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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 the meeting to order.

This is meeting 51 of the Standing Committee on Finance. Our orders of the day, pursuant to Standing Order 83.1, have us continuing our conversations on pre-budget consultations 2014.

In the first panel this afternoon we have five witnesses.

First of all, we have back again, from the Canadian Centre for Policy Alternatives, Ms. Armine Yalnizyan.

Ms. Armine Yalnizyan (Senior Economist, Canadian Centre for Policy Alternatives): If I come here often enough, you'll get my name just like that.

Voices: Oh, oh!

The Chair: Yes. You'll have to keep coming back here. Welcome back today.

From Canadians for Tax Fairness, we have the executive director, Mr. Dennis Howlett.

From Restaurants Canada, we have Ms. Joyce Reynolds, the executive vice-president, government affairs.

From Portfolio Management Association of Canada, we have the chair, industry regulation and tax committee, Mr. Scott Mahaffy.

And from Tax Executives Institute, Inc., we have the vice-president, Canadian affairs, Mr. Paul Magrath.

Welcome to the committee. You will each have five minutes for your opening statements, and then we will have questions from members.

We will begin with the Canadian Centre for Policy Alternatives.

Ms. Armine Yalnizyan: It is my great pleasure to be here, and it is an honour to be here with all of you. Thank you so much for keeping on. I'm so proud of Parliament right now.

I thank you for the invitation to discuss how we can improve Canada's taxation and regulatory regimes. I would like to present for your consideration three proposals to improve the short game, the long game, and the strong game for Canada's public revenues and the rules that govern them.

With respect to the short game, economic growth is slowing around the world and in Canada. Both the IMF and the Bank of Canada have downgraded growth expectations very recently, and we expect the fiscal outlook will reflect that.

Since July, when these growth rates were downgraded, oil prices have plunged by 25%, and they continue to fall this week on the markets. The exchange rate of the Canadian dollar has fallen by about 6%, which means we are getting less for the oil we are exporting and all of our imports are increasing in price. Add in a U. S. economy that is growing in its energy independence, the fear of a triple-dip recession and deflation in Europe, a looming credit crisis in China, and there is absolutely no shortage of reasons to worry about how difficult it's becoming to attain and maintain budget balance in the coming months.

While there is a risk adjustment factor of $3 billion built into the federal budget of 2014, plunging oil and gas prices could wipe out up to $4 billion from federal revenues alone. In addition, your pledges to military action to fight ISIS abroad and enhance security measures to fight terrorism here at home will cost us more.

Despite these growing fiscal pressures, we know the Government of Canada is committed to more tax cuts. The EI reductions and the doubling of the child fitness tax credit and making it refundable will take about $255 million out of the public purse next year. Two remaining large commitments from the spring 2011 election campaign will take billions more. Of course there's been much debate over the income splitting proposal, which would cost $3 billion in its original form. Less attention has been paid to the proposals to double contributions to the tax-free savings account, which one study in the *Canadian Tax Journal* estimated would result in a loss of 6% of federal revenues on maturity.

Each of these tax cuts simply reward existing behaviour rather than incentivizing new behaviour. Tax credits for children's fitness, even when refundable, recover a small factor, a fraction of the costs, leaving enrolment for most physical activity programs unchanged for most young families. Employment insurance premium reductions flow to small businesses whether they create or eliminate jobs. The tax-free savings account and income splitting proposals encourage saving rather than spending, not working rather than working.

Since tax measures that reduce rather than enhance economic growth work in a direction opposite and contrary to your short-term policy objectives, my first recommendation is that the Government of Canada not proceed with tax cuts at this time.

The long game means we need to broaden the tax base. Population aging will cause labour shortages, reduce revenues, and increase expenditures over the next 20 years. At the same time it is expected that at least $1 trillion of wealth will be transferred between generations of Canadians. The dependency ratio, which is the ratio of those who are too young or too old to work, will rise over the next 20 years. But even so, it will not match the dependency ratio of 1961, the biggest difference being that there will be more older dependants than younger than in 1961.

In 1961 the federal government accounted for 16% of the economy. This was an era that preceded programs like medicare, the Canada assistance plan, and post-secondary education expansions.

The Chair: You have one minute.

Ms. Armine Yalnizyan: This is not the time to cut the federal role, which is what is anticipated, but broaden it. There is room to raise rates. But another approach is to broaden the tax base by extending the GST to financial activities and services; capping lifetime contributions to tax shelters, such as the tax-free savings account; introducing an inheritance tax; eliminating deductions for stock options and capital gains; tightening tax expenditures; and tackling tax evasion more vigorously—and this is my last recommendation. The strong game means that you get tougher on tax crime, not more lax.

In 2007 a departmental performance review of CRA noted that the reporting compliance sector conducted 27,000 audits of international and large corporations and recovered $5.7 billion. It also audited 321,000 small and medium-sized businesses and recovered $2 billion.

● (1535)

Clearly, CRA can be a profit centre for the Government of Canada if the staffing is maintained, yet the reporting compliance department will see a 25% reduction in staff, with more staff taken away from criminal investigations and auditing international and large businesses, and more people put on small and medium-sized businesses. At the same time, just weeks ago CRA announced it would be reducing red tape. This is the wrong direction to go in for a government that prides itself on being tough on crime.

Thank you.

The Chair: Thank you for your presentation.

We'll now hear from Canadians for Tax Fairness, please.

Mr. Dennis Howlett (Executive Director, Canadians for Tax Fairness): Thank you for the opportunity to provide input on the next federal budget.

Our message is that the federal government needs to increase its revenue in order to have the resources required to reduce income inequality and poverty, boost investments in social and physical infrastructure, and tackle climate change.

The government can do this by, number one, not introducing any more unfair and ineffective tax cuts. The finance minister is expected to declare that there will be a surplus, and announce more tax cuts in the next budget. But before considering any further tax cuts, the government should evaluate what previous tax cuts, totalling an annual $43 billion since 2006, have accomplished in terms of their stated objectives.

Let's examine a few examples. The corporate income tax cuts did not boost investment or stimulate job creation. Jim Stanford convincingly demonstrates in a chapter of a book we published called *The Great Revenue Robbery* that business investment spending in Canada has declined since the federal government began reducing corporate income taxes. According to Statistics Canada there is now $630 billion in dead money in cash reserves that is not being invested to create jobs. Far more jobs would have been created if the government had kept this money and invested it in infrastructure and public services. This is backed up by a 2011 study by the finance department that shows the infrastructure spending had a 1.6 multiplier effect, while tax cuts had little or no multiplier effect.

Many of the boutique tax cuts have also not generated the intended results. The children's fitness tax credit, for example, went disproportionately to upper-income families, and according to a University of Alberta study it did little to encourage participation in youth sport.

Given the clear evidence that tax cuts have been unfair and ineffective, it's sheer madness to consider income splitting for families in the next federal budget. An analysis by Queen's University tax law professor Kathleen Lahey that was done for Canadians for Tax Fairness shows that almost 30% of the benefit of income splitting would go to the top 10% of families with incomes of over $170,000. If supporting families is the goal, then a far better way to do this would be to fund quality, non-profit child care.

Second, we need to close unfair and ineffective tax loopholes. Many of the tax loopholes, tax breaks, disproportionately benefit the wealthiest and increase income inequality. They also make the tax system more complex, making it difficult for an ordinary taxpayer to know all the deductions and tax benefits they might be entitled to claim without the assistance of a professional tax expert. The most unfair tax loophole, in our view, is the stock option deduction that allows highly paid company executives and directors to pay at half the rate of tax on their compensation that is given in the form of stock options. This policy exacerbates the problem of growing income inequality when the government should be doing more to close it.

According to the tax expenditures and evaluations report of the finance department, the stock option deduction costs the federal government $785 million a year. If losses to provincial governments are added to the total, the revenue would top $1 billion. How can we justify subsidizing the incomes of the wealthiest Canadians and then claim we don't have the resources to end child poverty or ensure clean drinking water for aboriginal communities?

The Chair: You have one minute.

Mr. Dennis Howlett: Third, more, not less, needs to be done to tackle tax havens. There have been some encouraging steps made by the federal government. The last two federal budgets had measures designed to do something about tax havens, but I'm very worried that with recent actions, including, according to a report in *The Globe and Mail*, Finance Minister Oliverquietly stopping efforts to investigate the corporate use of tax treaty shopping, and the recent cuts to the Canada Revenue Agency, it would seem that the government is going back on its commitment to tackle tax havens.

● (1540)

The problem is actually growing, not lessening, and much more needs to be done.

Finally, more revenue is required to reduce income inequality and poverty, boost investment in social and physical infrastructure, and tackle tax havens.

The Chair: Thank you very much for your presentation.

We'll now go to Restaurants Canada, please.

Ms. Joyce Reynolds (Executive Vice-President, Government Affairs, Restaurants Canada): Thank you, Mr. Chair. I'm also delighted to be back in Ottawa again.

I'm here representing the $68 billion, 1.1 million employee restaurant industry. We have lots of ideas on how Canada's taxation and regulatory regimes could be improved, but given the five-minute limit, I'm going to focus on two.

One is in the area of regulation. There's a pressing need for regulation in the area of credit card acceptance fees. We're happy to hear that could be addressed as early as this week.

And, one tax has a disproportionate impact on the labour-intensive restaurant industry, and that's payroll taxes.

There is rarely an issue that unites the entire restaurant industry, but skyrocketing credit card acceptance fees is one. Regardless of whether we are talking about a table service or a quick service business, independent operator or chain, large or small, even an institutional food service provider, all are handcuffed by a credit card system that they have to use and that has costs that they cannot predict or control. There are 93% of our members who identify credit card fees as a serious concern, with 79% saying these have a big impact on their bottom line.

Restaurants Canada has been raising the alarm bells about the proliferation of premium credit cards and their impact on merchant fees since 2008. These premium cards, which provide insurance, travel programs, cashback, and other perks to cardholders have fees that are up to 25 times higher than standard ones. lnterchange fees charged to Canadian merchants are higher than almost anywhere else in the world.

Our payment system has evolved from a cash and cheque-based system to one where the Canadian dollar is primarily transacted electronically with control by private enterprises. Associations representing merchants have come together in an unprecedented way to pressure credit card companies and their issuing banks to reign in their fees. Quite frankly government has been pressuring them for a long time as well. But the credit card companies and issuing banks continue to sweeten the reward pot for cardholders and raise prices at will in one-sided negotiations with merchants.

Last year the Competition Tribunal ruling, in response to concerns raised by the Competition Bureau to unfair business practices by Visa and MasterCard, identified a regulatory framework as the solution. The longer it takes government to intervene, the richer the rewards to cardholders become and the harder it becomes to unravel this arcane system that is costing Canadian businesses $5 billion per year.

The credit card company's return from a restaurant meal already can be as high, or higher, than that of the restaurant operator, who creates the jobs and makes the community investments. In addition, the restaurant operators must also pay credit card fees on the sales tax they collect on behalf of governments as well as the tips that customers leave for restaurant staff, revenue streams that the restaurant operator cannot access or control. Card issuers collect more than $40 million annually in merchant fees on the sales tax portion of the restaurant bill alone.

As a result, Restaurants Canada urges government to ensure the budget commitment on credit card acceptance fees results in a significant reduction. We're looking forward to that this week. Ideally, we would like to see a regulatory cap on interchange fees, with rules preventing the introduction of other merchant fees to recoup lost interchange revenue, and we would like you to stop credit card companies from profiting from taxes collected on behalf of government.

On payroll taxes, our members have consistently identified payroll taxes as an obstacle to job creation because they are a tax on jobs but they are also the most regressive form of taxation. Those individuals at the lower end of the payroll scale pay the highest amount proportionately.

According to the 2014 budget El operating account projections, the El account will have a $2.4 billion surplus in 2015-16 and a $6.4 billion surplus the following year. This provides government with an opportunity to restructure this payroll tax to make it less regressive.

El premiums place a disproportionate tax burden on lower-income earners and have a particularly negative effect on the labour-intensive restaurant industry. They provide a disincentive to hire young, inexperienced workers, whose tax rates compared to their wages is disproportionately high.

A year's basic exemption would be the most efficient and cost-effective way to deliver payroll tax relief to the groups most affected. Similar to the $3,500 per year basic exemption in the Canada and Quebec pension plans, the YBE refers to the annual earnings in which premiums are not applied and not to the first $3,500 of earnings.

Currently, employees earning less than $2,000 per year can apply for a full El premium refund. Those employees earning slightly more than $2,000, however, cannot, despite having no chance of qualifying for El benefits.

● (1545)

Only two-thirds of the individuals eligible for the rebate actually receive it. In addition, the existing rebate applies only to employees and not to employers. As a result, Restaurants Canada recommends that government restructure the EI premium system to include a year's basic exemption, similar to the CPP/QPP YBE, as a way to alleviate the tax burden on low-income Canadians, and assist employers to expand payroll to provide more young people with entry-level positions and retain them in these jobs.

Thanks.

The Chair: Thank you very much for your presentation.

We'll now go to the Portfolio Management Association of Canada, please.

Mr. Scott Mahaffy (Chair, Industry, Regulation and Tax Committee, Portfolio Management Association of Canada): Thank you.

