Rankin: All right.

I'd like to talk to you a little bit more about the problem of selenium loading. That's a general issue. *The Globe and Mail* had an article on it a couple of days ago and there is an Elk River plan being hatched. I'm not entirely clear, though, what you're saying the impact of the Dominion Coal Blocks disposition would be. What is your position on that?

● (1745)

Mr. John Bergenske: We've taken the position that we wanted to see the outcome from the technical advisory committee that's presently sitting in regard to selenium loading in the Elk River. If people have seen the article—and obviously you have—in the *Globe* it points out very much what our position has been and that is we are not wanting to see coal mining shut down in the Elk Valley. We think it's very important that Teck operate and over time bring into place control of the selenium. Should there not be any coal mining taking place and no one engaged, we fear that the history of 40 years of coal mining and the leachate that is there would not be sufficiently dealt with. As far as the piece on the Dominion Coal Blocks is concerned, we feel that will have to be part and parcel of any discussions moving forward. Teck has been clearly mandated to come up with guidance that will happen in coordination with the governments so they will have to meet that. So we are hoping that if there were ever development, we would have the mitigation plan in place before that took place.

The Chair: Thank you very much.

We'll go to Mr. Saxton, please.

Mr. Andrew Saxton: Thank you, Chair.

Thank you, Mr. Bergenske, for joining us via video conference, and also for providing your presentation to us. My first question is for you.

You are aware that any future potential development of either of these coal blocks would be subject to full environmental reviews; you are aware of that, correct?

Mr. John Bergenske: Yes, I am.

Mr. Andrew Saxton: Okay. Thank you very much.

I'd now like to ask a question of Chris Arsenault, who's been sitting there so patiently this whole time. I think he deserves to have some questions asked of him as well.

First of all, I'll go back to the LSVCCs, which is the hot topic today.

I'd like to quote from Professor Jeffrey MacIntosh, who couldn't join us today, from the University of Toronto. He says:

> LSVCCs have generated poor returns, displaced more effective private funds, and in net, have impoverished, rather than enhanced the Canadian venture capital industry.

I'd now like to quote from Professor Jack Mintz at the University of Calgary. He says:

> These credits have not only been ineffective in generating more venture capital, but they have also helped finance poor projects that should have never been funded in the first place.

The C.D. Howe Institute says:

> Providing tax relief to LSIFs has been, overall, a disappointing use of taxpayers' money.

The LSVCC is an example of an LSIF.

Finally, the OECD recommends the phase-out of the tax credits to labour-sponsored capital corporations

So there seem to be a lot of people speaking against these funds. There are obviously some who are here today who are speaking for them as well.

Do you believe that taxpayers are receiving sufficient value for their investment in LSVCCs? That's really the crux of this matter—value for taxpayers.

Mr. Chris Arsenault: Obviously I can only speak from our perspective, from iNovia's perspective, and my own.

I could add a quote, which is that on average, North American venture capital funds are not returning capital. Yet the few that are have created Google, have created Apple, have created every single technology company that we're using even in this room today. Therefore, without venture capital, you do not have that type of innovation that can come to bear.

Canada is late. We have lost ground with Nortel and with RIM to a certain extent. We need to up our game and we need to be more active in supporting our companies. More than 300,000 Canadians are based in the valley. More than 40 VCs are Canadian but working for U.S-based valley funds.

So when I wake up in the morning and look for the next entrepreneur to back, I look at the available capital that I have to fund these companies. It happens that, yes, the Fonds de solidarité FTQ and the Fonds d'action have been my biggest and best partners over the last 13 years.

From my perspective with regard to why we're delivering today, they've played a big role in that, and it is up to us to come up with backing the next generation of entrepreneurs in order to build these big businesses in Canada. If today you list the top 10 technology companies in Canada, you will notice that the majority of the capital raised by these companies is not from Canadian VC funds.

● (1750)

Mr. Andrew Saxton: Our government agrees, and fully recognizes the importance of venture capital. That is why we've come forward with a new venture capital plan, which I think you're aware of. In 2014, $400 million was dedicated to that in budget 2012.

So we're on the same page when it comes to venture capital plans and funds. The issue here is the allocation of scarce resources and whether taxpayers, through tax credits, are getting the best bang for their buck by allowing these tax credits to continue when so many people are arguing against them. That's really the crux—that or whether the money could be better employed somewhere else.

Mr. Chris Arsenault: Well, on average I cannot comment. I only look at the specifics. For me, the specifics are those who are actually delivering results. For me, it happens that, for iNovia and many of our co-investors here in Canada, we have labour-sponsored fund funding and partnerships.

So for us, it is important.

Mr. Andrew Saxton: Okay.

Now, you mentioned some success stories in the U.S., such as Google and others, that are the result of venture capital.

Can you name one major success that has been as a result of our tax credit? Has there been a Google in Canada specifically as a result of the tax credit?

Mr. Chris Arsenault: Well, the Fonds FTQ has won, I think four times over the last 10 years, fund of the year, backing the company that generated the most return to investors. Over the last 10 years, the Fonds has been one of the investors backing the most successful company out of Canada.

The Chair: Thank you.

You will have another chance for a round, Mr. Saxton, if you want to come back to it.

Mr. Andrew Saxton: Okay. Thanks.

The Chair: Madame Freeman or Monsieur Côté?

Monsieur Côté.

[*Translation*]

Mr. Raymond Côté: Mr. Chair, I want to make sure that Ms. Freeman can have the floor.

Mr. Arsenault, you worked very hard for us today. As I am the member for the Beauport—Limoilou riding, in Quebec City, I became familiar with the work of Quebec's Community Economic Development Corporation as well as that of the Local Development Centre. What really struck me about these two organizations, is that not only do they offer their expertise and invest money, they generate momentum, in other words, they ensure investments. In turn, this encourages other partners, specifically those in the banking sector, to get involved.

Could you describe to us the effect of labour-sponsored funds of the same type? It is not simply a matter of investing money, they also provide expertise and support entrepreneurs.

Mr. Chris Arsenault: It is important for venture capital funds to attract relatively large funds. In fact, the smaller venture capital funds do not perform as well as the more substantive ones. The more substantive Canadian funds are comparable to small American funds, but for Canada, $100 million is significant. Why? Because it allows the management team to spread the risk and support businesses that are performing well in order to achieve a better profitability ratio over time.

Attracting talent is the added value, besides money, that we offer to businesses. When it comes to our VCs, when there is an investment of $5 million, $10 million, $15 million, or $20 million into a $100-million fund, the added value resides in the fact that they can attract more funds and reach a high enough amount to do an initial closing and start to make investments.

As for me, I strongly support the VCAP program. I think that it is a very good idea. However, it is clear in my mind that it is up to the entrepreneur to make sure that that money generates a return. For example, iNovia closed out Fund II in December 2011. Since then, we have made 17 investments in Canadian businesses. It is important to be able to act relatively quickly.

Mr. Raymond Côté: How much time do I have left?

The Chair: You have two minutes left.

Mr. Raymond Côté: That is perfect.

Ms. Mylène Freeman (Argenteuil—Papineau—Mirabel, NDP): Could you leave me one minute?

Mr. Raymond Côté: Okay.

Mr. Simard, when it comes to the countercyclical aspect, I would like to talk about the free movement of capital, which was paralyzed during the last recession.

Could you tell us very briefly about how labour-sponsored funds were able to counter this paralysis in the business community?

Mr. François-William Simard: Obviously, you are quite right to mention the last economic crisis. However, to illustrate the importance of something that may alleviate a problem that is quite cyclical, I will provide you with an even more concrete example.

Things are not going very well in Quebec's mining sector. This is partly because the global marketplace has slowed, but it's also due to certain policies which may be less favourable to Quebec's mining sector at this time.

The FTQ fund has previously supported the mining company Osisko. But in the current context, I do not think a project like Osisko would find it as easy to move forward without the FTQ's Solidarity Fund. I remind you that Osisko needed $1.2 billion before generating a single dollar in profits. It is important to remember such things. Presently, the mining cycle is not very favourable which means that capital is much more difficult to obtain. In such a context, these are precisely the kind of funds that will help deal with the situation.

● (1755)

Mr. Raymond Côté: Thank you.

I will share my remaining time with Ms. Freeman.

Ms. Mylène Freeman: Mr. Simard, we have not yet touched upon workers' funds' investments in regions.

The FTQ's Fonds de solidarité and Fondaction have both created two sub-funds which focus their investments in less urban regions.

First of all, what expectations do you have with respect to the members of your regional chambers of commerce when it comes to these regional funds? Also, do you believe regions would be well served in terms of venture capital and development capital without the contribution of workers' funds?

Mr. François-William Simard: That decision by the government concerns the regional chambers of commerce. I would not use the word panic, because that would be overstating things, but this decision does give rise to concerns. But we should not mislead people either. Workers' funds will not cease to exist. However, some current investments may no longer be made given the new rules. There is some concern in that respect.

As to venture capital, certain studies were quoted earlier. It was said among other things that ill-considered projects should never have been financed by workers' funds. But any business or organization that makes investments has to deal with the funding of ill-conceived projects. That holds true in our own lives, unfortunately. Indeed, we all make bad decisions at times. Although this applies to workers' funds, it's equally true of other organizations. This bears mentioning.

The Chair: All right. Thank you.

Thank you, Ms. Freeman.

[*English*]

Mr. Van Kesteren, please.

Mr. Dave Van Kesteren: Thank you, Chair. Thank you all for being here.

I'm sure you're aware that the expression “my ship came in” is something that came from the old Dutch Indies shipping company and basically was probably the greatest venture capital that ever existed in the history of mankind. Of course, these ships would go out into the wild and they could get shipwrecked, they could get hit by pirates, but if that ship came in, somebody became an instant millionaire. Back in those days it was probably worth a whole lot more than our millions are worth today.

When I think about the concept, the very concept of virtually where capitalism grew from, it was from those institutions, and then it spread off from New Amsterdam that became New York and Wall Street and all that trading. There was that understanding that when somebody had an idea or a product, if one were to invest in that, the greater the risk, the greater the reward would be.

I think about what happened in 2008-2009, the meltdown in the United States with the real estate bubble, and I wonder—I really don't wonder too long—had they not instituted a policy to lend money to people who really could never afford to pay it back or could never imagine to pay it back, if that meltdown would ever have happened. I think the answer is obvious; it wouldn't. Fannie Mae and Freddie Mac existed as an arm of the government to move that project forward.

I guess what I'm getting at is that I'm still looking for a good example of when government.... I know government has a role to play, but when government starts to mess with the natural flow of money.... In other words, banks normally don't lend money to people who can't afford to pay it back, and people with money are averse to lending money to somebody if the return isn't such that it's going to be worth the risk. So I'm sorry that our other witness couldn't attend, because I am certainly not a scholar in this field. I only learn what I've learned in life and what I've observed.

I'm going to go to you, Mr. Arsenault. You mentioned companies...I think you said Microsoft and Google and a number of others. Do you think maybe that the money would have come regardless of whether or not there would have been...? I think in the United States there was, if my understanding is correct, no program like we have here. Would that money have flowed naturally? Did they simply not recognize it?

● (1800)

Mr. Chris Arsenault: The SVI program actually kick-started the whole venture capital industry in the U.S. Without the SVI program, you would not have a venture capital industry in the U.S. It's very similar to different programs from the federal and provincial governments here in Canada.

Yes, I do believe when we seed-funded a Toronto-based company, very *technologie très pointue*, and the advertisement and user profiling space, we seed-funded the company when nobody else was there, but we saw an opportunity. We had the relationship. We brought talent into that company and that company went from $250,000 in revenue to $2 million, to $13 million, to closing above $40 million in revenue this year. This is a Toronto-based company that's making its mark in the overall industry.

If we had not been there, yes, that company would not have seen the light of day, or would have seen it in another form.

Mr. Dave Van Kesteren: But that's not my question. I guess my question is, would you have seen that company to be a company that would have returned an investment, regardless of whether or not—

The Chair: A brief response, please.

Mr. Chris Arsenault: In all of our investments, we do believe the company will be returning a substantial amount of capital.

The Chair: Thank you. Thank you, Mr. Van Kesteren.

I want to thank all of our witnesses for being here on this second panel today, here in Ottawa and in British Columbia. Thank you so much for participating in our panel discussions on Bill C-4.

Colleagues, I will suspend for a couple of minutes, then we'll come back with the Minister of Finance.

Thank you.

● (1800)

(Pause)

● (1815)

The Chair: Colleagues, I call this meeting back to order.

This is meeting number ten of the Standing Committee on Finance. Pursuant to the order of reference of Tuesday, October 29, 2013, we are continuing our study of Bill C-4, A second act to implement certain provisions of the budget tabled in Parliament on March 21, 2013.

We are very pleased to have with us today the Honourable Jim Flaherty, Minister of Finance.

Minister, welcome back to the committee.

I understand that you will have an opening statement for the members. Then we'll have questions from your colleagues here.