[*Translation*]

My name is Scott Mahaffy. I am the Chair of the Industry, Regulation & Tax Committee of the Portfolio Management Association of Canada. Katie Walmsley, the President of PMAC, is here with me today.

[*English*]

PMAC represents almost 200 investment management firms across Canada that manage total assets in excess of $900 billion, not including mutual fund assets, and $1.3 trillion when mutual funds are taken into account. PMAC members manage investment portfolios for, among others, private individuals, foundations, and pension plans. Our recommendations focus on how to improve Canada's taxation and regulatory regime, with the overriding principle that there should be fairness for Canadian investors.

PMAC is focused on various advocacy initiatives that are critical to improving Canada's taxation policy on investments and retirement savings. I'd like to highlight two tax policy areas where we believe better taxation fairness can be achieved for Canadian investors.

One of PMAC's recent advocacy priorities has been with regard to the negative impact of the trust loss restriction rules on investment funds that were contained in the federal 2013 budget, and the impact of these rules on Canadian unit holders. In simple terms, these rules extend the application of the acquisition of control rules as they currently apply to corporations, to apply to trusts, including investment funds formed as trusts. The objective of the trust loss restriction rules is to prevent the use of arm's-length loss trading transactions that have been developed and that purport to enable one taxpayer to access the unused losses of another. These rules unfairly capture legitimate commercial trust activities in an industry that represents, collectively, $1.3 trillion in assets under management.

Through various submissions to the Department of Finance, the minister's office, industry associations such as ours were able to work collaboratively on a solution to meet the policy objectives of the Department of Finance as well as eliminate the punitive and unfair impact of these rules on Canadian investors invested in these types of funds.

We applaud the federal government for its recent announcement that it will provide relief to investment funds from the application of the rules. We do, however, believe there may still be some gaps to the proposed relief that will continue to be unfair for certain investors in certain types of funds, and we will work with Finance staff going forward for further revisions to the proposed relief.

Another example where we believe more taxation fairness for Canadian investors can be achieved is the application of GST and HST on investment management services for retirement savings. Canadian investors should not be taxed for actively planning for their retirement. GST and HST are consumption taxes. In our view, building retirement savings is the opposite of consumption, and accordingly we fundamentally disagree with the idea that Canadians should pay taxes on services designed to help them build their retirement savings.

We recommend that the federal government work with the provinces to adopt policy positions taken elsewhere in the world and exempt consumption taxes on investment management services, or in the alternative, work with provincial governments to remove or mitigate the additional and uneven provincial portion of HST immediately.

In the area of regulatory harmonization, PMAC is a strong supporter of a robust, efficient, and globally competitive regulatory regime. We have long supported a national securities regulator, and commend the government and its provincial partners on its progress and commitments toward creating the cooperative capital markets regulatory system. The creation of the CCMR is a major improvement to the securities regulatory regime in Canada. It addresses the interests of Canadian investors and capital market participants and benefits all Canadians.

PMAC has long argued that the existing framework of a fragmented securities regulatory system is out of step with global standards and does not serve Canadians well. We urge the government to continue working toward participation by all provinces.

I would like to commend the government for its commitment to ensuring secure retirement for Canadians in moving toward various pension savings options that allow alternatives to current plans. Thank you. We believe harmonization of pension options should be a policy priority. We also urge the government to consider funding flexibility as a necessary priority, given Canada's longer mortality rates.

Finally, we applaud the federal government's recent announcement to move forward with the modernization of the pension investment rules that were contained in the federal pension benefits standards regulations first proposed in 2009.

PMAC thanks the committee for the opportunity to make these submissions. *On vous remercie*.

● (1550)

The Chair: Thank you very much for your presentation. We'll now hear from Tax Executives Institute, Inc., please.

Mr. Paul Magrath (Vice-President, Canadian Affairs, Tax Executives Institute, Inc.): Thank you and good afternoon.

I am the tax director for AstraZeneca Canada but am appearing today as the vice-president for Canadian affairs for the Tax Executives Institute. TEI is the pre-eminent association of business tax professionals worldwide. Our 7,000 members work in-house for 3,000 of the largest companies in Canada, the U.S., Europe, and Asia. My comments are endorsed by TEI's approximately 900 Canadian members and other members whose firms have significant operations and investments in Canada.

The government's efforts to decrease the corporate income tax rate and broaden Canada's tax base have made our system globally competitive, increasing Canada's attractiveness to investors. By encouraging the provinces to adopt harmonized tax policies, the federal and provincial governments have realized substantial administrative savings, but Canada must remain vigilant as other countries restructure their tax systems, implement rate reductions, and lower marginal effective tax rates. In addition, the government should continue to reduce red tape and paperwork, increase electronic filing of tax forms, and ensure that CRA is well funded and streamlined in its audit and appeals procedures to maximize the efficiency of tax administration

Despite progress towards a competitive tax system, there is unfinished business. In 2008, the advisory panel on Canada's system of international taxation made two important recommendations that have not yet been addressed.

First, the panel recommended repealing the current process for issuing waivers of withholding taxes under regulations 105 and 102 and replacing it with a self-certification system for obtaining treaty benefits. Time does not permit me to explain why the current waiver process is not working. The advisory panel's 2008 report does that. A self-certification system for treaty benefits based on current information reporting requirements will maintain CRA's enforcement capability, but it will shift the compliance burden and costs to the certifying party. TEl urges adoption of the panel's recommendations for treaty benefit self-certification.

Second, the advisory panel recommended the Canada-U.S. tax treaty be renegotiated to eliminate withholding taxes on dividends between related group companies. The United States has negotiated a nil withholding rate for group dividends under many of its tax treaties. TEl recommends that steps be taken to ensure that Canadian residents benefit in the same way as do residents of other U.S. treaty partners.

Our final recommendation relating to Canada's international tax system is to go slowly in adopting the OECD's recommendations to curb perceived base erosion and profit shifting, known as BEPS. Over the last several budgets the government has already undertaken actions to curb base erosion, effectively implementing a "made in Canada" BEPS action plan. Those actions include adopting limitations on interest deductibility, curbing hybrid mismatches, and enhancing disclosure rules for aggressive tax planning. Also, Canadian taxpayers are required to provide substantial documentation of their foreign operations, which permits CRA to conduct risk assessments with respect to transfer pricing.

Because of varying economic conditions, budget constraints, and tax policies of participating countries, the OECD's recommendations may exacerbate the current patchwork of international tax rules and make it even more burdensome for taxpayers to comply while increasing the risks of multiple taxation. To avoid undermining Canada's tax system, TEl recommends implementing the OECD's BEPS recommendations only after careful consideration of their impact on the economy.

Our final recommendation is to improve the administration of the tax system by according CRA authority to settle disputes based on the “risks of litigation”. In 1997, the technical committee on business taxation pointed out that because of the “costs, delays and uncertainties involved in resolving issues at trial, it can be of benefit to all parties to achieve compromise” solutions. TEl concurs that, under a "risk of litigation” approach, a fair and impartial resolution can be reached that “reflects on an issue-by-issue basis the probable result in event of litigation, or one which reflects mutual concessions for the purpose of settlement based on relative strength of the opposing positions”. Large taxpayers are frustrated at their inability to resolve disputes with CRA at both the appeals and audit level.

Besides the uncertainty surrounding appeals and litigation, large corporations must pay 50% of the tax in dispute when it is reassessed. Prepaying amounts that may be refunded is a significant drain on financial resources that could otherwise be invested in the business and promote employment. More tools are needed to enable taxpayers and CRA to resolve disputes quickly. We believe our recommendation is one such step.

TEI thanks the committee for the opportunity to participate in this hearing, and I will be pleased to respond to any questions from the panel.

● (1555)

The Chair: Thank you very much for your presentation.

Colleagues, we will begin with Mr. Cullen and we'll do seven-minute rounds for as far as we can go.

Mr. Cullen.

Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP): Thank you, Mr. Chair.

Thank you to all our witnesses.

Ms. Yalnizyan, I'll start with you and try to sum up a bit of what you were saying just in terms of some of the fiscal risks to the Canadian budget that were also reiterated by Minister Oliver with regard to the low oil prices internationally, threats to growth, and the government's decision to embed in this coming budget some very expensive items. Income splitting is one that stands out as is the plan that has been introduced in this budget implementation act, which we're dealing with right now, around taking money out of the employment insurance fund to use for a potential job growth strategy.

I wondered if you could talk to me first about the general threat involved in making these fiscal decisions as the government faces what it projects to be approximately a $10-billion surplus, given the realities of the global and Canadian economies and the risk to revenue for the Canadian treasury.

Ms. Armine Yalnizyan: What I can say is what I did say, which is that the simple drop in oil prices since July, which is the last time that our growth rate was downgraded, could have up to a $4 billion direct first-round effect on federal revenues alone. I'm not including second-round effects and what that does to construction plans for expanding further construction and the development of oil.

What we do know is that we are also committed not only to tax cuts, but to working with our allies to fight ISIL. Undoubtedly the events of last week will mean there will be more expenditures on security measures for Canadians here at home, and in particular in this wonderful establishment that is the home of all Canadians.

I'm thinking that tax cuts have a very distant third or fourth role to play in what it is that needs to be considered to attain and maintain a budgetary balance, which is the goal of this government.

Mr. Nathan Cullen: Thank you.

I want to talk about income inequality for a moment. You've made reference in recent reports to the personal income tax exemption, so taking low-income Canadians off the tax roll versus helping raise wages... Is there a comparison or a question to be made for government?

We recently introduced the idea of increasing the minimum wage for federally regulated employees over time versus what the government sometimes offers, which is taking people off the tax roll at the lower end. Is there any comparison, or is that an apples-and-oranges situation when considering tax measures?

● (1600)

Ms. Armine Yalnizyan: Taking people off the tax roll at this stage, at the lower end, will not necessarily reduce poverty. It will further reward people who have figured how to do aggressive tax planning. What happens when you raise wages is that you do get a multiplier effect with respect to consumer ability to sustain the economy.

You could make the argument that reducing taxes, or increasing the threshold at which one is taxed, would do the same thing. It would give you more purchasing power, but the multiplier effect is much greater in terms of raising wages. It reaches people who could actually spend more money, rather than people who are already at the edge and would be just using it to pay off debt.

Mr. Nathan Cullen: You mentioned this in your commentary, but I wonder if there are any specifics around what are sometimes referenced as boutique tax credits, something that the folks who do our accounting for us in this country wrestle with every day. They're very expensive in terms of a regulatory burden on Canadians filing taxes and also on businesses.

Has there been any assessment, to your knowledge, of what's called the free-rider effect on some of these boutique tax credits? You made reference to offering tax credits to incentivize people to do something they were going to do anyway, which is sometimes called the free-rider effect. Government reduces the revenue to encourage people to do something that, in effect, doesn't have any impact on what we were hoping to have an impact on, whether it's kids in sports or attending music programs or whatnot.

Have you seen any federal government assessment, or has your group done any assessment, on what percentage of people taking advantage of those tax credits were doing so and going to perform those activities anyway?

Ms. Armine Yalnizyan: There was an appendix in the tax expenditures report of 2013 from Finance that indicated who was taking advantage of the tax-free savings account. It indicated that the people who were most benefiting were people who already had excess money, and they were older and richer—that was the highest proportion. Also, University of Waterloo economist Tammy Schirle —I might be incorrect in that—or it could be Kevin Milligan out of UBC, indicated that the universal child care benefit credit had the impact of keeping more parents at home, which might have been, in fact, its intended effect.

The point is, at a time when the economy is slowing you do not want to pull money out of the system that could be used to spend, which would increase economic growth, or have more people not work than work because you're worried about these continued—like Stephen Poloz, the Bank of Canada governor, calls—serial disappointments in growth rates, which we are likely to see for as far as the eye can see. In addition, at the end of that is population aging, which will also continue.

Mr. Nathan Cullen: So having less participation, particularly by women in the workforce, would be a further drag on Canada's effective economy.

Ms. Armine Yalnizyan: I think there's not much argumentation on that.

Mr. Nathan Cullen: Well, apparently there's some policy argumentation because that's what the government looks to do with its income splitting program.

Over to you, Ms. Reynolds, for just a moment. It will have to be very quick. It's very interesting how credit card companies make more than some of your member associations.

You didn't mention it, and maybe it's too hot a topic, but the changes to the temporary foreign worker program have been embedded now in budget implementation acts, so it's become a budgetary item. What's the restaurant association's opinion in terms of the impact of the changes that the government has proposed to this point and going ahead with this particular program?

Ms. Joyce Reynolds: Well, as everybody knows, we have a very mixed labour market here in Canada. We have red-hot Alberta, where our members are actually having to reduce hours of operation. They're having to close down parts of their business. The burnout rate of the owners, operators, and staff once their temporary foreign workers go home is such that the businesses are going to become unsustainable.

Again, this is a very regional issue. There are markets where it is critical that there is something else. If there's not the temporary foreign worker program, then what?

The Chair: Thank you, Mr. Cullen.

We'll go to Mr. Keddy, for seven minutes, please.

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

Welcome to our witnesses.

Mr. Howlett, in your submission you questioned the benefits of keeping taxes low. Specifically you were critical about the $43 billion in corporate tax relief. At the same time, you're a little less clear on the total $160 billion of tax relief for small businesses and individuals.

The reality is that we've made a decision, as a government, to keep corporate taxes low and to keep personal taxes low. We went into the worst recession that we've faced since the great recession, and I believe that because we've had lower tax rates we are a more attractive place to invest. At the end of the day we came out of the recession in better shape than our G-7 neighbours.

How does your argument work, that somehow the $43 billion in corporate tax relief didn't help us weather the recession?

● (1605)

Mr. Dennis Howlett: Well, a 2011 finance department report on the impact of the government's action plan in response to the global recession concluded that investments in infrastructure had a 1.6 multiplier effect but that tax cuts were the least effective. In fact, they had a 0 or even negative multiplier effect, depending on whether they were corporate tax cuts or individual tax cuts. Even the finance department recognizes that tax cuts are about the worst way to try to stimulate the economy.

Mr. Gerald Keddy: You are aware, of course, that with regard to the multiplier effect, if you talk to the municipalities and businesses across this country that were receiving an incentive to build, they couldn't afford to build any more than they already had on their plate. In my part of the world, the provincial government had to wait for its own share of tax revenue to build its portion of infrastructure builds. So I find that argument a bit disingenuous.

However, I want to ask you another question, on the 10 offshore tax havens that you talked about. You talked about how there is $170 billion in what you referred to as 10 offshore tax havens. You said there are two Statistics Canada data tables, one of which is entitled “International investment position, Canadian direct investment abroad and foreign direct investment in Canada, by country”. That seems to be where you found most of your data.

My question is this specifically: Canadians are allowed to invest their money however they want. We don't encourage people to hide their money in offshore accounts. Certainly you would have to agree that so long as it's done within the law and revenues are being reported on their tax returns, these 10 countries in particular aren't illegitimate countries and Canadians should be able to do business with them.

Mr. Dennis Howlett: The Statistics Canada figures are probably a low estimate because they only cover the legal investments in tax havens. They don't capture the large amount of illegal investments, mainly made by wealthy private individuals. It's true that this figure is largely for the corporate investments, but most of that is, if not tax evasion, tax avoidance. It is designed, in most cases, to lower their tax paid to the Canadian and provincial governments.

It is a problem, and what we were just pointing out is that it's a growing problem. What the government has done to date is not sufficient, and more needs to be done in that regard.

Mr. Gerald Keddy: Maybe it's a question of clarity of language. You specifically picked out these 10 countries. Surely you can't believe that Canadians shouldn't be allowed to invest in places like Hong Kong, Ireland, and Singapore—three of the countries you named. This is legal investment, with taxes paid on that investment.

I want to be clear that you're not suggesting that Canadians shouldn't be allowed to invest legally, with open investment in those areas, and pay taxes on that investment.

Mr. Dennis Howlett: This is where we are supporting an action plan to tackle tax havens that includes greater transparency about what exactly those investments are. One of the big problems is that the investments don't stay in those countries, they go on to other places; but they go through those countries in order to lower their taxes. That is happening globally, and that's why the OECD and the G-20 are going forward with this OECD BEPS action plan that needs to be implemented. Hopefully by the end of 2015 we'll have a completed plan. Canada should support it and implement those recommendations.

● (1610)

Mr. Gerald Keddy: Well, whether the OECD plan is perfect or not, I'm not quite certain.

I want to ask you a little bit about CRA's voluntary disclosure program. The program has worked well. For those who have not been entirely truthful on their taxes, let's be clear, it allows them to come forward before they're caught by CRA. They can correct the record by paying their taxes and any interest they owe on those back taxes while avoiding a stiff penalty. We've seen a deluge of folks formerly involved in a foreign tax haven who are coming forward in great numbers and paying their back taxes to avoid penalty.

Do you agree with that?

Mr. Dennis Howlett: Yes, we are pleased that more people are coming forward. I think it's a result of not only some of the measures government has taken but the media attention to this issue and our efforts to make this a public issue. That has had a positive effect. I would agree with you on that one.

The Chair: Thank you.

Thank you, Mr. Keddy.

We'll go to Mr. Chan for seven minutes, please.

Mr. Arnold Chan (Scarborough—Agincourt, Lib.): Thank you very much to the witnesses for all of your presentations.

First, to Ms. Reynolds from the Restaurants Canada association, I had the pleasure of meeting with some of your members last week. Today you've made I think a very forceful presentation with respect to your members' concern about the high rate of credit card acceptance fees. In fact, Canada probably has one of the highest credit card acceptance fees around the world. Our party certainly agrees with the Competition Tribunal's position that we need some form of regulatory framework with respect to managing credit card processing fees.

I'm probably one of the most guilty individuals with respect to these loyalty cards, which is why my wallet is as big as it is. I myself am equally captured by the attractiveness of all these benefits from various loyalty programs.

The Minister of Finance had discussed the fact that the government's voluntary approach, the code of conduct for credit card and debit fees, was working. Do you have a particular comment with respect to that? Do you think there needs to be a different approach, and how would that approach take place?

Ms. Joyce Reynolds: I do think the code of conduct has been very useful and helpful in terms of helping to maintain our very low-cost debit card system here in Canada. We were threatened with Visa and MasterCard debit cards that would start to...that would be a percentage-based fee, even though the money would go directly from your account to the bank, of having these loyalty programs that would be built into the debit card system.

We have actually amongst the lowest debit card fees in the world, so I would say it has been very helpful in that regard. But as I said, we've been trying to rein in credit card fees since 2008, and they've just continued to grow and grow. Canadians, particularly higher-income Canadians, have become addicted to the benefits. It's come to the point where merchants, whether retail or restaurant, will lose the business if they say they'll only take cash. They really don't have any choice but to just accept these very, very high fees.

What we have determined, similar to the Competition Tribunal, is that a voluntary approach won't work. This is something that's been pursued since 2008. It's time for government to intervene.

Mr. Arnold Chan: Great, thank you.

I wanted to turn to the issue in some of your discussion with respect to the EI tax credit, and, of course, the government has proposed its small business jobs tax credit that would only apply to firms that have a payroll of less than $15,000 in EI taxes. A number of economists have indicated that there is essentially a design flaw because it essentially acts as a disincentive for businesses to grow.

Liberals instead have proposed getting rid of this particular ceiling, and have suggested providing an EI holiday for businesses that create new jobs.

What is your view on these two particular proposals? Which do you think actually will ultimately produce more jobs?

● (1615)

Ms. Joyce Reynolds: We actually have proposed an alternative to both those proposals. Building on the new hires program that your government has proposed...we like the youth hires program that your government had in place a number of years ago.

The current tax credit program does benefit some of our members, but it tends to benefit the small restaurant. If you want to expand to a second restaurant, it's not going to be as beneficial. But the year's basic exemption is a proposal that had all-party support back in the time when the EI fund was in surplus. It was endorsed by all parties in the human resources standing committee as well as the finance committee, but the government hasn't been in a position to be able to implement it because there hasn't been that kind of surplus for some time. Now that we are approaching a surplus in the account the opportunity presents itself again to have all parties agree to a year's basic exemption that really would make the EI system fairer for those at the lower end of the income scale as well as for labour-intensive employers.

Mr. Arnold Chan: Thank you.

My next question is for Ms. Yalnizyan. Thank you very much for your opening comments.

Your organization put out a report in January called “Income Splitting Canada: Inequality by Design”. Can you expand upon your thoughts with respect to the government's proposed position on income splitting and why you think this is a particularly inefficient use of taxpayer resources?

Ms. Armine Yalnizyan: That report indicated, and was mirrored by the way by one from the C.D. Howe Institute.... So across the political spectrum, the analysis seems to be that there are not many ways of analyzing the original proposal. I underscore “original” because it does sound like the Conservative Party is having a rethink on how to introduce an income splitting proposal.

But that $3 billion would be only at the federal level. It would entail $1.9 billion of costs for the provincial governments as well. Only 9% of Canadian families with young children would benefit. They would tend to be upper income. It is an awful lot of money going for—

Something a lot of people want to see is that the families who can afford to spend more time at home with their kids would love to do so. The argument is not just child care and it isn't just higher wages. Something that lets young families actually have more choice in the way they raise their families would be fantastic, as long as you're not creating advantages for those who are the most advantaged in our society.

Mr. Arnold Chan: Thank you.

The Chair: You have about 10 seconds, Mr. Chan.

Mr. Arnold Chan: Okay, a very quick one then....

Your organization also released a report called “Help Not Wanted” about cuts to student jobs in the federal government.

What impact has this had on young Canadians?

The Chair: Okay, time is up but I'll give you a very brief response now and we can come back to it.

Ms. Armine Yalnizyan: I would recommend that everybody read the report.

The Chair: Okay, that's a very good brief response.

We will go to Mr. Allen. You'll have seven minutes, please.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you very much, Mr. Chair.

Thank you to our witnesses for being here today.

Ms. Yalnizyan, I appreciate your comments as well and I feel very thankful I'm here to ask questions today.

I will start with Ms. Reynolds from Restaurants Canada because it was a little bit, listening at the end, like you were on helium and you were trying to finish so fast around some of the payroll tax suggestions you were going to have. You did cover—to Mr. Chan's question—your thoughts on the year's basic exemption. It seemed, I think, that there was more. You were going very quickly.

Were there more things you were talking about from the EI side? And based on the year's basic exemption, can you indicate to us what the cost of that would be to the EI fund for that initiative?

Ms. Joyce Reynolds: It would depend on whether you matched the year's basic exemption in the Canada Pension Plan at $3,500, or if you started more modestly at $2,000, which is the level of the tax credit right now. So it would be somewhere around $1.2 billion.

● (1620)

Mr. Mike Allen: Were there other initiatives in mind when you talked about payroll taxes, especially on the EI side? When you talked about restructuring to make it less regressive, were there other items you were thinking about there?

Ms. Joyce Reynolds: Well, our key concern is.... Because we are such a labour-intensive business and because it's such a significant cost for our members, we're looking at ways to make it not so taxing for our members to hire more young people. We're the number one first-time job provider of any industry in the country.

As we discussed previously, there are some regions of the country where we have real challenges in finding anybody to work in our industry. Then we have other regions of the country where we know there are young people who are reaching the age of 25 who've never held a single job. We typically play the role of providing those all-important soft skills to those people who want a springboard to the larger labour force.

Those people who are reaching the age of 25 who've never held a single job have a lot more difficulty than those people who have gained experience working as students and teenagers in our sector, and we'd like to hire more.

Mr. Mike Allen: Thank you very much.

Mr. Mahaffy, I have a couple of questions for you.

One comment you made concerning pension innovation and modernization was to urge the government to consider funding flexibility as a necessary priority given Canada's mortality rates. We've had some presentations in previous committee meetings that have talked about changing the RRIF rules and those types of things. Is that what you're referring to, or are you talking about other things?

Mr. Scott Mahaffy: To a degree, yes, that is what we're talking about. In addition, I can't speak to this with a great deal of expertise, but I want every option explored. I think we need to consider many different ways in which to encourage Canadians to save through different policy alternatives, especially in the pension framework. I think we need to consider the pension regulations much more carefully when we're looking at the bigger picture. I think they're often forgotten. I think income tax and pension regulations are at odds at times. I really think taking a much more harmonized approach when we look at savings, whether they are retirement savings or pension savings, needs to be done.

Mr. Mike Allen: Do you have specific suggestions that your association could table with the committee?

Mr. Scott Mahaffy: I do not at this time. I'll be happy to take this back to discuss with my colleagues and present something in the near future, point by point.

Mr. Mike Allen: In the very near future, if you could. That would be very helpful.

One thing you also talked about was removing the consumption tax on investment services. I wonder what the practicality of that is. Do you know what the cost of that would be? How risky would that be?

I share with you that we also have accounting fees for doing taxes. All those are subject to tax as well. By removing one, aren't you suggesting we remove all the others? If so, does that not start us down a very slippery slope?

Mr. Scott Mahaffy: I believe it would be for someone else to maybe argue that we remove all of the others. In terms of the absolute quantum we'd be discussing, I can't speak to that right now.

What we are suggesting, however, is that that consumptive behaviour will occur; this is simply deferring it for the future. To reduce or eliminate the taxes in those areas will give Canadians more money to reinvest, have greater retirement savings, and be able to consume at the time of retirement, perhaps for their families to help put their children or grandchildren through university, and the taxes can be effective at that stage.

Mr. Mike Allen: Mr. Magrath, when you talked about the red tape reductions at CRA especially, what are some of the major initiatives that you see from red tape reductions at CRA that have paid the most benefit to the tax executives? Which logical steps would you see as being next? You talked about one in terms of settlement on risk-based litigation; that obviously would be one. What would you see as others that would leverage on what we've already done in CRA, because there have been many, many different things done?

The Chair: There's one minute remaining in the rounds.

Mr. Paul Magrath: On that front there are a couple of things that we've addressed in our paper around, again, electronic filing requirements and broadening that to include some of the tax forms that are currently filed manually, and maybe filed manually even though your basic tax return gets filed electronically: the T106 form on reporting transactions with foreign related non-residents as well as the T1134 forms. Again, making those electronic would save a lot of the extra work that we're doing in completing those and having them submitted, and also obviously for CRA because they would be receiving those and doing statistical analysis based on those.

Concerning CRA creating an ombudsman that would allow us to have oversight from their perspective on the risk of litigation as well as provide us with a step in between the appeals and the audit function, I think would be a great help for taxpayers.