Hon. Jim Flaherty (Minister of Finance): Thank you, Chair, and thank you for your excellent work as an interviewer in Edmonton.

The Chair: I've heard that those were the toughest questions you've had in over two years, apparently.

Hon. Jim Flaherty: I've heard that David Frost would be really worried—

An hon. member: You don't want the Nixon comparison, Mr. Chair—

The Chair: Okay. Order.

Voices: Oh, oh!

Hon. Jim Flaherty: Colleagues and members of the finance committee, I know you work very hard, and I appreciate what you do.

The consultations you do matter a lot in terms of the formulation of each year's budget, so I thank all of you for that. I know that you travel a lot and you're away from your families and it's not easy, so I thank all of you for that.

My officials are here tonight in case you ask anything complicated. They will attempt to deal with it.

[*Translation*]

I would like to thank the committee for its work on the pre-budget consultations.

[*English*]

The committee's pre-budget consultations are a key part of the budget process. Your recommendations inform the budget, and that's for real, because you can go back and look at the budgets over the last six or seven years and see a lot of recommendations that were in the report of this committee over those years.

For the budget this year, this included

[*Translation*]

ensuring the fairness and impartiality of the tax system while continuing to eliminate loopholes

[*English*]

— which is about tax loopholes; and enhancing the neutrality of the tax system by eliminating inefficient fossil fuel subsidies consistent with our G-20 commitments. I should add that we have eliminated all of the tax subsidies that once existed for the oil sands, and for those who think otherwise, they ought to check the record. We are trying to enhance the neutrality of the tax system by eliminating inefficient fossil fuel subsidies. This is consistent with our commitments in the G-20.

We are reviewing legislation and regulations to ensure the safety and security of our financial sector and modernizing Canada's immigration system to better focus on lever market needs. Let me provide some context to this. When we became the government in January, February 2006, what was there to worry about economically? Well, the Prime Minister and I thought perhaps the United States because they're running large deficits and accumulating significant public debt. So how do we protect Canada? My view was that we pay down public debt, which we did. We paid down about $38 billion of public debt in the first couple of years that we were the government. And then the great recession happened, but it didn't start there, as you know. It started with a credit crisis and then it moved into a crisis in the real economy. Then we had to make a choice about what were we going to do: continue to try to balance or give it up. And what we decided to do was to run a very large deficit of almost $58 billion in January 2009. But the plan always was to get back to balance in the medium term, and we're almost there.

In 2015-16, the budget will be balanced. I think it's important for business confidence in Canada. At the same time—and others have different points of view on this—I think it was very important that we spent that money, borrowed the money and spent it in 2009. And I give the public officials a lot of credit at Treasury Board, Infrastructure, Transportation, and Finance for getting the money out the door because that was the danger. The danger was millions of people unemployed and a long, deep, dark recession.

We can always look back and say that it didn't turn out that way, but we did some things that it helped it not turn out that way. And our plan worked, unlike some of our colleagues in the G-7 who are still struggling.

Moody says, and all the rest of them say, that we have the only economy that has created over a million net new jobs since the depth of the recession. We have, of course, a triple-A credit rating, and now there are only a handful of countries in the entire world that have a triple-A credit rating, which is regrettable.

The World Economic Forum for the sixth straight year has ranked Canada's banking system the soundest in the world.

● (1820)

[*Translation*]

The International Monetary Fund and the Organisation for Economic Co-operation and Development have forecasted that Canada will have the strongest growth of the G7 members over the coming years.

[*English*]

Now, this is not huge growth, and I don't sit here and say to people who are knowledgeable, like the members of the House finance committee, that things are rosy. Things are okay. But we're only growing at 1.8% or 2%, or a little bit better than that. The American economy is doing a little bit better now, which is a good thing. The European economy, as you've seen in the most recent statistics, is weakening, which is a concern.

Dealing with deficit and debt, I think the most important thing we can do for our country is to get rid of our deficit, which we will do in 2015-16. In the annual financial report, the deficit fell to $18.9 billion in 2012-13. This is nearly $7 billion less than projected. And that's down more than one quarter from the deficit of $26.3 billion in 2011-12, and down by nearly two-thirds from the $55.6 billion deficit recorded in 2009-10.

A lot of this has to do with the way we spend. I won't go on too long, Mr. Chair, but as you know there are three major areas of spending federally. One is transfers to the provinces. We have not reduced transfers to the provinces. We have maintained the 6% health transfer. We have maintained the 3% Canada social transfer. We've stuck to it—even during the bad times. And then with the transfers to individuals, persons with disabilities, seniors, and so on, we have continued at the same level of funding. We've also continued the same level of funding for research, development, our granting councils, the money we give to universities, the money we give for post-doctoral fellowships, and all of those things, because they're vitally important for the future of our country.

So where do you save money? You know this from looking at these subjects. You save it by looking at your own program spending, which we have done, and which we have tightened. The result of all of that is that we have a situation now in which we can easily balance in 2015-16. I'll spare you some of this other stuff.

I think we're doing some important things in this bill, one of which is to extend the hiring credit. It actually works. We're all members of Parliament. I'm sure you hear it at home. It creates jobs, especially among small—or smaller—entrepreneurial businesses, so that's a good thing. We're increasing and indexing the lifetime capital gains exemption, and this is the first increase since 1988, which was a long time ago. And we're expanding the ACCA, the accelerated capital cost allowance, to further encourage investments in clean energy exploration. We're closing some tax loopholes. We're, again, modernizing the Canada student loans program. We are phasing out —and this is controversial in Quebec—the tax subsidies such as the labour-sponsored venture capital corporations tax credit, which quite frankly is inefficient and was not accomplishing the goal for which it was intended, and was phased out by Ontario about five or six years ago.

So there you are. I will hand the chair back to David Frost.

Voices: Oh, oh!

● (1825)

The Chair: Thank you very much, Minister, for your opening remarks.

We'll have questions from members.

We'll start with Mr. Rankin for five minutes, please.

Mr. Murray Rankin: Thank you and welcome, Minister, to the finance committee.

Since this is another omnibus bill that affects matters far beyond the world of finance that you've referenced, I want to talk about something quite different and quite distinct, if I may.

I have a question that begs another question. Namely, why are health and safety protections that are found in the Canada Labour Code in a budget bill in the first place?

Minister, my specific question is on something very troubling that was just brought to our attention. It appears that departmental officials at the human resources committee might have provided misinformation. My colleague, the member for Newton–North Delta, asked how many refusals of unsafe work resulted in some sort of enforcement action. Officials told her the “administrative data doesn't allow us to make that direct link”. However, this committee has just been provided with evidence that that claim is not true. Somewhere between 45% and 52% of work refusals could result in an enforcement action.

Minister, could you explain why officials presented only the fact that 20% of refusals result in a finding of danger while failing to tell us that nearly half of refusals result in an enforcement action?

Hon. Jim Flaherty: That's part 3, division 5, so....

The Chair: Yes, I'm sure.

Hon. Jim Flaherty: Ms. Baxter, can you introduce yourself, please?

Ms. Brenda Baxter (Director General, Workplace Directorate, Labour Program, Department of Human Resources and Skills Development): Yes. I'm Brenda Baxter, the director general of Workplace. In fact, I was one of the officials appearing at the committee.

On the question of the link between refusals to work and directions issued by our officers, to start with, we had provided information on the number of refusal-to-work situations resulting in a situation of danger or no danger, and we stressed that in the proposed amendments, the protections provided to workers are not changing.

Concerning further details on the data available through our administrative data, we are looking at trying to compile the information requested by the committee. We are working on that information. We have not completed that compilation because it is looking at a 10-year period, and we're required to do any sort of connection to that data on a manual basis.

● (1830)

Mr. Murray Rankin: Apparently, that's not the end of what we've been told, and you may be appropriately here to answer this question. Apparently, the relevant ADM told my colleague the member for Cape Breton–Canso that the number of health and safety officers had not declined from 150 to 85. However, we have evidence in front of us that shows that's not the case.

Do you have any response to that?

Ms. Brenda Baxter: Yes I do. I think the information provided is looking at all the labour affairs officers in the labour program that enforce both part II, which is health and safety, and part III, which is labour standards. It's the collective workforce that enforces part II and part III of the Canada Labour Code. Under that, there is a subgroup that enforces health and safety, and this number has remained at an average of 80 over the past 5 years.

Mr. Murray Rankin: There has been no reduction—

Ms. Brenda Baxter: No, there has not.

Mr. Murray Rankin: Minister, I wonder if you could explain then, how the definition of “a severe and imminent danger” makes Canadians safer?

Ms. Brenda Baxter: I guess I'll take that one on too.

In fact, what we're doing is clarifying the definition of danger. Throughout all the other occupational health and safety jurisdictions across the country, there is no definition of danger. What we've provided is a clearer definition that removes some of the ambiguities in the previous definition. The clearer definition still provides protections for imminent or serious situations that impact life or health, such as an immediate cut or broken bone, as well as for longer-term impacts on health, such as an occupational illness.

Essentially, it clarifies that definition of danger, and it goes back to the data that you identified; where we looked at our refusals and saw that 80% of those did not result in a decision of danger.

The Chair: Very briefly.

Mr. Murray Rankin: Just a quick question for the minister. Why are changes to health and safety protections in the Canada Labour Code in a budget bill?

Hon. Jim Flaherty: As you know, colleague, they are references to the ability to pay. That's important in terms of collective negotiations because there has been a dearth of attention to the ability of the people of Canada to pay for all these bills. We want the arbitrators and the mediators to pay attention, as they do in some provinces, to making sure that the people of Canada can afford their recommendations.

The Chair: Okay. Thank you.

Thank you, Mr. Rankin. We're going to Mr. Saxton, please.

Mr. Andrew Saxton: Thank you, Chair, and thank you, Minister, for being here today.

First of all, Minister, I want to thank you for the leadership that you've shown in governing the Canadian economy over the last almost eight years. These have been very challenging times, especially during the great recession of 2008-09. Canada has emerged very strong, thanks in no small part to the sound economic policies you've introduced during that time.

My question today regards small businesses. We all know small businesses play a vital role in the creation of jobs and economic growth in Canada. While Canada has performed very well with respect to our peers, small businesses across the country continue to face challenges: too many Canadians are still out of work.

What in economic action plan 2013 will be supporting small businesses and encouraging job creation?

● (1835)

Hon. Jim Flaherty: I want to thank my parliamentary secretary for that challenging question.

I think the biggest thing is the hiring credit for small business. This is a big deal. All of us are members of Parliament, we talk to people in our ridings, we talk to small business people. Tons of people have been hired because of this hiring credit for small business, so this is important.

It's also not inexpensive to the federal treasury, but it is important, so we're going ahead with that again. Since 2006, we've reduced the small business tax rate from 12% to 11%. We've increased the small business limit to $500,000. We've also provided up to $1,000 to help defray the cost of hiring new workers.

But the more important thing is to try to get people into the workforce. I see it in my riding, you probably see it in your constituencies as well, young people who are talented, who are good men and women; they just need a chance. And I think the hiring credit for small business helps give them that foot in the door.

Mr. Andrew Saxton: Thank you, Minister.

I know that during your time as finance minister you introduced P3 Canada, public-private partnerships Canada. How do you see this helping our infrastructure development in this country?

Hon. Jim Flaherty: I think it's evolved very well. It had its growing pains, as a lot of new institutions do. It is really into the transportation business now around Edmonton, Calgary, Union Station in Toronto, and Vancouver. It's a very useful function. We have large pension funds in Canada, as you know, and it always struck me as peculiar that we did not access them...bid on airports in Australia and not talk to us about our airports.

Things are changing, improving I think, and the board at P3 Canada and the CEO are both very strong.

Mr. Andrew Saxton: Thank you very much.

The Chair: Thank you, Mr. Saxton.

Mr. Brison, it's time for your round, please.

Hon. Scott Brison: Thank you, Mr. Chair.

Minister, according to your recent update the EI account will move back to balance in 2015, instead of the previously predicted 2016.

You had promised to set the EI rate at a break-even level once the account was balanced, but Bill C-4 actually freezes EI premiums at an artificially high rate until the end of 2016. That will result in $5.6 billion more in payroll tax than what is required to pay out the benefits during that period.

You've called EI premiums a job-killing payroll tax. The recovery is a tenuous one. Why don't you let the EI rates fall in 2016, instead of keeping them higher into 2017?

Hon. Jim Flaherty: We're actually freezing EI rates for the next three years so that there will be no uncertainty with employers or employees. It's a similar argument that I hear from some of the provinces now . They say you should raise CPP payroll taxes, and I say to them no, we have a fragile economy. We're growing at 1.8% or 2% or so.

● (1840)

Hon. Scott Brison: But I'm not asking—

Hon. Jim Flaherty: I'm just saying it's the same sort of argument.

Hon. Scott Brison: I'm saying let them go down. I'm not suggesting they go up.

Hon. Jim Flaherty: No, stability is important.