● (1625)

The Chair: Okay, thank you.

Thank you, Mr. Allen.

[*Translation*]

Mr. Caron, you have the floor for seven minutes.

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

I also thank all of the witnesses who are appearing before us today.

Mr. Magrath, I will start with you.

I have some difficulty with your third recommendation, the one that mentions that since the Canadian government has made some progress curbing base erosion and profit shifting, we should go slow or reduce the pace in adopting recommendations from the Organization for Economic Cooperation and Development. I have some trouble with that. The recommendations the OECD made in the context of its plan may not be perfect, but we have to follow them. They meet a need, particularly as we recover from the severe recession. There is a great need for international cooperation, especially at this time when it is so easy to move capital; in our digital era, it is becoming increasingly easy and quick to move capital from one country to another.

How can we believe that since there have been a few initiatives and some laws—which many feel do not go far enough, nationally—we should slow down international coordination, which is sorely lacking? I think that all of the experts, particularly after the severe recession, recognized that there was a need for coordination. Do you not think that although Canada has made some steps in the right direction, the need remains for cooperation at the international level?

Mr. Magrath, I would like to hear your comments on this.

[*English*]

Mr. Paul Magrath: My apologies, I missed the first part of the translation.

[*Translation*]

Mr. Guy Caron: Your recommendation said that because some progress had been made in curbing base erosion and profit shifting so as to close loopholes, we should go slow in adopting the recommendations in the OECD plan. In my opinion, these things can take place simultaneously. We need international coordination. Why should we slow down the pace? We can analyze recommendations if we need to and adopt those on which there is a consensus, but we should not slow down the adoption of recommendations in an era wherein it is increasingly easy to move capital around and to do so quickly.

[*English*]

Mr. Paul Magrath: I agree that we need to look at all of the BEPS action points, and it's just a matter of considering the impact on the economy and the differing economic policy decisions being made by different countries around the world. Capital is very fluid, and capital is, as we've seen, being moved around the globe.

If we're looking at implementing policies in Canada, how does that impact our competitiveness and the competitiveness of our tax policies compared to, again, other places where that capital can flow? So it's not necessarily stopping the implementation; it is just making sure that we consider what the impact on the economy will be.

[*Translation*]

Mr. Guy Caron: That is an argument that can be used by each one of the countries that study these recommendations. If the recommendations are adopted by all of the member countries, ultimately, then there is not necessarily any loss of competitiveness, since we are all going to have a level playing field. If we look at the argument that we have to examine the impact this will have nationally, that is to say the measures adopted by all of the countries, each country is going to do the same thing and there will be very little progress in international coordination.

[*English*]

Mr. Paul Magrath: Most definitely. TEI members are basically concerned with ensuring that we have consistent application and consensus among the OECD countries in the G-20 and that it is a fair and even playing field. Then at that point, the risks of double taxation and things along those lines would be mitigated.

[*Translation*]

Mr. Guy Caron: Mr. Mahaffy, thank you for your presentation.

There is another way of looking at the sales tax on savings. It is not so much a sales tax on savings as a tax on the services offered by investment companies.

For instance, I suppose that the holder of a self-managed fund does not pay a sales tax. Nor is there a sales tax on premiums paid to the Canada Pension Plan or the Quebec Pension Plan. However, as soon as we go to a middle man, there is a brokerage fees tax.

I'm going to speak as the devil's advocate. For brokerage companies, one way of avoiding a tax on savings would be to absorb the sales tax. Could that be another possibility, rather than simply eliminating the sales tax? Because indeed, this is more of a tax on services than a tax on savings.

● (1630)

[*English*]

Mr. Scott Mahaffy: Do you mean in the sense that is there another alternative in any area or any industry that would replace the income lost if we were to remove the GST/HST on management fees?

Mr. Guy Caron: Yes. What I'm saying is that you're saying it's a tax on savings. Another way of saying it would be to say that it's a tax on the service that's provided to the saver, which is from brokerage firms, for example.

Mr. Scott Mahaffy: To be clear, these are on investment management fees. We want to encourage—and I think everyone wants to encourage—Canadians to save for their retirement.

Mr. Guy Caron: That's right.

Mr. Scott Mahaffy: Yes. In seeking out professional counsel to assist them and maximize those savings going forward, we think it really helps and will help all Canadians to not be hit with this tax on an annual or quarterly basis, but rather at the time they actually choose to withdraw that money and actually consume services or goods. We think that's the appropriate time to simply defer.

[*Translation*]

Mr. Guy Caron: You are in favour of a single national securities regulator for Canada. The government created a cooperative body. However, the problem is that two of the main players in this area, Alberta and Quebec, are fiercely opposed to participating in such a system.

If they do not get on board, would there not be risks in having a two-tier system, that is to say a cooperative body on the one hand, and on the other, very important players who are not a part of that system? What would be the impact of a two-speed system like that one?

[*English*]

Mr. Scott Mahaffy: That's my question. As you know, currently through our CSA, the Canadian Securities Administrators, we do have a number of national instruments that go across the country; however, there are gaps in that. I have concerns and we have concerns that it's a sort of two-tiered system, where some are members of the cooperative group and others are on the outside, and participating and agreeing on certain initiatives will only create greater regulatory gaps and greater confusion among investors. A single regulator is still the best solution.

The Chair: *Merci.*

We will go to Mr. Van Kesteren.

This will be the last seven-minute round.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Chair.

Thanks to all of you for coming back. It's good to see some of you as repeat offenders and others as newbies.

If I can make one recommendation—and please don't take this the wrong way—it is really important that we get these reports before you present them. The reason is that we have guys like Mr. Allen over here, who understands a lot of these terms. I'm speaking now more about.... Your reports are here, and I'm not here to lecture you, but it is that much more important that we can go over them and then ask those questions.

I do appreciate your coming in every year and presenting before this committee. We certainly do value your input.

We heard from you—I'm going to say Armine and Dennis, if you don't mind—in your opening remarks. We've heard about your feelings on why it was not necessarily a good thing to lower corporate taxes. I'm not asking you to respond to that, because we heard your presentation and I think you made your point. I want to ask the other three participants what their feelings are, because obviously they might have a different take.

Ms. Reynolds, how do you feel about corporate taxes and individual taxes? Would you agree that our government's efforts in lowering taxes for individuals and families are important? Is it something we should continue?

● (1635)

Ms. Joyce Reynolds: Absolutely. One of the things about our industry is that we have skinny margins, so that's why I focused on payroll taxes. They're a tax before profit, but both the small business tax and the corporate tax make a difference in terms of investment in equipment.

We have 1.1 million jobs in our industry. We have another 250,000 spinoff jobs, people, companies that provide everything from linens to tables, designers.

We are big supporters of the construction industry. If we want to expand our industry—and we are an industry that has been expanding for quite some time—we need to have money to invest.

So, absolutely, it makes a huge difference to our sector.

Mr. Dave Van Kesteren: Mr. Mahaffy and Mr. Magrath, would you agree? You're in a different line of work. Sometimes maybe you're approaching people—

Mr. Scott Mahaffy: It's a different line of work, to be sure, and I can't speak with any great degree of expertise, but there is obviously a right balance to be struck.

We encourage anything that will help Canada and Canadians grow their retirement savings to retire comfortably and with security, and also make the country attractive to investors from inside and outside the country.

Mr. Dave Van Kesteren: I'm asking you to comment on lowering both individual and corporate taxes. Is it as true for one as for the other?

Mr. Scott Mahaffy: I don't have any empirical evidence to point to that would enable me to support any specific numbers, but I certainly support anything that will lead to greater retirement savings.

Mr. Dave Van Kesteren: Mr. Magrath, do you want to answer that?

Mr. Paul Magrath: Yes, sure. It's a very good question, very broad indeed.

TEI doesn't oppose targeted spending increases, individual tax relief, or reductions in government spending and debt. TEI commends the government on its efforts and commitment to a balanced budget, but that needs to be weighed against our tax competitiveness on a corporate basis and ensuring that we remain in competition for mobile capital around the world.

As was brought up by the honourable member, the BEPS initiative addresses some of those imbalances that were perceived, and perhaps we can get to a more balanced result.

Mr. Dave Van Kesteren: In your industry, lowering corporate taxes has been a positive?

Mr. Paul Magrath: Correct, I would suggest that in my industry, lowering the corporate tax rate has been an advantage. Unfortunately, we've seen some cyclical changes in the pharmaceutical industry. We've seen significant revenue reductions, but the incentives provided by this government and that continue to be provided around research and development have allowed us to continue with investment in innovation and jobs.

Mr. Dave Van Kesteren: Ms. Reynolds, I want to go back to you. I don't have much more time.

The great thing about getting these presentations beforehand is that we can look over them and we can see a common theme sometimes. There's an interesting proposition made by the chamber, which is going to appear before us next, to equal the payment between the employer and the employee for EI.

Is that something you've talked about? Is that something you would also recommend? I wonder if you could just tell us about that.

Ms. Joyce Reynolds: I did provide mine in advance, by the way.

Mr. Dave Van Kesteren: Yes, I got yours.

Ms. Joyce Reynolds: Yes, there's no reason for the 60-40 split. If you look at the EI benefits, many of them are social benefits. The employer has no control over those social benefits. They become a larger and larger percentage of the EI benefits over time.

At one point, the government paid 20%, employees paid 40%, and employers paid 40%. It switched over to employers paying 60%. There's no reason employers should be paying 1.4 times the amount that employees are paying.

● (1640)

The Chair: Thank you, Mr. Van Kesteren.

I'll go to Mr. Rankin and we'll go to five-minute rounds.

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

I'd like to begin, if I could, with Mr. Howlett of Canadians for Tax Fairness.

In your presentation, you come back to a theme that's been around since the Carter Commission, which is usually expressed as “a buck is a buck is a buck”, and argue against capital gains getting a break on taxation and treating it like any other kind of income.

Then you also talked about the unfairness. You single out the stock options deduction as the most unfair loophole. Why do we have these? Has your research indicated why these discrepancies continue to exist? Is it because of reciprocity with the United States that has caused this to come into our tax law? It makes a lot of sense that you would treat all income the same, yet we don't, as you point out. Why?

Mr. Dennis Howlett: There are a couple of things. One, there is increasing criticism of the stock option deduction from business as well. We find, for example, the former head of the U of T business school saying that this encouraged poor behaviour by corporations. It encourages a short-term type of thinking, and runs counter to the interests of the companies themselves. So there is an increasing critique on the stock options deduction even in business terms. It doesn't really provide any social or economic benefit; in fact it's counterproductive in both cases.

In terms of the differential treatment of income from investments, what we need to realize is that some investments do create jobs and should be encouraged, but more and more investments are actually speculative investments and do little or nothing. In fact they are counterproductive in terms of economic growth and economic development or job creation. Government needs to distinguish between these.

There may have been a point to the special treatment of investment income back in the day when the stock markets were actually a source of capital investment. They no longer are a significant source of capital investment or job creation, so there really is no economic reason to give preferential treatment, especially when you consider that the benefits of this, which cost a huge amount in terms of government expenditure, are going to the wealthiest citizens.

Even Ms. Yellen from the United States is saying growing income inequality is bad for the economy, so we need to do something about closing the income gap. These tax policies go in exactly the opposite direction.

Mr. Murray Rankin: All right.

For Ms. Yalnizyan of the CCPA, thank you for your presentation. You had to go very quickly, so I want to make sure I grasp one of the first points you made about inheritance tax. You pointed out there's $1 trillion in wealth transfer coming up as baby boomers are set to retire, and die, and the kids get the money. My question, then, is your only recommendation to address the issue—it appears to be—that there be an inheritance tax implemented? If so, don't we already have something like that with the deemed disposition on death, capital gains, etc.?

Ms. Armine Yalnizyan: We don't have an inheritance tax in Canada.

I did make several suggestions. I'm just saying that the long game for your considerations today with respect to tax regulation and incidence of tax is to broaden the base. Broadening the base includes introducing something like an inheritance tax so that you are able to capture a little piece of what's about to move along in the next 20 years. We're going to have a huge dependency ratio issue. If you wait for 20 years to do anything about the tax base you have, you're going to be taxing the people you're also asking to support both the young and old, then. This is the moment to do this.

I did indicate, I think I got out, that I was hoping we could cap lifetime contributions as well as the tax-sheltered assets and tax-free savings accounts, which were introduced in January 2009 and on full maturity will be a huge leakage in the good ship government.

I also had a recommendation about eliminating deductions for stock options and capital gains. You could tighten tax expenditures for scientific research and experimental development.

Most importantly, you can broaden the base by enforcing the base more rigorously. I tried to make the point that our ability to enforce is being tapped out in favour of reducing red tape. If we ever needed compliance with tax regulations, now is the time.

● (1645)

The Chair: Thank you.

Mr. Murray Rankin: Are you referring to the cuts at CRA, for example, in personnel?

Ms. Armine Yalnizyan: Not just the cuts to CRA, but the reallocation of people who do reporting compliance being moved from international business and large businesses to small and medium-sized enterprises.

The Chair: Thank you.

Sorry, I'm just trying to be fair to all members here.

We'll go very briefly to Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thank you, Chair. Thank you all for being here today.