Hon. Scott Brison: Minister, your argument with the provinces is that increasing payroll premiums would be bad for the economy, yet Bill C-4 actually keeps payroll premiums artificially high for a longer period of time.

Why not simply allow EI premiums to self-balance with payouts as the account moves into balance in 2015? If your argument to the provinces is that artificially high premiums on jobs or wages will hurt the economy, why are you keeping them high yourself in Bill C-4?

Hon. Jim Flaherty: To provide certainty so that businesses, especially small businesses, know that they will not be faced with increases, which has been the history.

You're a member of a political party—well, you are now—that stole $50 million, or was it a billion dollars, from EI.

Hon. Scott Brison: And you're a member—

Hon. Jim Flaherty: I don't need any lectures from you about how to run an EI system.

Hon. Scott Brison: Certainly. You were part of a provincial government that padded its folks with asset sales, and now you're proposing to do the same here.

Hon. Jim Flaherty: I'm part of a provincial government that had to close hospitals because your government—

Hon. Scott Brison: No, no.

Hon. Jim Flaherty: —cut spending to the provinces.

Hon. Scott Brison: Jim, please, let's focus on your current job. You're not in provincial politics anymore.

The Chair: Keep questions and answers through the chair, please.

Hon. Scott Brison: I have a question, Minister.

Your fiscal update assumes $1.5 billion in asset sales in 2015 and 2016. Can you tell us precisely what assets you will be selling?

Hon. Jim Flaherty: As we have done in the document, we've listed the shares that the people of Canada own in General Motors, which are—

Hon. Scott Brison: That's the previous year, Minister.

Hon. Jim Flaherty: It's more than $100,000.

Hon. Scott Brison: No, but that's the previous year.

Hon. Jim Flaherty: No, that's the total.

Hon. Scott Brison: I'm talking about 2015 and 2016.

Hon. Jim Flaherty: And we have the taxpayers' interest in Hibernia. We have the taxpayers' interest in the Dominion Coal Blocks in western Canada. We have the taxpayers' interest, the people's interest, in other ports in British Columbia.

The Chair: You have thirty seconds.

Hon. Jim Flaherty: So there's lots of money. This is a very conservative estimate.

Hon. Scott Brison: For example, your $11 billion in proposed asset sales in the autumn of 2008, how many of those were sold, Minister? How much was raised?

Hon. Jim Flaherty: I tell you I'm happy with my record, if you're not.

Hon. Scott Brison: Obviously, we're not.

The Chair: On that love we will move on to Mr. Keddy, please.

Mr. Gerald Keddy: Thank you, Mr. Chair.

Welcome to our witness. Minister, it's good to have you at committee.

I want to change the subject back to the lifetime capital gains exemption. I want to come at this from a little different angle than I think a lot of people look at it from. I'd like to hear your comments on it.

The great thing about the lifetime capital gains exemption for small business was to allow for intergenerational transfer of those assets. I don't think that was the full reason for bringing it in, but it certainly worked in agriculture. It works in the fishery, it works in forestry, and it will work in other small businesses as well. But have we done any studies on what increasing the basic lifetime capital gains to $800,000 now, I think, and indexing it to inflation will do for intergenerational transfer?

Hon. Jim Flaherty: Question.

Who wants to win?

The Chair: Mr. Cook, welcome back to committee.

Mr. Ted Cook (Senior Legislative Chief, Tax Legislation Division, Tax Policy Branch, Department of Finance): Good evening, Mr. Chair.

With respect to the lifetime capital gains exemption, as you've indicated, it's increasing from $750,000 to $800,000 and then will be indexed for inflation. With respect to the impact, we don't have any specific intergenerational information. What we do know is that approximately 68,000 filers, I believe it is, benefit from the LCGE, and the expectation is that, at least at the front end, between 2,000 and 4,000 people will be able to take advantage of the growth in the LCGE limit.

The other thing I'd like to point out for the committee is that with the change to an indexed system, when an individual accesses the LCGE, as the indexed amount increases, that will generate new LCGE space for the individual.

● (1845)

Mr. Gerald Keddy: Thank you.

The other question, Minister, is in relation to closing tax leapholes—loopholes. Well, people leap through them, I think.

International tax evasion and aggressive tax avoidance have a terrific fiscal cost to governments and taxpayers. They undermine the revenue base and undermine public confidence in the tax system and in the fairness and equity of the tax system, quite frankly. In economic action plan 2013, we've strengthened the integrity of Canada's tax system, I think, by going after these loopholes that people are leaping through. Do we have some specific numbers on the amount of dollars that are out there? I know it's very hard to estimate, but we must have some numbers on the amount that we stand to collect by closing these loopholes.

Hon. Jim Flaherty: I bet we do.

Mr. Ted Cook: In terms of closing tax loopholes and improving the fairness of the tax system, the six-year total projected by economic action plan 2013 is $4.4 billion. That's a global figure, and of course we talked with the committee about the various aspects of it: character conversion transactions, synthetic dispositions, and giving the CRA additional tools in terms of being allowed additional years when someone has failed to file an appropriate form T1135 and has failed to report foreign income.

The Chair: Thirty seconds.

Mr. Gerald Keddy: No, I can't do it in 30 seconds.

The Chair: Thank you, Mr. Keddy.

[*Translation*]

Mr. Caron, you have the floor.

Mr. Guy Caron: Thank you very much.

Good afternoon, Minister.

[*English*]

I'll be asking questions about the phasing out of the tax credit on labour-sponsored venture capital.

It's a very big deal in Quebec. There is 90% of the tax credit right now that goes to the savers; those who are actually contributing to the two major funds in Quebec. It's a model that has worked well. Quebec is actually third among all jurisdictions in the OECD in terms of venture capital under management as a share of GDP—after Israel and the United States. As a share of GDP, Quebec invests almost three times more than the Canadian average, and over four times more than Ontario.

Now, both funds came to you with a deal asking for the government to not phase out the tax credit, but in return to control the tax expenditure, reducing it by about 30% over the next 10 years and injecting about the equivalent of $2 billion in the venture capital action plan. That would be five times the contribution of the federal government. Yet they haven't received any answer.

We had Mr. Gupta from the Canadian Information Technology Association saying it was a good deal. We had Canada's Venture Capital and Private Equity Association saying it's a good deal. You had the

[*Translation*]

the Quebec Federation of Chambers of Commerce, the Regroupement des jeunes chambres de commerce du Québec, the Board of Trade of Metropolitan Montreal, and the Quebec Manufacturers and Exporters. All these organizations claim that this is a good deal and that the government should accept it.

[*English*]

Why didn't you say so? Why did you refuse?

[*Translation*]

Hon. Jim Flaherty: I thank the member for his question.

This is a major challenge for Quebec. The province of Ontario has created a new regime.

● (1850)

[*English*]

When I look at this, I'd tell you that this is not effective. This was created to encourage investment in small business. It's become a tax haven where people can hide their money, which is okay tax planning. That's fine; lots of people do it. But it doesn't accomplish the goal that was intended. That's why, for example, the Province of Ontario got rid of it.

If we're going to look at someone independent, the OECD said:

> The LSVCCs have distorted the market for venture capital, lowering the average quality of deals and limiting the supply of equity to non-traditional industries and newer companies…. The governance structure of LSVCCs leads to less-skilled fund managers and poorer fund performance…. Overall, the damaging effects of the LSVCC tax credits on the financing of innovation along with their fiscal costs present a clear argument for their elimination.

Mr. Guy Caron: Minister, we have a minute and a half or two minutes for my last question.

Outside of a Paris-based study from the OECD, outside of the testimony of Jack Mintz—

Hon. Jim Flaherty: It's transparent.

Mr. Guy Caron: I'm just saying that we had witness after witness, especially from Quebec, who were telling you it's been very effective and has kept Quebec as a leader in Canada.

[*Translation*]

I asked one of the officials who came here to meet with us whether any impact studies had been undertaken. What impact will this decision have on the levels of venture capital invested in Canada and on the levels of savings in Quebec? People are not using this fund as a tax loophole or a tax shelter. They are using it to save up for their retirement, which is what the government is encouraging them to do. Has there been a comparative impact study done between what these funds have to offer and what the government plans to do? No, no impact study was done.

How can such an important decision be made about such an important model for Quebec without studying the impact it will have on these various aspects?

[*English*]

The Chair: *Merci*.

A brief response, please, Minister.

[*Translation*]

Hon. Jim Flaherty: I understand, Mr. Caron, but I must take into account the entire Canadian system, not just Quebec's or Ontario's. I can see this is a mechanism which does not work, but for investment in small businesses, that is the goal of this program.

[*English*]

The Chair: *Merci, monsieur Caron.*

We'll go to Mr. Mark Adler next, please.

Mr. Mark Adler: Thank you, Mr. Chair.

Being the selfless person that I am, what I'm going to be doing, because our time is limited, is sharing my time with Mr. Van Kesteren, if that's okay with you, Chair.

The Chair: Yes, absolutely.

Mr. Mark Adler: Thank you. I appreciate that.

I want to ask the minister about the freezing of the EI premiums and about the hiring tax credit, but I want to preface my comments by saying that in the riding of York Centre we organize year-round business round tables, a minimum of two a month, just to keep a pulse on what the business people and the business leaders are saying.

They have said unanimously that the freezing of the EI premiums and the small business hiring tax credit have led to job creation and have created stability in terms of the EI premiums, which is what business needs. Business demands stability. With that stability and with the advantage of the hiring tax credit, they have been able to hire more people, which in turn has more people paying more taxes, and we're able to fund, of course, more of our government operations and what needs to be funded.

I want to ask the minister to comment on the necessity and the importance of freezing EI premiums for small business and how important that is in the job creation grand scheme of things.

Could you comment also on the small business hiring tax credit and how successful that has been for Canadian small business in particular?

Hon. Jim Flaherty: I thank the member for his difficult question.

The freezing of EI premiums will save employers and workers about $660 million in 2014 alone, and we'll be able to still go forward with our 2017 plan about balancing the EI fund. The Canadian Federation of Independent Business is entirely supportive.

We will not ever again do what the previous Liberal government did, and that is, we will not steal money from the EI plan in order to balance our budget.

● (1855)

Mr. Mark Adler: Thank you.

How much time is left?

The Chair: You have two and a half minutes, Mr. Adler.

Mr. Mark Adler: That's perfect.

Mr. Dave Van Kesteren: Thank you, Minister, for being here.

Very quickly, I'll say that I was privileged to hear you at the Economic Club about a year ago. You shared with the audience just what happened in 2009 and just how precarious a position the world was in.

We get so much criticism—and you've had criticism—about increasing the deficit and spending that money, but you had a great explanation. I wonder if you could share with us again why that was so critical and what actually transpired, and, as a result of it, how that got us out of a really bad situation.

Hon. Jim Flaherty: Thank you for the question. I'll try to do this in 30 or 45 seconds.

We were in Australia at an APEC meeting—the finance ministers—and we were all concerned about too much cash sloshing around the world. This was in July 2007. In August 2007 I was at home on a Sunday afternoon and Secretary of the Treasury Hank Paulson called me and said, “Well, now we know where the problem is: subprime mortgages in the United States.” He said, “That's the bad news. The good news is that we know where the problem is.” I went down to the kitchen and said to Christine, “I'm going back to Ottawa.”

And we have been struggling with this ever since, first the credit crisis, and then the crisis in the real economy. You know from your own business background how difficult things became for small and medium-sized businesses in Canada. In any event, we dealt with it, and in a fairly dramatic way. I still think it was a great day for Canada when the opposition parties recognized the seriousness of the economic situation, which they did. I recognize them for recognizing that when it really mattered—except for Scott.

Voices: Oh, oh!

The Chair: Thank you.

Thank you, Mr. Van Kesteren.

Colleagues, I know that we're bumping up against seven o'clock. If we could ask the minister to finish the second round here, we have two more members with questions.

Can we do that?

Hon. Jim Flaherty: Sure.

The Chair: Okay. We'll go to

[*Translation*]

Mr. Côté, you have the floor.

Mr. Raymond Côté: Thank you, Chair.

Minister, thank you for appearing before the committee. The opposition parties, especially the NDP, worked very hard to convince you that circumstances were very bad, given the impending crisis.

That being said, I would like to come back to the issue of workers' funds. Let's not hide from the fact that the Bank of Canada has forecasted lower growth for the Canadian economy. The bank's deputy governor, when giving a speech in Toronto, talked about the disappearance of our exporters. It would seem that one out of five businesses has either changed its mandate or gone bankrupt. Also, we are betting a great deal on a global upturn.

Let's come back to the issue of workers' funds. Since the credit has been abolished, Ontario has seen its position deteriorate. With respect to venture capital funds across Canada, 36% are from Quebec and 36% from Ontario. Yet, Ontario's population is much higher than that of Quebec.

Minister, would it not have been preferable to take the deal offered by workers' funds and still implement your initiative for creating a $400 million venture capital fund? This seems to be betting a lot on the future.

● (1900)

Hon. Jim Flaherty: Thank you for the question.

In Canada, we face certain challenges because our country has such a small population. We have about 35 million inhabitants. Our federation has to work and we have to talk to each other. I often speak to my colleagues at the Department of Finance as well as with the ministers of finance in Quebec and other provinces. I hope for economic growth in all countries. In Canada, growth is balanced. There is more growth in western Canada than there is in the east. That is the current reality in Canada.

Mr. Raymond Côté: I understand...

Hon. Jim Flaherty: The federal government must take that into account.

Mr. Raymond Côté: Minister, it is my understanding that you gave in to very specific interests instead of taking the general context into account, at least on this issue.

I would like to briefly touch upon the Employment Insurance Financing Board. I was fairly dissatisfied with the answers I got during the previous consultation with respect to the $57 billion surplus that had accumulated before 2009. That was eliminated, which is frankly contrary to practices elsewhere, not only in the insurance sector but also in the pension sector.

How can you justify the existence of this board, if not simply to create a scheme giving you access to this virtual surplus of $57 billion?

[*English*]

Hon. Jim Flaherty: I will go back, if you'll forgive me, to basic principles.

The purpose of the employment insurance program isn't to provide income for people from time to time. It's to provide income to people when they're out of work, when they're down on their luck, when things haven't gone well for them. That's what it's there for. Being in government and being a minister and being in the cabinet, it seems to me that we have to remind ourselves that that's the purpose of the fund. The provinces run social assistance funds. I was a provincial finance minister; I know how much it costs. But I think we have to be careful to remember the purpose of the fund. If we can use it...and with the job grant program, I think we will be able to use it to retrain people and make sure people can match the jobs that are available in this country.

I met with one of our western premiers a couple of weeks ago. He told me how awkward he felt flying to Europe to hire people to come and work in western Canada when he was flying over parts of our country with double-digit unemployment. I'm all for people retraining, and I'm all for people working.

[*Translation*]

Mr. Raymond Côté: Thank you, Mr. Chairman.

Thank you, Minister.

[*English*]

The Chair: Thank you.

The last round will be Mr. Hoback, please.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair.

And thank you, Minister, for being here this evening and taking time to spend it with us. I know you're a very busy individual.

I'm listening to my colleagues across the table here talk about EI. It makes me think about what they were proposing a couple of years ago, a 45-day work year where you could work 45 days and all of a sudden go on EI. Now Mr. Brison's talking about lowering EI rates even more. Here's a party that one day is going to make it so easy to get EI that provinces like Saskatchewan are going to have an even tougher time finding people, and then the next day he wants to lower EI rates. So we're not sure how he's ever going to get the money to spend on what he wants to spend it on.

That comes back to what you talked about in terms of stability, creating stability for the business community, whether it's EI rates or Canada Pension Plan rates. We just brought out the pooled pension plan. That is a program that I think will have some benefit once people start to give it time and take it up.

There's one thing I wanted to ask you about the break-even mechanism in seven years for EI, when you looked at EI going forward. Can you just touch on that, what that will do to EI rates going forward once that's in place?

● (1905)

Hon. Jim Flaherty: For 2017 onwards, the EI rate will be set according to the seven-year break-even rate-setting mechanism. This will ensure that premiums are no higher than they need to be to pay for the EI program. It's as simple as that. We have frozen rates for the next few years, but that's because it's a fragile world out there, and we have to be careful.

Mr. Randy Hoback: If two years from now the economy should go for the worst and all of sudden we have higher unemployment, as a business owner my concern would be that the rates would go up because of that. Now you're saying they're going to be frozen, they're going to be stuck, so at least I can bank on what I'm going to be paying for those payroll costs.

Then as far as the Canada Pension Plan goes, how does it relate to that? What would the impact be on EI or hiring if we all of a sudden yanked up CPP rates?

Hon. Jim Flaherty: Well, there are lots of people in Canada who want to raise rates...employers, employees.

Mr. Randy Hoback: About the benefit of that, or the drawback—

Hon. Jim Flaherty: I think people forget that the CPP is a contributory plan. Every time the government raises rates, the employer pays more and the employee pays more. If you're self-employed, the hit is even greater. So I just say, “Whoa back on that, and we'd just better be careful”. Let's get this economy moving, let's get back up to growth rates like we used to have, and then we can look at such things, and at the same time encourage Canadians to make intelligent choices and save money.

Mr. Randy Hoback: Again, Minister, if you look back to 2008, you've given us a good walk through time here and some of the things that you were dealing with back in those times. Looking now and comparing Canada to the rest of the world, could you give us a little bit more information on that?

Hon. Jim Flaherty: I don't know how to put it. I think we took the risk, and the risk worked. But it worked not because of the Prime Minister or me, but because the public servants got the job done, got the money out the door.

Mr. Randy Hoback: You had a program and you got the money out the door. I know in my riding the amount of money we spent on infrastructure. This is hard infrastructure. It was required. It was going to have to be done sooner or later.

Hon. Jim Flaherty: If we had to do it again, I'd do it again. I'm not ideological about such things. When you're faced with things like that, you have to look at millions of people losing their jobs.

Mr. Randy Hoback: Thank you, Mr. Flaherty.

The Chair: Thank you, Mr. Hoback.

Mr. Minister, thank you very much for being with us here this evening. We appreciate your input into this process on the Budget Implementation Act.

Colleagues, we will suspend for a few minutes and bring our last panel of the day forward. Thank you.

● (1905)

(Pause)

● (1910)

The Vice-Chair (Hon. Scott Brison): On Bill C-4, the Budget Implementation Act, we're very pleased to welcome Armine Yalnizyan, senior economist from the Canadian Centre for Policy Alternatives; Monique Moreau, senior policy analyst for the CFIB; Michelle Gauthier from Imagine Canada; and Marie-Hélène Arruda from the Mouvement autonome et solidaire des sans-emploi, réseau québécois.

We'll begin with Ms. Yalnizyan. These will be five-minute rounds initially, and then we'll go to Q and A.

Welcome.

● (1915)

Ms. Armine Yalnizyan (Senior Economist, Canadian Centre for Policy Alternatives): Thank you very much, Mr. Chair.

First of all, I'll give an introduction and a context for my comments. Thank you very much for the invitation to appear before the committee, as members of Parliament review the second budget implementation bill for the 2013 budget. It's a particular honour to be able to appear as a witness since this committee, I understand, will be restricted to hearing only seven hours of witness testimony in addition to what you just heard from the minister over only two days of hearings.

In these two days, parliamentarians will not have an opportunity to meaningfully review the impact of all of the measures embedded in this legislation, which run from tax and spending changes, to EI reforms, to conflicts of interest in financial institutions, a brand new system of processing economic immigrants, and new rules for choosing Supreme Court justices. I have left out dozens of additional changes, including more than 60 amendments to the Canada Labour Code and a new restricted definition of “danger”, an appeal of that definition of danger that the Canadian Bar Association says turns the clock back by decades on health and safety concerns for workers.

In 1994, a freshly elected MP Stephen Harper asked the Speaker of the House of Commons to rule a budget bill out of order because of its sweeping scope. It affected public sector pay, it affected EI measures and payroll taxes, and a reduction in federal spending through the Canada assistance plan. It offered an extension of transportation subsidies and the ability for the CBC to borrow money for the first time.

At that time Mr. Harper said, “The subject matter of the bill is so diverse that a single vote on the content would put members in conflict with their own principles”. That omnibus bill, ladies and gentlemen, was 21 pages. This omnibus bill is 308 pages. It amends 50 pieces of legislation on a diverse array of topics, many of which have zero to do with the federal budget of 2013. it makes a mockery of the process of public oversight.

Consequently, and in keeping with the spirit that brought Mr. Harper and his Conservatives to power in 2006 and since on a pledge of accountability and transparency, this committee should split Bill C-4 into fiscal and non-fiscal measures in order to permit sufficient scrutiny of these incredibly important policy changes that are being proposed. Further, this committee should treat as separate and apart the non-fiscal measures that are major policy initiatives. These include the selection of Supreme Court justices, the fundamental changes proposed to the Canada Labour Code, and the selection process for new economic immigrants who will build the Canada of our future.

One simple way of accomplishing this proposal is to defeat these measures in Bill C-4 and invite the government to reintroduce these measures as separate pieces of legislation. This approach can also be used for matters that you view as time-sensitive, with such items put in a separate bill.

The Parliamentary Budget Officer has queried why the federal government has under-spent its budgetary allocations by $10 billion each year for the past three years. Yet the second round of supplementaries that parliamentarians are considering are requesting $5.4 billion more to spend.

The finance minister's economic and fiscal update notes that the deficit is a surprising $7 billion smaller than forecasted just a few months ago.

It is hard not to feel that the public is being somehow gamed, that payments are suppressed in order to be able to declare great fiscal prudence, then picked up through supplementaries for which parliamentarians have even less time for scrutiny than this budget implementation bill.

In 2013, the budget implementation bill was delayed because of prorogation. Supplementary budgets will have to be passed with even less than usual oversight and there is no time to study a request for $5.4 billion. The integrity of the democratic process that assures there are checks and balances on the government's ability is at risk.

Though the Stephen Harper of 1994 has silenced his concerns over these procedural sleights of hand, he has inflamed that same ardour in many other people.

In conclusion, the Supreme Court controversy that led to the measures in this bill did not even arise until after the budget was tabled. The budget is being used as a Trojan horse to rewrite the Canada Labour Code and our immigration policies. These are not add-ons. They turn the workhorse of a budget implementation bill into a Trojan horse. I fear that Bill C-4 is starting to look alarmingly like a Duffy budget bill, stuffed with hidden measures and designed to mislead the public. But it can and should be amended.

Accountability and transparency were great principles in 2006. They are great principles in 2013 as well.

Thank you.

● (1920)

The Vice-Chair (Hon. Scott Brison): Thank you, Madam Yalnizyan.

Now Madam Moreau, from the CFIB.

Ms. Monique Moreau (Senior Policy Analyst, Canadian Federation of Independent Business): Thank you, Mr. Chair, and good evening.

Hello again to the members of the committee.

As many of you heard last week, CFIB is a not-for-profit, non-partisan organization representing more than 109,000 small and medium-sized businesses across Canada that collectively employ more than 1.25 million Canadians and account for $75 billion, or nearly half of Canada's GDP. Our members represent all sectors of the economy and are found in every region of the country. Addressing issues of importance to them can have a widespread impact on job creation and the economy.

You should have a slide presentation in front of you that I would like to walk you through in the next few minutes.

CFIB's October business barometer on slide 2 shows that after a rough spring, small business optimism has trended into more positive territory so far this fall. The barometer showed a gain of a half point to 65% from September's reading, but it generally remains in line with the average value from the past four months.

Full-time hiring plans are basically unchanged this month and typical for this time of year. We take this as a sign that business owners remain cautious. Only 41% of owners report a generally good state of business.

The barometer has shown us that the economy is still a bit sluggish. To help us get through this sluggishness, we believe the government needs to address the issues of greatest concern to small business owners so that business owners can focus their attention on hiring staff, growing their business, thereby growing the economy. What are those concerns? As you see on slide 3, the top issue of concern to small businesses is the total tax burden, which includes taxes from all levels of government. Another high-priority issue is government debt and deficit. Small business owners understand the importance of paying down debt and we have seen this issue grow in importance as the deficit itself has grown over the last few years.

Employment insurance is a high-priority issue for over half our members, the reasons for which I will get to in the next few slides.

As the previous slide has demonstrated, one of the top issues of concern to small business owners is their total tax burden. There's only one taxpayer and they pay taxes to all levels of government. With so many taxes, it's important to understand which ones have the biggest impact on the growth of their business. As you can see on slide 4, payroll taxes have by far the greatest impact on growth. Why? It's because they are effectively a tax on jobs. They must be paid regardless of whether the business has posted any profit that month.

Since EI is a payroll tax that can have a big impact on hiring decisions, our members have told us repeatedly how much the EI hiring credit has helped them maintain their workforce, especially during uncertain economic times. As you see on slide 5, 64% of our members indicated that the EI hiring credit would help their business. The stability of the EI rate is just as important to our members, and 85% of our members indicated that a steady and predictable EI rate is critical for small business to help keep their businesses afloat during unstable economic times, and in turn help them grow their business as the economy improves.

Even a few years after the recession started in 2008, as you'll see in slide 6, over half our members were in support of the EI hiring credit. The EI hiring credit has given those small businesses that received it a break from payroll taxes, this particular tax being EI. The hiring credit also allows small business owners to keep their employees, increase wages, and hire when they might not otherwise have been able to.

On slide 7, our research from 2011 shows that the rapid rise in premiums prior to the EI rate freeze would have resulted in the fund coming into balance in 2017. We see from the government's recent economic update that the fund will be in surplus prior to this time. While the recent rate freeze announcement has provided some predictability to the rate-setting process, which our members welcomed, we do recommend that the seven-year rate-setting process begin as early as possible.