We've had a very fulsome discussion over the last couple of weeks in terms of the forthcoming fiscal dividend, and what policy options we should be pursuing, either in terms of paying down the debt or perhaps finding new and creative ways to spend it so we can create more jobs and long-term prosperity for Canadians.

Unfortunately, I don't have a lot of time but I do want to pursue a couple of angles here.

Number one, Ms. Reynolds with Restaurants Canada, you mentioned before in your presentation about the introduction of premium cards by credit card companies. A lot of credit card companies are doing this. They're getting platinum and all kinds of different incarnations. Have you found that has increased the level of spending or it's just the same level of spending but people just have more cards now?

Ms. Joyce Reynolds: People are using their cards more. It used to be that you pretty much paid cash when you went to the grocery store, or when you went to a quick service restaurant. Now you use your credit card for all kinds of expenditures that you didn't used to.

Mr. Mark Adler: Are you finding that someone who had an XYZ card before and used that in a restaurant and is given a premium XYZ card now spends more money or the same amount of money as they did when they had the basic XYZ card?

Ms. Joyce Reynolds: Our members' experience is it's not increasing how much they spend on the card.

Mr. Mark Adler: Thank you, that's what I need to know.

You also indicated that you have 1.1 million employees in direct jobs that you create within the restaurant industry, and a quarter of a million indirect jobs that are related to the restaurant industry. So you could clearly speak with some authority in terms of what it takes to create jobs. Lowering corporate tax to 15% federally, lowering the GST from 7% to 6% to 5%, putting more money in the pocket of Canadian families, all of which we have done, has that served the restaurant industry well, number one in terms of job creation, number two in terms of putting more money by EI premium cuts into the bank accounts of restaurant owners that they can in turn use to reinvest and create more jobs? Could you answer both of those for me, please?

Ms. Joyce Reynolds: I can agree with that statement and I can also say that our members are also being faced with much higher costs in other areas as well. Higher food costs, higher energy costs, and particularly higher labour costs. I don't know what kind of job creation we'd be able to provide, given that we probably are recognized as having some of the lowest margins of any sector.

Mr. Mark Adler: That's surely welcomed in your industry, of course.

Ms. Joyce Reynolds: Absolutely.

Mr. Mark Adler: Can you talk a bit about interprovincial trade barriers? I know the restaurant industry has been pretty vocal on dismantling trade barriers whereas we as a government have been very aggressive. Since 2006 we have already negotiated 43 international bilateral trade agreements, yet within Canada interprovincial trade is sometimes...the restrictions are more stringent between provinces than they are between Canada and another country.

Ms. Joyce Reynolds: Alcohol would probably be the best example of that. We also have problems with supply management, and the differences between production allocation for chicken for instance is a big problem for us. If there's anything we would like to see addressed in interprovincial trade barriers it's got to be those associated with our supply management system.

● (1650)

Mr. Mark Adler: Ms. Yalnizyan, you asked Mr. Chan earlier about the Liberal plan to eliminate EI premiums. Who owns the money in the EI account?

Ms. Armine Yalnizyan: Workers and employers do.

Mr. Mark Adler: Correct. The Liberals plundered it for $50 billion in the 1990s and early 2000s, and the Supreme Court ruled that was illegal. Is what the Liberal Party proposing now not very similar to what happened back then?

The Chair: Make a very brief response.

Mr. Mark Adler: This money does not belong to the government, correct?

Ms. Armine Yalnizyan: The rules are made by the federal government, including you. You just introduced a tax cut. You made the rules for that. The federal government makes the rules but does not pay any of it.

Mr. Mark Adler: The EI doesn't belong to the government.

Ms. Armine Yalnizyan: But you make the rules. I didn't write that rule.

The Chair: I suspect that's a longer discussion you will continue over time. I wanted to follow up on a couple of brief items. Mr. Mahaffy, in the previous presentation you made to the committee you talked about expansion of designated stock exchanges in terms of what would be an eligible exchange for investors. You mentioned there's a list of 40 exchanges, but this is too limited and the government ought to look at expanding that list. For our information here today can you itemize some of the exchanges that the Canadian government ought to look at expanding?

Mr. Scott Mahaffy: As a brief summary a number of exchanges are listed in the Income Tax Act. The registered investments that may be invested in them are deemed to be the designated stock exchange. It is a very limited list, mostly North American and European exchanges. The world has been shifting. The global investments have increased and yet not many exchanges have been added to that list over the last 20 to 25 years. For example, the Korean exchange is not on that list. A registered account cannot directly purchase a security such as Samsung. There are no South American exchanges. The Brazilian exchange is not on that. We encourage the government and the Department of Finance to find ways of adding more exchanges to the list of designated stock exchanges, allowing Canadians to better diversify their registered investment savings, but off the top of my head Korea, some Russia exchanges, and Brazil would be good examples.

The Chair: Okay, I appreciate that. If you want to follow up with more suggestions, please do so to me, and I'll share them with all the committee.

Mr. Scott Mahaffy: Thank you.

The Chair: There's been some interesting discussion about the stock option deduction. On the face of it, I think Mr. Howlett makes some strong points.

Mr. Magrath, from your perspective, or your organization's perspective—I don't know if it's fair to put you on the spot—do you have any perspective on this deduction and whether the government ought to look at eliminating it?

Mr. Paul Magrath: Yes, it's a very good question. Unfortunately, TEI really is looking at the policy and tax decisions more from the company's perspective as opposed to the individual taxpayer's perspective, so I don't know that we have a position on the stock option benefit or any statistics around it.

The Chair: I think in the interest of time—and colleagues, we do have a motion we obviously want to deal with today—unfortunately, we're going to have to cut it there.

Thank you all for coming in. It was a very lively discussion this afternoon.

Colleagues, we will switch the panels, but I'm going to go right to Mr. Cullen and his motion while we switch the panel.

Thank you to all of our first panel of guests for being here.

Mr. Cullen, we will go to your motion, please.

Mr. Nathan Cullen: Thank you very much.

I have just one single motion, Chair, and I think all committee members should have a copy of the motion in front of them.

Is that true, Mr. Chan, as well? Good.

As committee members will know, there was a bit of a mistake made at the finance department a little while ago. What seems to have taken place—and this has been confirmed by the minister as well—is that there was a premature release of public information about the fall economic update.

There were two primary concerns that were raised for us initially, because this has been alluded to before, when the Liberals were in government and concerns came from Conservatives in opposition at the time. I'll speak very briefly.

One concern was whether there were any particular impacts on the market. The information was up on the finance department's website for only for a few minutes, I think—15 minutes according to the minister—and then was taken down. We didn't know what the information contained. Essentially what was done is that the wrong press release was sent out, and it contained a number of details that were not in the forthcoming legislation. What appears to have happened is that the finance department then got that secondary piece of legislation ready quickly, overnight I assume, and brought forward a motion in the House the next day to introduce it to catch up to what had been revealed publicly.

Now, our first concern was impact on the market. Was anybody able to use the information that they were able to glean in those 15 minutes before it was withdrawn to take some advantage?

I just received this now, Chair, a letter from the minister that I'm happy to distribute. We had written to the minister to clarify first, in terms of that concern around the impact on the market. I feel assured and satisfied with the minister's response that an assessment has taken place internally and that there was no impact, and I think the tax provisions that were accidentally released were unlikely to have any significant impact on anybody's investment decisions.

The second question that I raised with him in my correspondence has not yet been addressed, and that's what this motion also deals with, to invite the minister to come forward to explain how....

Oh, to our witnesses, please come forward and make yourselves comfortable while I prattle on.

The motion is to invite the minister to come forward at a time that is convenient for him to explain how this can't happen in the future, what specific measures are being taken internally to assure...because I would essentially say we got a bit lucky, Chair. If there had been some more substantive measures that had accidentally been released before legislation was presented in Parliament, even if it had been for 30 seconds, as we all know with the digital age that we live in, it could have caused an advantage in the market and a distortion within the market in Canada—particularly large tax measures, and particularly spending initiatives that the government was going to do. I don't want to take potentials, just what we're dealing with right now.

That's the motion. I spoke to the minister briefly today after question period to assure him there is no political motivation in this. This is for the finance department to assure us, as committee members dealing with financial issues, and the broader Canadian public, and the market in particular, that a slip of a computer mouse can't lead to the government releasing sensitive tax information well ahead of when the government has legislation ready and prepared to back it up.

That's what the motion says. We don't ascribe any particular date or a deadline, but certainly, I would imagine this is in the government's interest as well to say that this is the way this can't happen again, and let's be good rather than lucky when it comes to releasing financial information to the broader Canadian public.

That's it for me.

● (1655)

The Chair: Thank you, Mr. Cullen.

I have Mr. Keddy on the list. Mr. Keddy, please.

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

I want to as quickly as possible review a few of the points Mr. Cullen has made. He has been consulted by the minister, and the minister has also been extremely clear with the media on this issue and exactly what has happened. Mr. Cullen, you state you are also satisfied with the minister's answer, but there are a few facts that really need to be stated.

On October 9, shortly after the Prime Minister announced a significant enhancement to the children's fitness tax credit, the department's consultations and communications branch posted online an incorrect news release on a ways and means motion that was not to be tabled until the following day.

A link to the news release was sent to an electronic distribution list maintained by the department. Though the earlier email would still be in the inboxes, the link became inoperative when the news release was removed from the website, so really there was little chance of real serious damage being done, and it was removed from the department's website within 15 minutes.

Because of the error, the minister moved up the tabling of the ways and means to ensure the information was in the public domain—so he moved it ahead. It was tabled the next day, October 10, with all the measures that were inadvertently released. The minister also went further than that and instructed senior officials in the Department of Finance to implement additional safeguards to ensure such a lapse never happens again.

So for me, Mr. Cullen, with respect, you have been consulted. The minister has also been very clear in the media, plus I've reiterated that again today, and you stated yourself that you're satisfied with the minister's remarks.

The only other thing is that there's a small mistake in your motion that stated it was the fall economic update. Actually it was the budget implementation act bill.

That's really all I have.

● (1700)

The Chair: Thank you, Mr. Keddy.

We'll go to Mr. Cullen, please.

Mr. Nathan Cullen: Absolutely. I simply want to clarify one thing.

Mr. Keddy is right in that we were satisfied with one of the two concerns that we raised, but we would be mis-characterizing it to say I was fully satisfied.

To be fair, I just received the letter from the minister only a few minutes ago, and in conversation...did read the media reports. It's the second part, not the market issue that was raised and important, but I think it would be certainly reassuring to committee members, myself—and I can't speak for other members—but these very measures the minister talks about having been taken—I don't know what those are—to ensure it doesn't happen again.... Committee members have to be aware of the significance of this. It is not whether this particular incident turned out to be significant, but to not have processes in place in the finance department to not accidentally release, as Mr. Keddy properly points out, the budget implementation act information before it has gone to Parliament, could have serious ramifications, depending on what gets released.

This is a question of basic competence, and again we want to be fair to the minister and to public officials, but the fact this could have happened means it could happen again unless we're reassured. The two sentences in the letter I have received from the minister are certainly not enough, because I don't know what those measures are. All we have is that certain measures have been taken. I don't know what that is. I think it would give them....

Again, this is to give the minister the opportunity to clear the air and say this is what we're doing, this is why it can never happen again, because I think we would at least all agree that this happening again would be hugely problematic if the substance of the information had been of a much more sensitive and impactful nature than it was over the fitness tax credit or the other things that were announced.

Thank you, Chair.

The Chair: Thank you.

Colleagues, can I go to a vote on this motion, or is there further discussion required?

Mr. Chan.

Mr. Arnold Chan: For clarification, are we amending the motion slightly to read to the budget implementation act, or is it as it reads?

The Chair: I have not received an amendment, so we're dealing with the motion as is.

Mr. Nathan Cullen: Why don't I do that, Chair, to clear up the language? I think Mr. Keddy's point was fair, if it's okay to put an amendment forward “contained in the budget implementation act”.

The Chair: You can't amend your own motion.

Mr. Nathan Cullen: I can't amend my own motion.

I wonder if Mr....

Mr. Murray Rankin: I'll move to amend it.

The Chair: And what are you moving, Mr. Rankin?

Mr. Murray Rankin: That there be an amendment to the motion to replace the language “Fall Economic Update” with “budget implementation act”.

I think that would do it, wouldn't it?

The Chair: Okay. The amendment is to replace “Fall Economic Update” with “budget implementation act”.

Is there discussion on the amendment, Mr. Chan?

Mr. Arnold Chan: No. I will second the motion if necessary.

The Chair: All those in favour of the amendment to replace “Fall Economic Update” with “budget implementation act“, please raise your hand.

Mr. Gerald Keddy: We're wasting time here, Mr. Chairman, really.

The Chair: Okay. Well, I'm getting to the amendment and the motion.

An hon. member: A recorded vote.

(Amendment negatived: nays 5; yeas 4)

(Motion negatived: nays 5; yeas 4 [See *Minutes of Proceedings*])

The Chair: Thank you all for that discussion.

I want to thank our guests—our witnesses—for your patience. We had to deal with the motion between the two panels. Thank you so much for being here with respect to our pre-budget consultations 2014.