CFIB recommends a fixed-rate approach as it provides the most stability in premium rates, which is a very important factor for small firms in their business planning. To conclude, CFIB supports the EI hiring credit and its expansion. It has given small business some measure of security during uncertain economic times.

Second, rate stability is a critical component of a well-managed EI program. The current projections indicate that we are close to the break-even rate and that the EI account will be in surplus in 2016. We suggest the government reduce rates as soon as the EI account is in balance, and do not let surpluses accumulate.

Last, CFIB encourages the government to maintain a separate, independent EI account. Transparency and accountability to the taxpayer are key to creating business confidence in the EI system.

Thank you, Mr. Chair.

● (1925)

The Vice-Chair (Hon. Scott Brison): Thank you, Madame Moreau.

We'll now hear from Imagine Canada, Madam Gauthier.

[*Translation*]

Dr. Michelle Gauthier (Vice-President, Public Policy and Community Engagement, Imagine Canada): Thank you Mr. Brison. I would also like to thank the committee for having invited us this evening.

When I appeared before you to speak on behalf of Imagine Canada during the pre-budget consultations, I said that we had to change the way we think about the charitable sector's contribution to Canada and to the whole world. Charitable and not-for-profit organizations employ two million Canadians, represent more than 7% of GDP, and involve 13 million volunteers. We create jobs, we stimulate economic growth, and nine out of ten Canadians believe that charitable organizations are an essential part of our quality of life.

It is in that context that we would like to speak to one part of Bill C-4, that is the enhancement and extension of the Hiring Credit for Small Business.

[*English*]

As committee members are aware, the hiring credit for small business would provide a rebate of up to $1,000 to eligible employers whose EI contributions increase from one year to the next. Despite the name of this initiative, this provision is available to all small employers including those in the non-profit sector. This initiative is most welcome and yet reinforces my point about changing our mindset.

When the credit was announced in the 2011 federal budget, given its labelling, charities unfortunately did not take note immediately. It was only when Imagine Canada made inquiries months later that we learned, albeit happily, that it applied to our sector as well.

We appreciate that the credit was designed and implemented without discriminating between for-profit and not-for-profit employers. Greater clarity, however, about its applicability to our sector would have enabled the government to recognize more publicly its support for charities and non-profit organizations' roles as employers. In a climate where every dollar counts, greater clarity would also have enabled organizations to make payroll decisions with the immediate knowledge that the credit applied to them.

For policies aimed at promoting jobs and growth to achieve their full potential, we need to make sure not only that they are inclusive, as was done in this case, and most appreciated, but also that they are described and marketed accordingly.

Using the most recent information available to us on staffing and payroll costs, we've assessed the potential impact of the renewed and extended hiring credit for charities. Based on the level of employer contributions paid in 2011, we estimate that almost 40,000 charities could benefit from the hiring credit included in Bill C-4. This represents almost 90% of all the charities that have paid staff. That's 40,000 charities in every community in Canada that will find it a little easier to meet their payroll obligations if they, for example, turn a part-time job into a full-time job, take on new staff, or provide staff increases.

While this is not a magic bullet for charities, it does suggest how government can, through instruments at its disposal and programs already in place, add another plank to its support for charities as engines of economic and social prosperity.

In addition, charities will continue to pursue earned income activities and access to grants and contributions and to depend on the generosity of Canadians supported by the federal government through tax incentives such as the new super credit and the proposed stretch tax credit.

We encourage the government to extend the sector-neutral approach taken with the hiring credit to other policies aimed at job creation and economic growth.

As I explained in my recent testimony, there are numerous federal initiatives that could help charities expand their earned income activities, and thus their financial sustainability and their ability to create jobs.

We look forward to working together to ensure that federal programs such as the Mitacs-Accelerate program, the Business Development Bank, the Community Futures program, and the industrial research assistance program, to name just a few, could assist charities as employers and social entrepreneurs, and that they be fully and unambiguously open to them.

Addressing this issue across all government programs would further reinforce the positive support provided the hiring credit in Bill C-4.

● (1930)

[*Translation*]

Mr. Chairman, good people doing good things here in Canada and elsewhere in the world are an important part of the story of charitable organizations, but the story is much more than that. The story is about jobs that we create throughout the country, about the economic activity and opportunities that we create, and the enormous and positive impact that we have on quality of life. In short, it is a story about building a stronger Canada and working with Canadians, the private sector and all levels of government to achieve that.

I would like to thank you for this initiative that goes in the right direction and maximizes the contribution of charitable organizations.

The Vice-Chair (Hon. Scott Brison): Thank you, Ms. Gauthier.

We will now continue with Ms. Arruda.

Ms. Marie-Hélène Arruda (Coordinator, Mouvement autonome et solidaire des sans-emploi (réseau québécois)): Good evening and thank you for your invitation.

I am going to be speaking to the part on unemployment insurance.

What I basically see is that this bill is making the dissolution of the Canada Employment Insurance Financing Board official. It was created in 2008 in order to respond to several concerns that had been voiced by the labour movement. The purpose was also to improve the transparency and independence in the managing of the Employment Insurance Fund and to compensate for the misappropriation of funds. Sixty billion dollars had been taken from the employment insurance surplus.

The board was intended to respond to these concerns and to establish a $2 billion reserve. It would have done so had the legislation been implemented. The funds would have come out of the Consolidated Revenue Fund. It would have been a way to deal with the resentment. By dissolving the Canada Employment Insurance Financing Board, one will also be eliminating this reserve that, of course, never existed ultimately. It could have existed. Two billion dollars would have perhaps somewhat stabilized the employment insurance system during an economic downturn. I think it was a prudent decision.

Now it looks like the idea is to make sure that the Employment Insurance Fund is merely sufficient. There is simply an attempt to balance the numbers, that is all. That may become more difficult if there is an economic downturn. If premium increases are kept at 0.05%, that is one way of ensuring that the system will not be able to adapt during an economic downturn, I believe.

There is something else that we are quite concerned about. When these kinds of caps are set that prevent increases in premiums and when the board and the idea of a reserve are abolished, then the funds themselves are limited. We feel that doing this puts an end to any ability to improve the system that, in our opinion, does not adequately fulfil its mission because it is not adequately protecting the unemployed. Improving the system and providing real protection become impossible when premium increases are so rigidly set.

Several stakeholders spoke about the Hiring Credit for Small Business. Replacing employment insurance premiums and employers' premiums in this way was supposedly meant to foster hiring, employment, etc. In our opinion, this measure does that goal a disservice. Yes, the social security contributions of employers are reduced, but does that foster employment? We doubt it.

Furthermore, this measure is a way of removing the burden from employers having to face the problem of unemployment. I realize that some may be pleased about this measure, but we feel that the part of the bill on unemployment insurance does not necessarily go in the direction that we feel it should. Premiums will be reduced, the amount of money in the account will be reduced, and this means that the protection of unemployed men and women will be reduced; at the very least it will not provide any increased protection.

Those were my remarks. Thank you.

● (1935)

The Vice-Chair (Hon. Scott Brison): Thank you Ms. Arruda.

We will now move to questions from committee members. Mr. Caron, you have the floor.

Mr. Guy Caron: Thank you very much Mr. Chairman.

I will begin with you, Ms. Arruda. Thank you very much for your remarks.

I have two questions. The first is about the Canada Employment Insurance Financing Board that was supposed to be responsible for setting premiums. However, it was dissolved before it even existed. On the other hand, what we have heard about employment insurance, from management and unions—that is employees—is that premiums are paid by the businesses and by the employees. The government does not contribute a cent to the account but it makes all the decisions. Minister Flaherty's remarks appear to confirm that the government will be continuing in the same direction.

In your opinion, how can the government justify closing down the board that was supposed to play a much more independent role than government in setting premium rates?

Ms. Marie-Hélène Arruda: That is a good question. In my opinion, the board was originally created simply to silence the labour movement's demands for an arm's length organization and more rigorous management of the funds in order to make sure that money would not be taken from the surplus. My hypothesis is that, in theory, the board would respond to the labour movement's concerns once it had been established, but in practice, that did not happen. The government was supposed to provide a $2-billion reserve. That was on paper, but it never actually happened. Perhaps the board was temporarily created to deal with the crisis. At the time, that kind of board was necessary because we were in the middle of a misappropriation scandal. Now that that scandal has been somewhat forgotten, the board no longer serves a purpose.

Mr. Guy Caron: Thank you. And now, it's the government that is going to set the premium rates.

Ms. Marie-Hélène Arruda: Yes.

Mr. Guy Caron: I have a second question. We have just heard from the Minister of Finance and there is a specific problem with respect to seasonal employment. The minister said that employment insurance belongs to those who have had the misfortune to lose their job, not to those who want to use it as regular income. I have the impression that he was directly attacking workers who have seasonal jobs.

Could you take perhaps 45 seconds to comment on that before I ask my next question?

Ms. Marie-Hélène Arruda: Of course.

I don't think anyone wants to be on employment insurance. If workers have seasonal jobs, it's not their fault; it's not a lifestyle. I don't think anyone really wants to make 55% of their salary. It's not a particularly generous amount. I think that idea is false. Employment insurance is not what people want. It is protection during difficult times. Whether the work is seasonal or not, unemployment is a difficult time, it happens during the off season and one has to survive during that time.

Mr. Guy Caron: One should add that several regions depend on seasonal industries such as tourism, agriculture, forestry, fisheries and so on.

Ms. Yalnizyan, I quite liked your presentation on what a budget bill should be. Minister Flaherty appeared just before you did. We asked him why provisions on health and safety, which can be found in divisions 17 and 18 of part 3 of Bill C-4, are in a budget bill. He answered that ultimately the government wants to be accountable and that spending is involved.

If you take that argument to its logical conclusion, anything can involve spending and therefore end up in a budget bill. The government could conceivably only present one budget implementation bill per session and include all the legislative provisions that it wants to bring forward for the entire session.

Do you agree with my reasoning? Could that be the logical conclusion?

● (1940)

[*English*]

Ms. Armine Yalnizyan: I think the problem has been raised before by, as I pointed out, our Prime Minister when he was just a member of Parliament. If you throw too many things in one bucket, you can't really take a look at the different measures, some of which are fundamental policy initiatives. I mentioned three of them. I mentioned over 60 amendments to the Canada Labour Code, a brand new way of bringing in economic immigrants, and the choice of Supreme Court justices. The Supreme Court justice controversy erupted after the budget was tabled, so this was not an add-on to a budget implementation act. It's just like, whatever, let's just throw things in.

We know that this is the opposite of what we were promised we were going to get with this fresh Harper government approach. This was exactly what they railed against with the omnibus bills of the Liberals, and we just got more, and in spades, in the last few budgets.

The Chair: Thank you.

Merci, monsieur Caron.

We'll go to Mr. Keddy, please.

Mr. Gerald Keddy: Thank you, Mr. Chair.

I have one specific question for Ms. Yalnizyan. A mistake was made on fishermen's EI in the last budget, quite frankly, when fishing hours and non-fishing hours became separated. When someone applied for EI they weren't able to get their fishing hours and their non-fishing hours lumped together, and lost EI benefits because of that. We correct that in this budget. The minister has recognized that was a mistake. It will be retroactive to April 1, 2013. Do you support that change?

Ms. Armine Yalnizyan: I support any government that recognizes its mistakes and corrects them. I think there is room for this budget to do what every budget has done because you wouldn't be the first government that had made a mistake in drafting that was discovered, often through the process of scrutiny in clause-by-clause, sometimes through the chamber of sober second thought, and sometimes not until things were implemented. So there is always room for technical changes.

Mr. Gerald Keddy: Thank you. I'm going to take that as a yes on that one issue at least.

Ms. Moreau, you talk about government support for small business. I realize all our witnesses have time limits here, but one of the things you didn't get a chance to discuss was the reduction of the small business tax rates from 12% to 11%, and increasing the amount of income a small business can make and still be eligible for the small business tax rate. There's a tremendous benefit to any small business in being able to increase the amount eligible from $300,000 to $500,000. That's another $200,000 worth of income. Have you done any in-depth studies through your group to see how big a benefit that would be for small business?

Ms. Monique Moreau: I don't have those figures with me on that particular segment. I believe I promised them to the chair last week as well, so we are certainly looking into whether we can provide that. The reduction of the small business tax rate is an important component of reducing the overall tax burden for small businesses, and we are asking the government to consider reducing that tax even further in its next budget .

Mr. Gerald Keddy: Dr. Gauthier, have you had a chance to do any in-depth studies and take a look at that as well?

Dr. Michelle Gauthier: This is with regard...could you clarify?

Mr. Gerald Keddy: ...to lowering the small business tax rate and increasing the amount of money a small business can make and still qualify as a small business.

● (1945)

Dr. Michelle Gauthier: Certainly, given the different status of charities through the CRA, the applicability of that particular provision may be different from that of other small businesses in their being tax exempt, but I'm happy to take that question to our chief economist and to provide you any additional information we have.