I'll just identify who we have before us. We have, as an individual, Mr. Gareth Kirkby. Welcome to the committee. We have the Canadian Bankers Association, the president, Mr. Terry Campbell. Welcome back. We have the Chartered Professional Accountants of Canada, president and CEO, Mr. Kevin Dancey. From Deloitte we have the global tax policy leader, Mr. Albert Baker, and from the Investment Industry Association of Canada we have Mr. Brian Parker, who's the president and CEO of Acumen Capital Partners.

Welcome to all of you. Thank you so much for being with us.

You each have five minutes maximum for an opening statement, and then we'll have questions from members.

We'll start with Mr. Kirkby, please.

Mr. Gareth Kirkby (As an Individual): Thank you, Mr. Chair.

I'm here today to share with you the implications of the findings of my master's thesis. I interviewed 16 leaders of charities of various sizes in five sectors and five provinces and also five charity experts. The leaders spoke, most on condition of anonymity, of the impact on their organizations of the threat of CRA audits for political activities and the rhetoric of cabinet ministers since 2012 conflating charities with money launderers, criminal organizations, and even terrorist organizations.

My study discovered that charities are being muffled in their communications and distracted from their publicly beneficial missions by these actions. Studies show most charities have less than 3% of their resources going toward political activities, as seemingly defined by regulations. My data suggests that even those organizations targeted by CRA are, on average, well under the allowable 10% of resources devoted to political activities.

Clearly, there is no obvious problem that needs addressing through stepped-up auditing. The pre-2012 auditing regime was sufficient. Few charities exceed political activity limits as they are generally understood, a fact confirmed by how few charities have publicly been identified by CRA as being out of line. This begs the question as to why the government would devote $13.4 million to beef up political activity audits, while, to use a recent example, reassigning auditing staff pursuing genuine criminals, like tax evaders who shift their money to offshore tax havens.

I found that the government is using the tax collector to fight partisan battles against charities that have different public policy preferences to the government. Researchers who have long studied the voluntary sector have, since 2012, found evidence of politicization of CRA. I am not the first to warn that something is seriously amiss. My contribution is in detailing the effects of these on charities and on national conversations and exploring some of the implications for the health of democracy.

I would suggest that the clearly unnecessary new political activities audit program should be abandoned. Rather than finding a nest of cheating charities, this audit program is muffling and distracting charities from their missions, missions that their citizen supporters presumably want them focused on. Charities are experts in their mission areas, and Canadians know that. The program is thus interfering with important national conversations about public policy choices, arguably at the very time in our history that we need the widest possible input from experts. A democratic society needs to hear all sides of an issue. Why, my interview subjects kept asking, is our federal government afraid of vigorous national discussions? Some answered their own question, and that can be found in my thesis.

I'd like to raise another major issue that came to light in my research. The lack of clear definitions of specific terms in the regulations leaves charities confused and receiving different advice from different lawyers. The examples posted on the CRA website for charities to apply to real-life situations, while acknowledging an improvement over the situation before 2002, are described by some charity leaders as naive and unhelpful.

There are numerous grey areas open to too much interpretation. Allowing people to stay in a state of confusion despite years of feedback about vague definitions and illustrations leads some leaders to think that this is intentional. On top of that, some charity leaders believe that politicization of CRA since 2012 has resulted in these special audits using new interpretations of the regulations. Charities that have repeatedly passed previous in-depth auditing worry about results this time. That's a head-scratcher.

Charities do important work that has historically had all-party support. This auditing program and the government's confrontational rhetoric is not helping address society's needs and it is hurting all charities, including those beyond the targeted sectors.

Thank you for inviting me today.

● (1705)

The Chair: Thank you for your presentation.

We'll hear from Mr. Campbell now.

[*Translation*]

Mr. Terry Campbell (President, Canadian Bankers Association): Thank you, Mr. Chair.

I am very happy to take part in today's hearing.

[*English*]

At the outset, before I get into my remarks, I would like to add the CBA's voice to the many thousands, millions, of voices across the country who have expressed deep regret, deep sorrow, at the shocking events that took place on Parliament Hill and the National War Memorial last week and in Quebec the week before. We join with all of you around this table in offering our condolences to the families of those victims.

I'd like to get into, very briefly, the recommendations we have made in our pre-budget submission. I do this in the context, obviously, and you've heard me say this before, that Canada has some of the best managed and capitalized banks in the world, banks that are among the best regulated and supervised. For seven straight years Canada's banks have been rated the soundest in the world by the World Economic Forum.

Of all the companies that Canadians have relationships with, few are more personal and more important than the relationship they have with their bank. Canadians look to their bank to safeguard their money, help finance a home or business, manage their savings and investments, and plan their retirement. Our public opinion research shows that Canadians recognize this. They trust and they value their bank. Overall, some 90% of Canadians have a favourable impression of their bank.

We contribute to the economy and the economic health of our country in many, many ways. We have authorized $940 billion in business lending, with some $200 million for small and medium-sized businesses. We provided $13.5 billion in dividend income to millions of Canadians through their pension plans, RRSPs, and direct share ownership. Banks employ more than 280,000 Canadians in communities all across the country.

That's the context of our remarks. Very briefly, I'll overview the recommendations we've made in our submission.

First, we support the efforts by federal and provincial governments to strengthen their fiscal positions by returning to balanced budgets while maintaining a competitive tax environment.

Second, we encourage the federal government to maintain its commitment to a competitive corporate tax rate. We encourage the provinces to aim at and maintain a 10% target corporate income tax rate. We also look to provinces, those that remain with this provision, to eliminate existing capital taxes on financial institutions and to refrain from instituting new capital taxes.

Third, we encourage federal, provincial, and territorial governments to continue to work towards a reduction of trade barriers between jurisdictions, both within Canada and internationally.

Fourth, we support the federal government's effort to have all provincial governments put in place legislation enacting a cooperative capital markets regulator as soon as possible.

Our final recommendation is around the government's efforts to promote financial literacy in Canada. Financial literacy is a priority for the government, as we know, and for members of Parliament, as it is for our industry. As I said just a moment ago, banks are an active and important part of the daily life of most Canadians. In fact, 96% of Canadians have an account with a financial institution. This means that millions of people turn to our industry every day for financial advice. Banks go well beyond this, and aim to be leaders of financial literacy activities in communities across the country.

For our part at the CBA, we take this responsibility very seriously. Tomorrow we will be unveiling our new financial literacy program for seniors. This is a free, non-commercial, non-partisan program. It will be presented to seniors groups by volunteer local bankers across the country. We want to offer tips and information to retirees or soon-to-be retirees about cash management. We want to offer tips and information about how to spot and avoid financial abuse. We want to prepare seniors to spot financial scams targeted at them.

We'll be sending information on our program to all of your parliamentary offices shortly, and I would encourage you to review that material. We'd like your help, actually, in promoting these programs to seniors groups, as we worked with you on our high school program, Your Money for Students. I would encourage you to get in touch with us, and if you are interested, we'll gladly work with you.

That is very briefly what we've recommended.

Thank you, Mr. Chair. I look forward to your questions later on.

● (1710)

The Chair: Thank you for your presentation.

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

Mr. Kevin Dancey (President and Chief Executive Officer, Executive Office, Chartered Professional Accountants of Canada): Thank you. On behalf of Chartered Professional Accountants of Canada, thank you for the opportunity to appear before this committee today. *Merci pour l'opportunité.*

October 1 was an historic day for the accounting profession with the unification of CPA Canada and CGA Canada under Chartered Professional Accountants of Canada. When unification of the profession in every province is complete there will be over 190,000 chartered professional accountants in Canada.

My remarks today will focus on the theme of improving Canada's taxation and regulatory regimes. I will also address other themes put forward by the committee, including balanced budgets, fiscal sustainability, increased competitiveness and economic growth, and why this focus will benefit Canada and sustain prosperity for all Canadians.

First, strong management of finances is critical. We support the federal government's goal to return to balanced budgets and to restraining annual government's spending rather than increasing the overall tax burden.

Second, we acknowledge the government has introduced measures to lower taxes and made improvements to ease the compliance burden. However, more can be done. There has not been a thorough review of Canada's tax systems since the Royal Commission on Taxation in 1966. It's time for tax reform. In the past, this committee endorsed our recommendation that the federal government undertake a comprehensive review of Canada's tax system to reduce its complexities and inefficiencies. We ask the committee to again support this recommendation. We also recommend that the government appoint an independent expert panel to provide advice on options to streamline the tax system and, in addition, consider creating a permanent, independent tax simplification office—as in the U.K.—to review existing and proposed measures. Tax reform would improve Canada's international competitiveness, productivity, economic growth, and long-term prosperity.

Third, turning to Canada's regulatory regime, we know that red tape places an undue burden on business and stifles competition and growth. We believe that through the red tape reduction action plan and annual scorecard the government is off to a good start. But it can go further. We have raised a number of suggestions, including modifications to the T1135 foreign reporting form and the withholding requirements under regulations 102 and 105. We also recommend that standardized business reporting, namely XBRL, be adopted for use by businesses for all government filings. This would reduce the compliance costs for business, and would improve the government's data collection, resulting in cost savings. We were pleased that standardized business reporting was included in your recommendations both in 2012 and 2013.

Fourth, we are also encouraged by the government's commitment to financial literacy. Helping Canadians develop financial knowledge is critical to individual and societal economic prosperity and growth. Indeed, financial literacy is all the more relevant in view of the level of household debt. CPA Canada is an active participant in strengthening financial literacy through publications on money management, surveys and studies, education campaigns, and volunteer outreach initiatives in communities across Canada. We were very pleased to see Minister Oliver partner with us on one of these outreach initiatives last month and encourage other members to follow suit. This is not a partisan issue.

Fifth, Canada's prosperity is closely linked to economic opportunities beyond our borders. Canada's small and medium-sized enterprises play a vital role in boosting economic growth and diversifying Canada's export markets. CPA Canada supports efforts to negotiate trade agreements that eliminate barriers to the free movement of goods, services, capital, and labour, both internationally and within our country.

Sixth, on R and D, we remain committed to initiatives that can improve productivity and spur job opportunities, such as the patent box which rewards innovative companies through a lower tax rate on profits earned through the exploitation of patents in Canada. Our R and D focus needs to be not only on incenting scientific research in Canada but also encouraging businesses to commercialize and retain patents in Canada. A patent box regime will do that.

Finally, skilled professionals are vital to Canada's economic future. We appreciate the federal government's initiatives to quickly integrate internationally trained professionals into the Canadian labour market, initiatives where CPA Canada is working closely with both ESDC and CIC.

We look forward to working with you to promote long-term economic growth.

● (1715)

[*Translation*]

We thank you for your attention.

[*English*]

The Chair: Okay. Thank you very much.

We'll now to go Mr. Baker, please.

Mr. Albert Baker (Global Tax Policy Leader, Deloitte): Thank you.

Good afternoon. It's an honour and privilege to be here today to address this committee and to provide for your consideration on behalf of Deloitte some input regarding budget 2015.

Budget 2015 will provide the government the opportunity to continue its commitment to improving economic prosperity for Canadians. Canada has maintained relative stability despite the global economic challenges of the past number of years. We strongly support and applaud the government's focus on achieving and maintaining a balanced budget. We also applaud the approach that Canada has taken in recent years of reducing Canada's corporate tax rate to improve its competitiveness relative to other countries.

The specific topic that I'll be addressing today is around improving Canada's taxation and regulatory regimes. I will highlight the issues we raised in our August 2014 submission to this committee on this topic, which was supplemented by a prior submission that we did on May 9, 2014, to the Department of Finance.

Canada, along with pretty much of the rest of the world, is concerned with protecting its tax base. Tax revenue is needed in order to maintain the standard of living that Canadians enjoy while actualizing core Canadian values of quality education, health care, and human dignity, to name but a few. Plus, Canada has taken some unilateral steps to protect the tax base and has also been participating in the OECD's base erosion and profit shifting, or BEPS, initiative.

However, taxation alone is not the only element to ensure a well-supported Canadian society. Canada's competitiveness in terms of attracting inbound investment must also be protected. We are concerned that the anti-treaty shopping proposals contained in the 2014 budget will, if enacted in their current form, hurt Canada's ability to attract such investment by being too far-reaching and creating significant uncertainty as to the tax consequences of inbound investment. As such, foreign investors may choose to invest elsewhere.

Since the announcement of the anti-treaty shopping proposals, we have observed that this uncertainty has negatively affected the investment decisions and may discourage inbound investment into Canada. Canada is a relatively small open economy that needs capital well beyond that which Canadian residents can provide.

Foreign investors have a broad range of opportunities as to where they will invest their capital. Thus, introducing Canadian tax policy changes—such as the anti-treaty shopping proposals—that create uncertainty and potentially reduce investment yields will undermine foreign inbound investment into Canada. To attract foreign capital, Canadian projects generally must support higher potential yields than comparative investments located in the home jurisdiction where the capital is. The U.S. is one of those sources of capital. This is a particular issue for the energy and resources sector, given the sector's significant need for, and difficulty in accessing, capital.

Our detailed comments and recommendations are outlined in our May 9, 2014, submission to the the Department of Finance, which accompanied our submission to this committee. We're encouraged by the fact the Department of Finance announced at the end of August that it was not proceeding at that time with releasing detailed draft legislation regarding the anti-treaty shopping proposals; rather, it would await further work by the OECD in this area as part of the BEPS initiative.

On the topic of BEPS, the goals of the BEPS initiative, which is supported by the G-20, include the curtailing of international tax planning that is perceived to be inappropriate and increasing its transparency. We are supportive of Canada's participation in this international initiative.

The Canadian tax base must be preserved; however, we would offer some specific suggestions. Clearly drafted, specific, and targeted provisions are preferable to broadly worded legislative amendments that are subject to interpretation and thereby increase uncertainty. Canada must continue to encourage growth. We cannot afford to remove all tax features that might be perceived by some countries as challenging to those country's tax bases. While international cooperation is important, it cannot be at the expense of our own country's competitiveness. A balance must be struck.

In the context of the BEPS initiative as well as the domestic context, we would recommend that actions that could adversely impact competitiveness should not be undertaken unless Canada's trading partners are in fact implementing corresponding changes at the same time.

Thank you very much for the opportunity to make these comments.

● (1720)

The Chair: Thank you very much for your presentation.

We'll now go to Mr. Parker, please.

Mr. Brian Parker (President and Chief Executive Officer, Institutional Sales, Acumen Capital Partners, Member, Investment Industry Association of Canada): Thank you very much for the opportunity to present today. The Investment Industry Association was encouraged to put forward a member to discuss the challenges and opportunities facing the investment climate and our industry today. I appreciate that opportunity to join you from Calgary.

I'm the president of a small investment dealer that finances businesses from a variety of industries. The primary challenge we face in the post 2008-09 investment climate is a reduction in access to capital for smaller Canadian businesses. There are a variety of reasons for this, from demographics to risk aversion on the back of that financial crisis. Our industry association has seen a reduction of 25 boutique investment dealers through mergers or just ceasing business, and most of these dealers were focused on financing the smaller businesses.

The IIAC has been a proponent of a capital gains rollover to encourage investment, and there are investors that would be highly likely to be encouraged to put more money to work in smaller businesses. I've included a powerpoint presentation to give you a sense of what we do. We're a smaller dealer, and we use public disclosure financial statements to identify good companies and to finance them. Our view is that any inducement to encourage more public company investment increases the pool of potential opportunities for us to take it to the next level, and that translates to more jobs.

I touched earlier on investors being increasingly more risk averse; focusing on bonds, dividend-paying stocks, and cash; and avoiding the riskier and smaller speculative companies. These are the businesses that produce many of the jobs in our country.

I've also included, for illustrative purposes, three businesses where access to capital is not a problem, to give you a sense of how our business works. They are Alaris, Black Diamond, and Stella-Jones. I will walk through each one of them, but basically the story is the same. At a stage of somewhere around $100-million market capitalization, a dealer such as ourselves starts to get interested, to trade in the shares, to introduce it to institutional and retail investors. After that, a number of other brokerage firms will get involved. However, the point that's telling is that below that level, there are very few institutional or large retail investors that are prepared to finance these businesses.

I touched on how we finance these companies. We have retail brokers. We talk to their clients, institutional investors. If we're not prepared to finance a company, there are very few dealers in the country that will. We're one of the smallest brokerage firms out there. That highlights the gap we see as existing; it's generally below $100-million market capitalization.

That concludes my remarks. Thank you.

● (1725)

The Chair: Thank you very much for your presentation.

Colleagues, we'll begin again with Mr. Cullen.

We'll start with seven-minute rounds, and we'll go as long as we can.

Mr. Nathan Cullen: Thank you to all of our witnesses.

I'll keep the questions short and we'll try to get through a number of them.

First of all, Mr. Campbell, thank you very much for your opening comments. It means a lot. My colleagues occupied this room in particular, and I was across the hall. The impacts of last week have had an effect on all of us, so thank you.

There is a question that you didn't touch on, but it's one I want to get to and then connect over to some of the other testimony we heard.

Is the tax regulatory burden on Canadian companies and individuals a concern for the CBA as it stands right now—the cost of submitting and complying with the tax regulations as they exist in Canada—both for companies and individuals?

Mr. Terry Campbell: My colleagues would probably be in a better position to address that.

We tend to focus on the overall architecture, but I do hear a lot about the administrative complexity being an issue. If you follow, for instance, the small business community publications, the CFIB, and you look at the top constraints to growth and to business, regulatory red tape, tax issues, and that sort of thing, are often high up there.

I do hear that, but I'm not really an expert in that.

Mr. Nathan Cullen: I'm going to go to Mr. Dancey in just a second.

We'll see how uncomfortable this question is, and I'll let you judge.

The issue of pay-to-pay was raised in the throne speech last year and in the year prior to that.

Mr. Terry Campbell: Yes, sure.

Mr. Nathan Cullen: It sounds now like the telecommunication companies that are submitting their bills to Canadians will not be under the new proposed laws.

This is something that New Democrats have advocated for. Banks are now on a voluntary system, not mandatory, as the telecommunication companies are.

How is your association rationalizing, justifying, that?

Mr. Terry Campbell: I think we deal with that by pointing out that banks do not and have not charged for issuing bills, credit card bills, or statements that show a balance owing. We haven't done that. We had entered into....

Given that it was a current issue, we have cemented that practice in a commitment, which is overseen, by the way, by the federal government's Financial Consumer Agency of Canada. Any commitment we enter into is overseen, and they report on progress.

So that comes into effect—

Mr. Nathan Cullen: So just to summarize, you don't charge it right now and your commitment is to not charge consumers to receive their pay—

Mr. Terry Campbell: For the bills, that's right. And the FCAC will oversee.

Mr. Nathan Cullen: Mr. Dancey, let's talk about trends in terms of complexity of the tax system in Canada. I want to combine the two, both personal and corporate taxes. Those two systems, I know, are different, but they have some overlap. Are we trending towards a more complicated tax system and higher regulatory burdens or are we trending towards a more simplified tax code?

Mr. Kevin Dancey: Well, I've been around the tax game a long time. I was the leader of a tax practice of a large firm. In one of my prior lives I was ADM tax policy in the Department of Finance so I came in front of this committee many times. It's really hard to actually peg if it's getting worse or better. It's still complicated; it always was complicated.

Mr. Nathan Cullen: Excuse me, just to be clear on my question, it wasn't about worse or better. Are we trending towards more complexity or towards more simplicity?

Mr. Kevin Dancey: I understand. I was just turning the words around in terms that more complex would be worse. In some respects, there have been some good things that have happened. I think reduction, in terms of the corporate rates, the attempts to broaden the base, anything that reduces rates and broadens the base, is a good philosophical thing to do in terms of taxes.

Having said that, the system still is complex and the regulatory burden in terms of the compliance burden is still high.

Mr. Nathan Cullen: To quote, as Mr. Campbell mentioned, CFIB and others, whom the government likes to quote a lot, peg that somewhere on last year's regulatory tax burden at somewhere around $10 billion to consumers and $31 billion to businesses of all sizes in Canada. As the government has moved towards what might be seen as a more politically favourable taxation system, these one-offs, what are sometimes called boutique tax credits, how is it we're not moving towards a more complex system?

I've heard from your members. This is why I'm a little bit confused by the answer that there has been a long-standing desire and concern that the regulatory burden is increasing. This is from the CFIB and it's from the chartered accountants in Canada—that it's only getting worse in terms of complexity, never mind the specific policies. You almost painted a picture that it was neutral, that it's always been complex and it's complex still.

● (1730)

Mr. Kevin Dancey: I think the red tape reduction panel has had some good successes, but as you said, more could be done. For example, just that comment on regulation 102 and 105.... In 2008 I was vice-chair of a panel on what Canada's international tax policy should be. We recommended changes to those regulations back in 2008. The American chambers of commerce made the same recommendation since that time and we still don't have changes to that particular regulation.

Mr. Nathan Cullen: I may have said it, are we due for another Carter? The last time we properly looked at the tax code was 1966-1969.

Mr. Kevin Dancey: Right. And the world has changed a lot since.

Mr. Nathan Cullen: You think?

Mr. Kevin Dancey: Income is a lot more mobile than it was then so it is a different world today than it was in 1966. The principles that Carter applied to tax reform may not actually be the right ones today. I think we need to sit back and have a good look in terms of what tax reform should be, going forward.

Mr. Nathan Cullen: Thank you, Mr. Dancey.

Quickly over to you, Mr. Baker, does Deloitte have any position or opinion on the so-called patent box approach to invigorating investment in research and development in Canada?

Mr. Albert Baker: We think it should be explored. A number of countries in Europe and elsewhere have that type of regime. As part of the BEPS project that was mentioned earlier, the patent boxes are in the process of being looked at. There are different types of regimes in different countries and the BEPS committees are still debating exactly what types of regimes are the ones that they would recommend moving forward with. There is no question that the patent boxes as an entity will survive. From our perspective, it is something the federal government should be seriously considering, given that it is potentially giving those countries a competitive advantage.

Mr. Nathan Cullen: Just very briefly, are you aware of any exploration by the federal government towards this initiative right now?

Mr. Albert Baker: I'm not aware of exploration.

Mr. Nathan Cullen: Thank you.

The Chair: Thank you, Mr. Cullen.

We'll go to Mr. Keddy. Maybe we'll have a Keddy commission.

Mr. Nathan Cullen: .... motion.

The Chair: You want a motion on that.

Mr. Nathan Cullen: We don't have time.

We're going to need a motion, Chair.

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

Welcome to our witnesses.

I've got several questions for Mr. Kirkby.

I listened to your submission and I've tried to do a bit of background on you but I really have some difficulty in what you're saying about how the charitable tax system and the audit system work. I think it's important to get on the record so I've got some questions.

When you did your master's thesis on 16 charitable organizations, that you're saying have been audited too strenuously by CRA, did you speak to CRA? Did you speak to any CRA employees? Did you speak to the commissioner or the deputy commissioner?

Mr. Gareth Kirkby: I attempted to get some information from them, but CRA has a lot of its policies and approaches on its website as it stated. I spoke to 16 charity leaders and five charity experts, and only eight of them were being audited or had similar experiences with CRA.

Mr. Gerald Keddy: One of the shocks I had as a member of Parliament, when I was first elected, is how much work we do with CRA. We all do a lot of work. But I've never met anyone, whether they were actually correct in being angry with CRA for being audited or if they were incorrect, who was happy about the process. No one really likes to be audited.

I really do have a question with your process. To begin with, as a member of Parliament, to come here with an anonymous statement of fact is not a statement of fact. Either you have a name and a place with it or please don't present it as fact. The charity is directed alone and is not subject to political direction. It's not subject from this government and I don't believe it was subject from a previous government, and I don't think it'll be subject from a future government. I think you have to give some credit to these professional men and women. We may not like the process.

I have to ask you this. From your own numbers, you state that charities spend less than 3% of their time on political activity. Well, they're allowed 10%. So if they're audited and they're spending less than 10%, then they're whole and that should justify their right. That's a selling point for them. That's not a negative thing.

● (1735)

Mr. Gareth Kirkby: Is there a question in that, sir?

Mr. Gerald Keddy: Yes, the question is, how can you say that somehow or another these organizations should not be open to audits? There is $14.24 billion in charitable money given by Canadians every single year. Are you suggesting we shouldn't audit any of those dollars?

Mr. Gareth Kirkby: I'm glad you asked that. No, that's not what I'm suggesting at all. What I found from talking to the charities, to a person, is that the leaders emphasized that they understand the need for audits. Many of the organizations have been through multiple audits in the past.

The difference is that starting in 2012, there was additional money resourced to CRA to hire additional auditors and to specifically audit political activities when there was no evidence that there was a problem with political activities. Obviously, it's really important that the regulations be followed by charities and that money be well used.

Mr. Gerald Keddy: But, surely, you don't think you should be able to spend more than 10% of your assets on political activities? Either you're a charity or you're a political organization. Somehow or another, we have to find some common ground and again, I have to tell you an anonymous source is not a source. I can give you a dozen anonymous sources.

I have another question. Energy Probe Research Foundation was featured in the *Globe and Mail* last week. It is a charitable organization. It was an interesting article. Did you speak to them? They've been audited and they would be called a right-wing think tank, but they deny that.

They claim they're the most audited group in Canadian history because of their position on atomic energy. They were audited by the Liberal government and they've been audited by our government.

Did you look for somebody who had a different opinion, so you could have some balance in what you're saying?

Mr. Gareth Kirkby: I audited from five different sectors in five different provinces, sir, and absolutely. I won't say who I audited. Part of my ethics process was that I not say that. The agreement with the charity leaders was that I wouldn't identify them or say anything that would lead directly back to them.

It's very interesting that so many of them felt a need to have that level of anonymity with something that's this public.

Mr. Gerald Keddy: I'll try to wrap this up, and I'll leave the anonymity alone. It really doesn't wash, quite frankly.

Mr. Gareth Kirkby: I'd like to address anonymity, actually.

Mr. Gerald Keddy: You talked about $13.4 million invested into looking for tax evasion in the charitable sector. However, that's a small amount of money. That's a pittance compared to the $14.24 billion in the 86,000 charities out there in Canada. What I'm saying —and I want to be very clear—is that government has an obligation to make sure that charitable dollars donated for charitable purposes are used for charitable purposes. It's as simple as that.

● (1740)

Mr. Gareth Kirkby: Absolutely. It's hard to imagine that anybody would disagree with that.