Mr. Gerald Keddy: One of the other questions that came up, and again it's related to small business, is the lifetime capital gains exemption. In my part of the world in rural Nova Scotia there's a big agricultural community, a huge fishery, and certainly a big forestry community. Without that, quite frankly, there would be very little intergenerational transfer of those businesses between family members. It just wouldn't occur because the owner of the business would have to sell most of the assets to pay the capital gains. Could you remark on that and the benefit of that to small business?

The Chair: Make a brief comment, please.

Ms. Monique Moreau: The extension of the lifetime capital gains threshold has been an important component of succession planning for our small business members and especially the indexation to inflation, which keeps it current.

The Chair: Thank you, Mr. Keddy.

We'll go to Mr. Brison, please, for your round.

Hon. Scott Brison: Thank you, Mr. Chair.

Welcome to each of you and thank you for your presentations today.

My first question is to Madam Moreau, from the CFIB.

Towards the end of your presentation, you said that you would support the reduction of EI premiums once the account is in balance. The recent economic statement or fiscal update from the minister has said that the account will be in balance in 2015. The minister's projections up until 2017 show that, by freezing the EI rate at $1.88 for every $100 of insurable earnings, there will be an additional $5.6 billion collected until the end of 2016.

Just to be clear, are you calling for the EI premiums to be reduced after the account is in balance in 2015, as opposed to the government collecting an additional $5.6 billion on workers and employers?

Ms. Monique Moreau: We are certainly in favour of ensuring that the account doesn't accumulate too much of a surplus. These projections are projections for right now, so we'll see what happens in 2015, 2016, and 2017, but we're not in favour of the accounts generating enormous surpluses. The way it's structured now, with the seven-year break-even rate, as I understand it, should be that there's no need for the account to generate surpluses.

Hon. Scott Brison: So when you're saying that you support the freeze, you do not mean freezing it at unnecessarily high rates. You don't want it to go higher, but you would support it going down to reflect the fact that it had gone into a balance.

Ms. Monique Moreau: We always like to go to our members, as you know, on issues like this, but I can say that, for what we know to date, the stability of the rate is a critical component. Knowing from year to year and for seven years at a time what the rate will be is an important measure for our members.

Hon. Scott Brison: Sure.

Okay, thank you very much.

Ms. Yalnizyan, it's nice to see you again. It's always nice to see you at committee.

Ms. Armine Yalnizyan: Yes, thank you.

Hon. Scott Brison: You and your organization have been active on the whole issue of income inequality, but also growing inequality of opportunity. A budget and budget implementation acts provide us with the opportunity to consider measures that would address inequality. One of the measures that has been presented to this committee on numerous occasions by organizations has been the conversion of the currently non-refundable tax credits introduced in recent budgets to refundable tax credits.

Would you like to comment on that and what the effect would be on low- and middle-income Canadians?

● (1950)

Ms. Armine Yalnizyan: Any time you take a non-refundable tax credit and turn it into something refundable, it means you extend the reach of the benefit of whatever the government envisioned to offer people. Clearly, by offering more cash to people further down the income spectrum, you have an opportunity to close that gap.

But may I say that, simply proliferating tax credits has occurred in a number of the past few budgets. Converting some of those tax credits, extending them to people who might be able to take advantage of them.... The lower your income is.... A lot of these tax credits are dependent on having enough surplus income to be able to put your child into sports, arts, fitness, or do a lot of the things that are very difficult, very challenging for families to do. The refundability of the tax credit isn't the critical thing, it's finding ways of actually helping all children get opportunities every day of their lives.

The Chair: Thirty seconds.

Hon. Scott Brison: With the same public policy objective of addressing inequality, would a significant increase to the working income tax benefit achieve a great deal for low-income families?

Ms. Armine Yalnizyan: It's all in the design. The working income tax benefit is not unlike a wage supplement. For a government and for many analysts who wish to see the labour market functioning without supports from the government, it would be actually better to make sure that you are not actively intervening in market forces, for example, actually pouring hundreds of thousands of temporary foreign workers into the bottom end of the wage pool, therefore actually suppressing wage growth at the bottom end. All these great things we can do—through an enhanced WITB and actively working against the way the market itself would raise wages—seem to be kind of working at cross purposes. It's over-intervention, from a governmental point of view.

The Chair: Thank you.

We're going to go to Mr. Adler, please.

Mr. Mark Adler: Thank you, Chair.

Thank you to all of the witnesses for being here today.

Ms. Moreau, could you please comment on the importance of having predictability and stability of EI premiums for small business?

Ms. Monique Moreau: Yes, certainly. The importance of rate-setting can't be overestimated for small business owners. Knowing how much they're going to be paying in payroll taxes year to year is a critical component of their business planning and a really important component of the EI program as a whole.

Mr. Mark Adler: Has the EI hiring tax credit been a success with your members?

Ms. Monique Moreau: Yes, very much so. You'll see that we have data that supports it loud and clear. Many of our members appreciated the simplicity of the credit, in that they don't have to apply for it. It just comes when they qualify for it.

CRA does the calculation and it comes to their account directly. That's an important component of reducing the red tape and paper burden regulations for small business owners, who are often hit the hardest. It's been a big boon to our membership, for sure.

Mr. Mark Adler: I'm seeing in the high-priority issues in the survey of your members that the total tax burden rates as number one, by far. Lowering corporate tax rates to 15% and small business tax rates to 11% has been welcomed by your members and has been critical in job creation, correct?

Ms. Monique Moreau: Yes, certainly. Low tax rates, from our perspective, are a critical component, as you've said. We are interested in examining that further: that as the economy slowly starts to pick up, and as the government reduces its deficit, they look at lowering the small business tax rate even further.

Mr. Mark Adler: How welcome was the news earlier last week that the finance minister will not only be balancing the budget by 2015-16, but in fact will have a surplus? Is that welcome news for you and your members?

Ms. Monique Moreau: Our membership tend to be fiscal hawks. They can't afford to carry deficits themselves, so they have a hard time when the government does it. Returning the budget to balance will be welcomed by them at that time.

Mr. Mark Adler: How much time do I have left, Chair?

The Chair: You have three minutes.

Mr. Mark Adler: Ms. Yalnizyan, what's the mandate of the Canadian Centre for Policy Alternatives?

Ms. Armine Yalnizyan: We were established in 1980 to provide research analysis. We're funded by 12,000 individual and organizational members today to do the same thing that we've always done: economic social justice.

● (1955)

Mr. Mark Adler: Is all your funding from individuals or do you receive anything from organizations?

Ms. Armine Yalnizyan: We do get individual and organizational support. We always have and, God bless them, hopefully we always will.

Mr. Mark Adler: Do you receive any foreign funding?

Ms. Armine Yalnizyan: I cannot tell you. I don't know if any of our individual members are foreign established people. I don't know.

Mr. Mark Adler: No, I'm not talking about individual members. I'm talking about organizations.

Ms. Armine Yalnizyan: Not that I know of, sir, but I'm not the executive director, and I don't cover the finances. I'm a researcher.

Mr. Mark Adler: Do you receive any funding from foreign governments?

Ms. Armine Yalnizyan: Not to the best of my knowledge, no.

Mr. Mark Adler: Does your organization comment on foreign affairs and Canada's position on foreign affairs?

Ms. Armine Yalnizyan: We have a trade research wing of the organization. We have had a trade research organization—

The Chair: I know that I give members a lot of leeway in terms of relevance, but we are discussing the Budget Implementation Act, so if we could pull it back to that—

Mr. Mark Adler: I know. The credibility of the organization presenting is important too.

Voices: Oh, oh!

The Chair: I mean, we are here discussing the budget bill, so....

Mr. Mark Adler: I know, but it's important, too, to determine the credibility of witnesses who are appearing before you.

Voices: Oh, oh!

The Chair: Order, order.

On this, the witnesses are asked to appear here. They're guests of all the committee members and especially of the Chair, so we shall treat them as such.

Mr. Mark Adler: How much time do I have left?

The Chair: You have about a minute.

Mr. Mark Adler: Okay.

As far as you're concerned, then, lowering corporate taxes to what we have them set at now, at 15%, is a bad thing? You would advocate increasing them. Is that correct?

Ms. Armine Yalnizyan: I don't think I have necessarily said that, though I have said in the past personally...and I can't speak for all of my colleagues, because we have diversity of opinion in our organization. But I have said personally that—

Mr. Mark Adler: Are you here on your own behalf or on behalf of the Canadian Centre for Policy Alternatives?

Ms. Armine Yalnizyan: I am here on behalf of the Canadian Centre for Policy Alternatives, but no individual carries the entire voice, because as a think tank we do actually have diversity of opinion.

Mr. Mark Adler: Okay. No, I understand that. So you're here speaking on behalf of the Centre for Policy Alternatives—

Ms. Armine Yalnizyan: To the best of my ability, yes.

Mr. Mark Adler: —but you cannot give the position of the Centre for Policy Alternatives.

Ms. Armine Yalnizyan: I think most of the people who are associated with the Canadian Centre for Policy Alternatives would think that further reductions in corporate taxes are not—

Mr. Mark Adler: Further reductions. Current levels of—

The Chair: Okay, last question. A brief response, please.

Ms. Armine Yalnizyan: The last question being, would I be for or against an increase?

Mr. Mark Adler: Yes.

Ms. Armine Yalnizyan: In corporate taxation? Personally, yes. Corporately, yes.

Mr. Mark Adler: Not personally. Does the Canadian Centre for Policy Alternatives stand for an increase in the current corporate taxes?

Ms. Armine Yalnizyan: Sir, personally, yes. And corporately, yes.

Mr. Mark Adler: Please answer my question.

Ms. Armine Yalnizyan: I just did. Twice now.

Mr. Mark Adler: No, you didn't. You answered for yourself. I'm asking for the Canadian Centre for Policy Alternatives for which you are appearing here.

The Chair: Order, order!

Ms. Armine Yalnizyan: I said personally, yes, and corporately, yes. And that's the third time I'm saying the same thing now, sir.

Mr. Mark Adler: Well, you haven't answered it once. Thank you.

Ms. Armine Yalnizyan: You don't understand the term "corporate", sir? On behalf of my organization and on behalf of myself—

Mr. Mark Adler: Excuse me, witness. You don't have to be insulting.

Some voices: Oh, oh!

The Chair: Okay, order, order, order, order!

Mr. Mark Adler: I'm trying to get an—

The Chair: Order!

Ms. Armine Yalnizyan: I'm trying to answer your question.

Mr. Mark Adler: I'm trying to get an answer from you.

The Chair: Order! Mr. Adler—

Ms. Armine Yalnizyan: I've offered you my answer three times.

The Chair: Mr. Adler, I heard yes both personally, and yes for the Canadian Centre for Policy Alternatives. Is that correct?

Ms. Armine Yalnizyan: Yes, sir.

The Chair: Okay, that is correct.

Thank you.

Monsieur Côté, s'il vous plaît.

[*Translation*]

Mr. Raymond Côté: Mr. Chairman, let's come back down to earth.

Ms. Arruda, I very much enjoyed your opening remarks. It reminded me of when I had just graduated from university in the mid-1990s. For three years I went from one small contract to another. I also received social assistance, the huge income of $510 a month. Fortunately, at the time housing in Limoilou was half as expensive as it is now. Of course, I was receiving employment insurance at the time.

It is very difficult to go through the joblessness cycle. Allow me to tell you what the times were like. In Quebec City, unemployment was approximately 10%, 11% or 12%, which is radically different from the current situation. You have to have the means to deal with that. Income comes in, however there are expenses, housing, travel, food, appropriate clothing, etc.

For a long time now, radical changes have been made to employment insurance and not only by the conservative government. Do you think that the trap that catches people who are unemployed has become tighter, that it has a tighter hold on people, against their will and against their wishes?

● (2000)

Ms. Marie-Hélène Arruda: Yes, absolutely. I absolutely agree with you. It is extremely difficult and painful for individuals to find themselves without a job, to lose their job. It's very difficult psychologically. Not only do these individuals lose their jobs, an environment, a lifestyle and a routine, but they also have to face a system that may turn down their claim for benefits. If a claim is turned down, then there is even a longer process to go through. Benefits are provided but individuals are told that even though they have a right to them, they have to follow new rules, that is, accept just about any lower-paying job. That's what the law says anyway. So their financial situation deteriorates. People are told that they have to take a lower-paying job that isn't necessarily in their area and doesn't necessarily reflect their interests, their experience and their training.

Having to receive employment insurance benefits is scary. We are starting to see people who prefer to not file an employment insurance claim and just take a job quickly because they do not want that claim to be counted and then end up in the frequent claimants category. People are now afraid of using a system that is supposed to help them. They prefer to abstain from using it rather than suffer the effects of the reform.

Have I answered your question?

Mr. Raymond Côté: Yes, thank you very much.

I would like to ask you another question. I don't remember seeing this in the news in Quebec or any particular area of Quebec. However, this did make the headlines in New Brunswick. I am referring to the obligation to have potential employers fill in a form. This triggered a revolt, even on the part of employers who were closing their doors.

Has this been happening in any areas in Quebec?

Ms. Marie-Hélène Arruda: I couldn't tell you. I don't know.

Mr. Raymond Côté: Fine. I thank you for your candour.

I am now going to ask Ms. Moreau a question.

I am interested in one of your graphs on page 4. I am referring to slide number 7 on employment insurance premiums.

As Ms. Arruda said—and I asked this question of officials as well—there is no EI account balance before 2009. Obviously, this is a new account.

Why did you not speak to the $57 billion that were accumulated and that unfortunately disappeared from the public accounts?

Ms. Monique Moreau: We limited our comments because of the limited time that we had at our disposal today and the fact that we were speaking to Bill C-4. I can tell you however that the situation you are referring to raised concerns among several of our members.

Mr. Raymond Côté: Fine. That was truly not well received.

The Chair: Thank you Mr. Côté.

[*English*]

We'll go to Mr. Van Kesteren.

Mr. Dave Van Kesteren: Thank you all for appearing.

Ms. Arruda, we're going to have to speak through an interpreter. I apologize. You wouldn't want to hear me try to address you in French.

I just want to commend you and your organization. I think it's a wonderful initiative to advocate for those who are less fortunate, and I think that in a civilized country, the issue of the unemployed is something that touches us all very closely.

Would you agree with me that the biggest right is a job?

[*Translation*]

Ms. Marie-Hélène Arruda: Was that question for me?

The Chair: Yes.

Ms. Marie-Hélène Arruda: You said that employment is a fundamental right. That is essentially your question.

I believe rather that the fundamental right is the right to life and to income support. If income occurs through employment, that's wonderful, but life is sometimes fraught with difficulties. Unemployment does not only depend on an individual's will. When you lose your job, what do you do? Ideally, everyone should have a job, but the fact of the matter is that there are not jobs for everyone. There will always be a certain level of unemployment that cannot be eliminated.

● (2005)

[*English*]

Mr. Dave Van Kesteren: I'm going to cut you off because I have only a short time. I think we're saying the same thing. You would agree that the reason you're here is to advocate for those who are unemployed. If they had jobs, I guess you'd be out of a job.

[*Translation*]

Ms. Marie-Hélène Arruda: Yes, absolutely.

[*English*]

Mr. Dave Van Kesteren: Our government has had a tax credit and will continue to use a tax credit to encourage businesses to create work. Would you agree that this is a good measure?

[*Translation*]

Ms. Marie-Hélène Arruda: No. We feel that that removes the burden from business owners and businesses to deal with unemployment. This is not necessarily a welcome measure given that less money will go into the pockets of the unemployed. Furthermore, we do not believe that this measure will really lead to creating permanent jobs.

[*English*]

Mr. Dave Van Kesteren: Okay, we might not get an agreement, but let me ask you this. What about tax relief on Canadian families? Is that a good initiative to help businesses lower taxes so that they're not burdened with those things, and so that they can direct some of those funds to hire new people? Would you agree that this is a good policy?

[*Translation*]

Ms. Marie-Hélène Arruda: Not particularly, no.

[*English*]

Mr. Dave Van Kesteren: Okay, I see we have some difficulty.

I'm going to go to Ms. Moreau. Thank you. You're a very charming lady and I thank you.

Ms. Moreau, we had some witnesses in the other day.

How much time do I have, Chair?

The Chair: You have about one minute.

Mr. Dave Van Kesteren: I'm going to ask you something else.

We've talked about all the good things we've done. As the CFIB, where do you think we should go from here? We're lowering taxes. We're trying to make it easier to conduct business. Where does the CFIB feel we should go from here, as the government? What do you recommend?

Ms. Monique Moreau: We're in the throes of preparing our submissions to next year's budget, which will be substantial I can assure you, and I look forward to an opportunity to meet with you on that.

Mr. Dave Van Kesteren: You can't give us some—?

Ms. Monique Moreau: Certainly. Our top three, if you will, are to lower the small business tax rate; to not increase payroll taxes, specifically the CPP; and to consider looking at reducing the government's deficit through the public sector pension and public sector benefits situation that we are facing right now.

Mr. Dave Van Kesteren: Thank you.

I'm done, Chair.

The Chair: Thank you, Mr. Van Kesteren.

Mr. Rankin, please.

Mr. Murray Rankin: Thank you.

Thank you, all the witnesses.

I think my time will only allow me to ask questions of Ms. Yalnizyan and Ms. Moreau.

First of all I want to say that the Canadian Centre for Policy Alternatives is an organization I've proudly contributed to for over a decade, and I salute the great work that you do.

Ms. Armine Yalnizyan: Thank you.

Mr. Murray Rankin: I have to say, though, that I am grateful to you for coming here and putting in context what we are doing as a committee. You will be happy to know you are in good company. The radical organization, the Chartered Professional Accountants of Canada, today also pointed out the inadequate time available to study such a complicated bill.

I'm grateful to you for pointing out that Stephen Harper railed against a 21-page omnibus bill and today we have to deal with a 308-page bill. This is the fifth hour. We will be here for five hours today to do it, as the government prorogued and took a month away from the scrutiny. Your points are very well taken.

I asked the Minister of Finance what the amendments to the health and safety provisions of the Canada Labour Code had to do with a finance bill, and he said something like, “Well, mediators and the like have to take into account financial issues.” The Supreme Court amendments were an example where, really, I couldn't think of anything financial, but they threw that into the omnibus bill as well.

So thank you for bringing to the Canadian public's attention what I call “legislation by exhaustion” and the inadequate way to address these issues.

On a more substantive, not process, side, you talked about the under-spending each year. You talked about how the deficit looks smaller. You used a provocative expression; you said that it may be that the public is being gamed.

Could you explain what you meant by that?

● (2010)

Ms. Armine Yalnizyan: It's very difficult to know what is going on. The Parliamentary Budget Officer asked for documentation and failed to receive it. The public is asking and fails to receive good answers to many questions that are being posed of this government. That $10 billion shortfall, consistently in three years—under-spending by $10 billion every year—kind of looks like maybe they want to be telling us a story because the money appears in supplementaries a few months later.

It appears to me that there is a pattern, and the pattern does not offer a lot of reassurance that they want to be open and forthcoming in how the budget is being both articulated, and then allocated and spent. I guess some parliamentarians believe government is better when it's closed and murky rather than open and transparent.

Mr. Murray Rankin: I fear you're right.

I'd like to ask Ms. Moreau a question. My question is about how you'd characterize what the minister today called the “contributory plan”, the Canada Pension Plan, which you refer to on your slides as a payroll tax. I would reference slide 4 of your presentation.

First of all, the context is that today the Canadian Association of Retired Persons released a survey of Canadian voters produced by the Forum poll, that showed a majority, 53%, want the CPP contributions increased, and that half of Canadians agree that the CPP's target of replacing about 25% of pre-retirement income is too low.

My question, I suppose, is that if Mr. Flaherty acknowledges that this is a contributory plan, and since a tax is something that goes to the consolidated revenue fund, why is this a payroll tax? Or is that just a convenient shorthand that you're using?

Ms. Monique Moreau: For many of our members, anything that taxes their ability to hire a new employee or increase their wages is determined to be a tax. We understand there are technicalities, but for the employer who never receives any of the income back, it's not deferred income like it is for the employee. We call it a tax for that reason.

Mr. Murray Rankin: But a licence is also an expense that doesn't turn on profits. You have to pay business licences and so forth. I don't think you're complaining about that being a payroll tax, are you?

Ms. Monique Moreau: It's easy to see specifically who the licence goes to. We don't complain about licences as tax, but we do complain about them. If they're too expensive or if they are a cost of doing business that is prohibitive, then we do, I can assure you.

Mr. Murray Rankin: I just have a hard time calling something a tax when I think even the minister has just acknowledged it's not.

But you say that the economy is still sluggish; therefore, we cannot afford to do what most Canadians, according to today's poll, tell us we should be doing, and help people save for their retirement.

So just when is it going to be possible to do what you think we should do? When is the economy going to be ready? What state of economy is necessary before you'd go along with it?

The Chair: Ms. Moreau, answer very briefly, please. Thank you.

Ms. Monique Moreau: I think we're looking for a robust, healthy economy.

Mr. Murray Rankin: A 2% growth, 5%—

The Chair: Let's just have her answer.

Ms. Monique Moreau: I'm not an economist, so I won't pick the number. That's typically not where CFIB lands itself. We are interested in raising the retirement income for Canadians, we just think there are options available other than doing it through a tax.

The Chair: Thank you.

We're going to go to Mr. Jean, please, for your round.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair, and thank you to all the witnesses who appeared today.

Small businesses are defined as those that employ 5 to 100 persons. Looking at some of the statistics for small businesses...and of course, Ms. Moreau, your organization represents 109,000 of them, but that doesn't make up all the small businesses. There are actually 1.1 million small businesses, so you represent about 10% of them. They employ 48.3% of Canada's workforce—over 5.1 million Canadians work for small businesses—and 86% of Canadian exporters were small businesses; 42% of Canada's private sector GDP is from small businesses; 28% of the country's total GDP came from businesses that employ under 50 people—I'm so excited, I can't even say “small businesses”.

Wouldn't you say that small businesses have a significant impact on our economy? It's a stunning impact.

● (2015)

Ms. Monique Moreau: Based on statistics you just read, and we have our own that are very similar, there's no question. We believe small businesses underpin the Canadian economy, essentially.

Mr. Brian Jean: Without them, our economy would be in tatters.

Ms. Monique Moreau: Yes, I'd have to agree.

Mr. Brian Jean: What did expanding and extending the hiring credits for small businesses do to our economy? That hit 50% of Canadians, in essence.

Ms. Monique Moreau: It did. It allowed small business owners to receive a bit of a break during a time when the economy wasn't doing very well and they were just trying to get out of the recession. We have research that shows small business owners, in times of economic distress, are the first to hire, the last to fire. Many of our members didn't pay themselves during the recession in order to keep their employees. Giving them the EI hiring credit allowed them to keep those employees or to keep up with inflation and give small increases in their salaries, and to maintain the workforce they had.

Mr. Brian Jean: I was even shocked to see—and I can't remember where I saw it—that the average wage for small business owners was $38,000.

Ms. Monique Moreau: I know there's this perception that small business owners are hiding money under the mattress and that's why they're not providing pensions for their employees or not providing wages or not hiring. As you said, many small business owners are receiving very small salaries. The margins on a small grocery store, for example, can be very low, 1% to 2%.

Mr. Brian Jean: I think I read somewhere that just five years ago we had a record for the closing of small businesses, 109,000 as a result of the economic downturn—or something like that, I can't remember. But that would put a lot of people out of work. In fact, many people who are small business owners would not receive a salary as a result of effort and money they put into that business.

Is that fair to say?

Ms. Monique Moreau: I think so, yes.

Mr. Brian Jean: So in relation to the expansion and extension of the hiring credit, what else have you heard from your members?

Ms. Monique Moreau: Our own research shows that they've been thrilled. As I was saying earlier, it's a low cost, they didn't have to apply for it, there's no red tape associated with it. CRA does the calculation, and they receive it when they qualify. We can't think of a better way to implement a tax measure such as the hiring credit. It's very easy, and business owners don't have to worry about whether or not they need to apply for it.

Mr. Brian Jean: And it doesn't go to any particular large corporation. It goes to everybody, just about spread right across the economy, across every province.

Ms. Monique Moreau: CFIB lobbied hard for the credit, but it applies to all small business owners, whether they're members of ours or not.

Mr. Brian Jean: Can you suggest any other innovative ways that this government can reduce debt and at the same time grow the economy by creating jobs?

Ms. Monique Moreau: A tax credit like the small business hiring credit is a great example. We're looking at a variety of different measures through training, reducing the deficit, and bringing public sector wages in line with the private sector. There are a number of issues we'll be hoping to present to members of Parliament as we proceed through the budget 2014 process.

Mr. Brian Jean: Do you find that during the consultation process the department has worked very well with you, taking your suggestions and giving them due consideration?

Ms. Monique Moreau: We have an excellent relationship with the Department of Finance and we've been quite pleased to be working closely with them over the years.

Mr. Brian Jean: Thank you very much.

The Chair: Thank you, Mr. Jean.

[*Translation*]

Mr. Caron, you have the floor.

Mr. Guy Caron: Thank you Mr. Chairman.

I would like to come back to Ms. Arruda. Your organization assists unemployed individuals. Of course, unemployed individuals who have lost their job go to see you to talk about their circumstances so that you can help them.

Let us be clear that the official closing, abolition or dissolution of the Canada Employment Insurance Financing Board is something that was added to the reform, that had started before the bill was tabled. Pilot projects will end, including the five additional weeks of benefits for those living in areas of high unemployment.

The reform included many things, including pilot projects for the changes contained in the bill, such as the quota system, the elimination and replacing referees by the Social Security Tribunal. As well, organizations like your own, third parties, will no longer be able to officially represent unemployed individuals before the tribunal. What has your experience been and what is your vision of an overall reform from the perspective of helping those who are most vulnerable?

Ms. Marie-Hélène Arruda: There will certainly be a decrease in benefits. The elimination of arbitration boards and the new mandatory administrative review process and the Social Security Tribunal alone are already discouraging the unemployed. Some of them will decline their right to appeal because of the administrative procedures and the lengthy delays. Those individuals will not receive benefits when they might have had a right to them. There is a "black hole". Those benefits will no longer be paid out.

Furthermore, according to the new criteria, individuals who turn down supposedly appropriate employment will not be able to receive benefits for between 7 to 12 weeks. One could even imagine, if you think about this, there being an employment insurance surplus, although I am not an accountant. Certainly, the benefits being paid will go down. This reform will have a direct effect on the unemployed who will receive less benefits. The abolition of the Canada Employment Insurance Financing Board is one more nail being hammered in by this entire reform. It affects many aspects of the Employment Insurance Act.

● (2020)

Mr. Guy Caron: Thank you very much.

Ms. Marie-Hélène Arruda: It is not necessarily to the advantage of the unemployed.

Mr. Guy Caron: I imagine that in your situation you are seeing several cases of distress due to the implementation of this reform, which would not have been the case otherwise.

Ms. Marie-Hélène Arruda: Yes. Things were already going badly. Access to the program has just been made harder. The process is becoming more difficult and more painful for the unemployed.

Mr. Guy Caron: Thank you.

I am now going to ask a question of Ms. Yalnizyan.

Your presentation was clear. You referred to the abuse by the government of 500- to 600-page omnibus bills that include just about anything when they should deal with budget measures.

Something else should be noted. Most committees, and the government in general, decided to prevent, to a certain extent, independent members from bringing forward amendments because they are not sitting at the table and they do not have a voice. Only those members who belong to an official party in the House can attend and fully participate in the procedures.

However, they found a way around the system and told them that if they wanted to bring forward amendments, they could do that at the Standing Committee on Finance or other relevant committees. What that means is that if they have an opportunity to propose amendments in a specific committee, then they can no longer table them and speak to them in the House. Were you aware of this measure?

[*English*]

Ms. Armine Yalnizyan: No, I didn't know about that.

[*Translation*]

Mr. Guy Caron: What are your comments?

[*English*]

Ms. Armine Yalnizyan: I've been listening to this conversation and I am grateful to be part of it. I'm grateful to be part of these very respectful questions of small business and of the unemployed. I'm sitting here thinking that this piece of legislation needs to be split apart between fiscal measures and non-fiscal measures, and the parts that are non-fiscal, that are recreating huge pieces of public policy—huge pieces of public policy—with zero scrutiny, need to themselves be treated separate and apart. There is absolutely no way this process, which is designed to introduce amendments, is going to deliver that sort of thing because of the nature of where we're at.

It really saddens me to watch our democratic institutions, which are here to prevent this kind of railroading of public policy and to permit scrutiny and democratic discussion, not being permitted to anymore. We're in a democracy. We have these tools at our disposal and we can't do it. We're going to talk about small business and the unemployed. With due respect, that isn't what we're here to discuss. We're here to discuss a piece of legislation, a project for implementing a budget, our second budget implementation bill, that stuffs even more things that have got nothing to do with a budget in it, that can actually rewrite Canadian history when it comes to immigration, to selecting a Supreme Court justice, to defining what is health and safety of workers.

That strikes me as improbable, that we are having this discussion about where should we go from here on small business taxes. That isn't what this bill is about.

The Chair: *Merci, monsieur Caron.*

Mr. Hoback, please.

Mr. Randy Hoback: Thank you, Chair.

And thank you, ladies, for being here tonight.

I'm just going to try to get some clarification on where your positions are on different things. My first question is the hiring credit for small businesses.

Do you think it will encourage job creation, Ms. Moreau?

Ms. Monique Moreau: Certainly. For many of our members—

Mr. Randy Hoback: Okay. I don't have a lot of time, and I have a lot of questions, so yes or no? I kind of know....

Ms. Monique Moreau: Yes, it will.

● (2025)

Mr. Randy Hoback: Okay.

Ms. Yalnizyan? I'm sorry if I pronounce your name wrong.

Ms. Armine Yalnizyan: No, that's fine.

Mr. Randy Hoback: I'll get it right by the end.

Do you think it will encourage the hiring credit for small business? Do you think it will actually encourage job creation?

Ms. Armine Yalnizyan: I think it is a help to those companies that were close to making that hiring decision anyway. I don't think that is enough money to make somebody turn around and say, “I think I'll hire that person.”

Mr. Randy Hoback: Okay, so you think it should be more money.

Okay, then—

Ms. Armine Yalnizyan: No, I don't think it should be more money, sir—

Mr. Randy Hoback: You don't think so?

Ms. Armine Yalnizyan: —but thank you for filling in the rest of my sentence.

Mr. Randy Hoback: Oh, I didn't mean to do that. I just was asking. Okay.

Closing tax loopholes: do you think we need to be doing this to keep the integrity of our tax system in place?

Ms. Monique Moreau: Yes.

Mr. Randy Hoback: Ms. Yalnizyan.

Ms. Armine Yalnizyan: Closing tax loopholes is absolutely something that should be done. I would add to that that you should not keep opening up new tax loopholes at the same time.

Mr. Randy Hoback: Okay, that's fine.

EI rate freeze?

I know, Ms. Moreau, you've been fairly consistent on that.

The policy centre, where do you stand on the EI rate freeze?

Ms. Armine Yalnizyan: I would actually agree with the CFIB that having a seven-year timeline, and knowing where those premiums are going to go and why they're going to go there, is an absolutely appropriate way of doing things.

Mr. Randy Hoback: Okay, thank you.

Lifetime capital gains exemption: the raising and then indexing it to inflation. Again, is it an important factor?

Ms. Monique Moreau: Yes, it's a critical component for those businesses that can take advantage of that arrangement for their succession planning. Looking down the line, succession planning is going to be a challenge for this country. Making sure we have people who can take over those businesses or that they can appoint family members or whoever is willing to do it, take advantage of it, it's critical.

Mr. Randy Hoback: Would you agree?

Ms. Armine Yalnizyan: I think lifetime capital gains exemption increases are lovely if you've already dealt with the problem of growing inequality, which you haven't.

Mr. Randy Hoback: Okay.

Ms. Armine Yalnizyan: So I think it's like frosting on the cake if you've already solved the problem of income inequality, which is getting worse every year. And measures that are being proposed by this government for when we are in budget balance, which are income splitting and doubling contributions to TFSAs, will actually make income inequality worse in this country. So I—

Mr. Randy Hoback: So you view all those as negative things, then?

Ms. Armine Yalnizyan: Well, they widen income inequality. If you don't see that as a negative thing, then.... We're not talking about positive/negative, we're just talking the facts.

Mr. Randy Hoback: I'm just trying to get your perspective, just so I have an understanding of what you represent.

Electronic sales suppression software: that's software that's coming forward—

Ms. Armine Yalnizyan: Say that again, please.

Mr. Randy Hoback: Electronic sales suppression software. It's software that actually allows the till to be split apart so the cash economy can actually cheat out what they're supposed to be paying in taxes. That's part of this budget bill, and that has had a lot of favourable response. I can't see anybody being negative on that.

Then phasing out the LSVCC, the venture capital fund that's in Quebec. Are there any comments on that?

Ms. Monique Moreau: Sorry, I missed it. LSV...?

Mr. Randy Hoback: LSVCC. It's the venture capital play. It's basically a government decision to phase out the credit. It's a tax writeoff they have that will be eliminated by 2017.

Ms. Monique Moreau: I have no problem with that.

Mr. Randy Hoback: You have no problem? Okay.

Chair, I'll turn it back to you, then.

The Chair: Okay.

I'm going to take the final round here, as the chair.

I just want to clarify the process. We are discussing the overall bill, but this panel is largely focused on part 3 of the bill, division 1, which discusses employment insurance, EI hiring credit, EI premium rate, EI fishing regulations. All the questions with respect to EI are completely germane to this division of the bill.

I want to address a larger part of the process. The full briefing given by the Department of Finance is now online, thanks to this committee's work. We're one of the committees that does everything online. We're a very open committee. You can in fact go to our website and see every single study or every single witness who has ever presented on any pre-budget thing.

In regard to this bill: part 1, measures related to income tax; part 2, the Excise Tax Act; part 3, you have employment insurance, financial institutions—two sections on that. It's true, you have the Canada Labour Code, the reorganization of certain crown corporations, the Financial Administration Act, and the Canada Pension Plan Investment Board Act.

But I'd like to take it back to the process. This is the second Budget Implementation Act. The government presents the budget in February or March of each year, following up with one act in the spring and one act in the fall. But the start of this process is actually the pre-budget consultations at this committee.

Ms. Yalnizyan, I'm going to ask you the questions I ask my political opponents. We get submissions on every single topic at this committee every summer and fall. So if we don't want sections on environment or labour in the budget bills, and that's in the budget, do we as a finance committee say no to people who want to present on the environment, on labour, on immigration?

We take submissions at the pre-budget consultations on everything. We accept submissions on everything. The budget is the largest document each year and the budget act is to implement that. So if we're not going to allow it at the Budget Implementation Act process, we should probably cut it out of the pre-budget consultations. I'll tell you, if I did that as the chair, I wouldn't be a very popular person in this country.

Can you respond to that?

● (2030)

Ms. Armine Yalnizyan: Absolutely.

I think you're completely correct to say that any pre-budget consultation should be open to discuss anything that the people of Canada want to see in the next federal budget, and that is appropriate.

But when you put out a 308-page document with over 420 clauses, and you give witnesses seven hours to bring testimony before you, how is it going to amend the Canada Labour Code? Why doesn't the Government of Canada just say, "We heard this in the pre-budget consultations. We agree that it is important to change the Canada Labour Code, and we're going to do that in a separate piece of legislation"?

It's the same with choosing a justice for the Supreme Court. It's the same with changing immigration. These are major planks of public policy in our country. Why are they being shoved in a piece of legislation that cannot be scrutinized in a clause-by-clause way? Why can't we reasonably make amendments to these important policy initiatives?

The Chair: Well, we'll be doing clause-by-clause later this week.

Ms. Armine Yalnizyan: You're not going to amend individual—

The Chair: Well, it's up to the committee. I'm not going to prejudge what the committee is going to do. In fact, as the chair, I don't even get a vote unless there is a tie.

Ms. Armine Yalnizyan: It's true, but what I did—

The Chair: This is part of an ongoing process debate. But it all originates in the pre-budget consultations, which are a catch-all for any sort of policy whatsoever.

Ms. Armine Yalnizyan: True, it's a—

The Chair: I think that if we're going to cut it out of the later budget process, we ought to be consistent along the entire pre-budget process.

Ms. Armine Yalnizyan: Why? You are asking Canadians for their opinions on what should be in a budget and you could use that as a sounding board to say which things are financial, which are fiscal, and which budgetary. All these things could be treated differently at different committees.

The Chair: Okay, obviously I'm not convincing you.

But I do want to go to Ms. Gauthier, very briefly.

In your opening statement you said that, based on the level of employer contributions paid in 2011, you estimated that almost 40,000 charities could benefit from the hiring credit included in this Budget Implementation Act.

Almost 90% of all charities have paid staff. But you said that when the hiring credit came out, many charities did not avail themselves of it because they did not see it as applying to them. Was that because they didn't see themselves as traditional employers, or was it something that the government did or did not do that caused charities not to avail themselves of the credit?

Dr. Michelle Gauthier: It wasn't so much that the charities didn't avail themselves of the credit. It was that they were not aware on budget night and in the months following that it was applicable to them. The point was simply about the way we described the credit. We in fact acknowledge our mistake. We overlooked it.

In talking with officials, and I believe with our colleagues in government, they didn't promote it or market it as something that they were doing for charities.

We would welcome the opportunity, when additional initiatives that apply to all employers are put forth, to have these initiatives clearly identified as such. I think the budget document spoke about the important role that small businesses play as job creators in the Canadian economy. I would welcome the inclusion of those types of sentences for charities and non-profits.

The Chair: So when you see the phrases “employers”, “small business”, “job employers”, and “job creators”, do charities consider themselves within those? Or do they need to be mentioned specifically?

Dr. Michelle Gauthier: I think they probably need to be a little bit more specific, because the recognition here was a “small firm”. I don't know that they would see themselves as a firm, even though they would see themselves as social entrepreneurs and as operating related businesses as charities.

It's just a clarification that could really help in future.

The Chair: Okay. Thank you very much for that.

I want to thank all of you for being here, both in Ottawa and in

[*Translation*]

Quebec City. Thank you very much for your remarks and for your answers to our questions.

[*English*]

Thank you so much for your input into this very lively discussion this evening.

Thank you, colleagues.

The meeting is adjourned.