You keep referring to the value of the sector, which is a financial question. These are not financial audits. Again, sir, they're political activity audits, which are—

Mr. Gerald Keddy: It seems to me they're financial audits based on the fact that you're only allowed to spend 10% of your funds on political activities.

The Chair: Thank you. Unfortunately, the time is up. Thank you, Mr. Keddy.

We'll go to Mr. Chan for seven minutes, please.

Mr. Arnold Chan: Gentlemen, thank you for all of your presentations.

I actually want to follow up on Mr. Keddy's point and continue the conversation with Mr. Kirkby. Thank you very much for your presentation.

In terms of your research, was there any sort of evidence you saw that this special audit program to investigate the activities of charities targeted specifically the political activities of charities that were immediately critical of current government policy, or is it spread all over the map? Was it particularly charities that you might view as being more opposed to the government as opposed to being in favour of government policy? Do you have any sort of statistical evidence out there, as opposed to giving away whom you actually spoke to, that would give us some comfort with respect to the position you're advocating?

Mr. Gareth Kirkby: I found that three major sectors are being audited: environmental organizations that work on energy issues, particularly around the oil sands and pipelines, and exports off the coast; secondly, international development and human rights organizations; and the third were charities that had significant labour union funding. I think it's fair to say that all three of those categories probably, with this current government, tend to have higher political activity levels than some others. In participating in public conversations, they may be more critical of the current government. They often have a different approach from what the government is taking on the issues.

Mr. Arnold Chan: Thank you, Mr. Kirkby.

I want to turn my questions to Mr. Campbell, and indirectly to Mr. Parker. In both of your organizations, your members voluntarily contribute to the Ombudsman for Banking Services and Investments. Of course, it's a voluntary participation under OBSI that provides a service that essentially seeks to resolve disputes between your member organizations and the broader public. It follows, really, from your comments with respect to financial literacy.

To Mr. Campbell, given that a number of your members, at least two of the chartered banks, have withdrawn their financial support to OBSI, do you think it might now be high time that they be subject to mandatory oversight by the Ministry of Finance?

Mr. Terry Campbell: Let me actually set the record straight just a little bit. We are members of the ombudsman system. Actually, in fact, the banking industry created the ombudsman system. All Canadian banking customers have access to consumer redress through the ombudsman system. Some go through OBSI. Some go through ADR Chambers.

The federal government has actually put a requirement in the Bank Act that says all banks must be members of an approved ombudsman agency. The approval process again runs through the federal government's Financial Consumer Agency of Canada. Applications have to be made to the FCAC demonstrating their processes, their strengths, their capabilities in terms of running an ombudsman system. Then the agency, I guess through the advice of the government or the minister, will recommend and approve those bodies that meet government standards.

It is in fact a requirement. There's a process under way right now that the two existing bodies out there and potentially others—I'm not privy to that—have put in their applications and they're being considered now. This is subject to government standards. All financial institutions, all my members, will have to be members of an accredited registered ombudsman through the government's regulatory requirements.

Mr. Arnold Chan: As a quick follow-up question, where there isn't ultimate financial support for OBSI, doesn't it ultimately undermine the financial capacity to have an effective ombudsman that they're not properly financially resourced?

● (1745)

Mr. Terry Campbell: I think if you look at OBSI's track record, particularly over the last few years, you will have seen a significant strengthening and improvement in terms of their responsiveness, their timeliness, the quality of their responses, their turnaround time, all of that sort of stuff. They have a very strong chair, a very strong board, and I think you will find that over the last few years there has been an elevation of how they're performing.

As I say, this will all be done under government standards and approved. I think we can all take comfort with that.

Mr. Arnold Chan: Turning now to Mr. Dancey, in the 2012 federal budget the SR and ED program of $1.3 billion was subject to cuts. The general rate was reduced from 20% to 15%. It excluded capital expenses from the program and also reduced the eligibility of contract payments from 100% to 80%.

What are your thoughts on these particular cuts, and what impact do you think this will ultimately have on Canadian competitiveness?

The Chair: There is about one minute remaining.

Mr. Kevin Dancey: There are several points. One, we're not sure all those cutbacks should be made—for example, particularly the exclusion of capital expenditures. Albert may have some comments on that as well.

I'd also like to come back to the patent box concept, because the SR and ED program, the way it is now, incents the carrying on of scientific research. That is a very important thing to do, but I think what we also have to do in Canada is incent the commercialization of that research in Canada and the retention of those patents in Canada. That's what the program does not do right now, and that's what a patent box would do.

I think the program has to deal with both aspects, incenting not only scientific research, basic foundational research, but also the commercialization of that research.

Mr. Arnold Chan: I have a very quick follow-up point. Would you favour the use of tax policy over grants? It's interesting, because supposedly the point of this particular reduction was to redirect funds toward the granting program.

Mr. Kevin Dancey: I'm not sure the institute has a view, but my own personal view is that I have always favoured tax policy to incent those things. The marketplace will do it as opposed to government trying to pick winners versus losers.

The Chair: Thank you, Mr. Chan.

We'll go to Mr. Allen, please.

Mr. Mike Allen: Thank you, Chair.

Thank you to our witnesses for being here.

I'll focus my questions toward Mr. Dancey and Mr. Baker. To start, I'll pick up on the patent box. Then I want to talk a little bit about tax simplification and about some of the red tape reduction.

With regard to the patent box, I get the idea on what you're trying to do there and the importance of the innovation, the R and D, and those types of things. Can you talk a little bit about how successful that has been in other countries, specifically with respect to what it has contributed to GDP? Do we have any numbers on that? Do you have any numbers on the increase in patents or companies staying within the country, for example, under a patent box theory?

Mr. Kevin Dancey: I will start, and maybe Albert can follow.

I don't have particular statistics at my fingertips on either of those things. What I think I could say, though, is that the first patent box I believe was in Ireland, probably about 20 or 30 years ago. It has been replicated in a number of European countries since that time. The latest I'm aware of is the U.K. just in the last year or two.

Sometimes imitation is the best form of flattery you can get. It's good evidence that it must be working. Otherwise, why would a whole bunch of other countries be doing it? I think that's a very key fact.

Mr. Albert Baker: I agree with that, Kevin.

In terms of the evidence, there aren't a lot of academic studies out there. A number of these regimes are relatively new, but as Kevin says, they're out there. They're certainly providing competition for Canada.

Anecdotally, there's evidence out there that's supportive of it. There are particular companies that have come out and given evidence; they've made statements around the fact that they've either stayed in that particular country or moved and carried out more operations in a particular country that had a patent box. I would say the academic evidence isn't there yet in terms of the resulting benefits to the GDP, but anecdotally there is evidence that these are working in other jurisdictions.

Mr. Mike Allen: It strikes me, using the patent box theory, what types of companies are asking for this, and are they? Maybe it would favour larger companies as opposed to smaller. If a smaller company is making a product and they're doing something in their business, let's say they're going to patent their process that helps them make a whole bunch of products, how do you attribute that to a specific thing?

I can understand if you have a new product that you're selling, it makes sense, and you could put that in a box, but if you're talking about someone who is doing something, a patent on a process that improves all their products, how do you do that?

● (1750)

Mr. Albert Baker: The regimes are all different, so I wouldn't be able to say exactly how that works in each regime, but in principle, in terms of large versus small, I would see it the other way. In terms of having the patent box, some of the regimes...we talk about the BEPS project, and some of these structures are being looked at, but larger multinationals around the world often have other alternatives available to them through international structuring, being able to enjoy lower tax rates on certain types of income around commercialization, which smaller companies don't have access to.

One of the ideas behind the patent box is that it's simpler and less expensive to implement than having those types of regimes in place. While those international structures tend to be more for the larger companies, a patent box, I think in principle, could be designed such that it would have applications both large and small.

Mr. Mike Allen: Okay.

Mr. Kevin Dancey: Just a follow-up on that is that it's pretty clear, certainly given my history in tax over 30 years, that countries around the world use corporate tax policy as a competition vehicle. They use it to attract investment; that's just the reality of the world. Why shouldn't Canada want to attract that type of investment and have that retention and the commercialization of that intellectual property here? That would be good for this country to do.

Mr. Mike Allen: You led me right into the next question.

One of the things I did not see in your submission, which we've heard a lot from companies and in some of the briefs we're hearing today, is a long-term commitment to the accelerated capital cost allowance, which again is a measure that we say we are not competitive against the U.S., for example. Some have suggested a rate of 45% is the reason that has not been in your submissions.

Mr. Kevin Dancey: I didn't talk about it in our comments today, but the whole issue of making sure that our capital cost allowance system reflects the economic life of the assets and is competitive is one of the aspects in our written submission. To meet the five-minute time limit I had to cut certain things.

Mr. Mike Allen: I know how that happens.

Mr. Albert Baker: It's not one that we focused on in particular.

Mr. Mike Allen: Okay.

I wanted to ask a question about tax simplification.

I asked Mr. Cockfield who was here last week at committee if there is an example of a country that has been able to take significant steps to tax simplification and if there is a process to get there. While some countries have done things—the U.K. has taken some measures, and we've done a few things—do you know of any countries that have made great strides in a process for tax simplification and could you see them getting to a simplified tax code from where we are today?

Mr. Kevin Dancey: Do you want to take that first, as the global head of the link?

Mr. Albert Baker: I wouldn't be able to identify any particular success stories offhand. Certainly it is an initiative, it's a goal. Given the complexity of carrying on business today, there are two issues: one is getting the tax policy right and the other is tax administration. Sometimes, unfortunately, getting the policy right does require introducing some complexity. Tax simplification is good overall, but if it's a choice between getting the policy right and getting simplification, I'll vote for the policy.

The Vice-Chair (Mr. Nathan Cullen): There are just a few seconds left if you wanted to answer as well, Mr. Dancey.

Mr. Kevin Dancey: The whole issue of simplicity in tax policy and tax administration is always a journey. You never reach the goal.

The Vice-Chair (Mr. Nathan Cullen): It's a big journey.

Mr. Kevin Dancey: That's just the reality.

The Vice-Chair (Mr. Nathan Cullen): A very philosophical answer, Mr. Dancey.

Mr. Kevin Dancey: That's the pragmatic reality, but that doesn't mean you shouldn't keep working at it.

The Vice-Chair (Mr. Nathan Cullen): Thank you, Mr. Dancey and Mr. Allen.

We'll go to Mr. Rankin for up to seven minutes, please.

Mr. Murray Rankin: Thank you, Chair, and thank you to all the witnesses today. Excellent presentations.

I'd like to start with Mr. Kirkby if I could. Thank you very much for your excellent research. It's very thorough reporting, 75 pages of dense reasoning, and I really appreciate what you've done in elucidating this problem that we've heard so much about in this committee.

I'm just trying to figure out what the solutions are. If there are problems, what are they? You talk about a lack of clear definitions in the regulations. You talk about the CRA website being naive and unhelpful, according to some of the people you talked about.

Are those the key suggestions you're making, aside from not even having this program because there's nothing to really warrant this kind of $13-million expenditure? Is that the thrust of what you're saying?

● (1755)

Mr. Gareth Kirkby: On that first one, the pre-2012 program had a dimension of auditing for political activities, but it was mainly random. When an issue came forward, they addressed it.

I think another one is the purposes. There's a need to look at purposes. Canada has three charitable purposes. We followed the U. K. in our legislation and now they have 13. They also spun off the charity directorate there from the tax authority. We're falling behind the whole Commonwealth on this. I would point that out and note that it's just coughing up the evaluation grid CRA uses. Charities could use something really practical that they could evaluate themselves with. What's more practical than the grid that is used by the auditor to understand what it is that is expected of you?

Mr. Murray Rankin: Good. Thank you.

My next question is for Mr. Baker of Deloitte.

It sounds like you said, about the BEPS work under way at OECD, that we shouldn't proceed in efforts to protect our tax base unless and until we're doing so in conjunction with our other trading partners. I assume that if we were to do so in conjunction, you would support the OECD's BEPS initiative, or not?

Mr. Albert Baker: We were supportive of the initiative. What we're suggesting is that people need to act at the same time. We wouldn't want to see Canada taking steps sooner—

Mr. Murray Rankin: I understand that, but assuming that we did then you would be in favour of proceeding along the lines of the recommendations—

Mr. Albert Baker: Correct.

Mr. Murray Rankin: —subject to what those recommendations finally look like? Generally, if we do so in conjunction, would you support going ahead?

Mr. Albert Baker: Yes.

Mr. Murray Rankin: The other question you alluded to was the tax treaty shopping. You were concerned that the initiative might actually hurt us with respect to inbound investments. Maybe it already is hurting us. Could you speak a little bit more about that?

Mr. Albert Baker: In terms of treaty shopping, there was a proposal put forward in the last budget. In our view, in terms of the way that it was described in the budget documents, it was going to create a lot of uncertainty as to whether or not a Canadian company could access the treaty with the other country. Where that treaty cannot be accessed, there's a 25% withholding tax that applies on interest, dividends, and royalty payments coming out of Canada.

Today there is far less certainty. A company coming into Canada, or a pooled investment coming into Canada, can rely on the treaty that's there and the Canadian laws that are there. Our concern is that having this overlay that was proposed, in the manner that it was proposed, is going to create undue uncertainty.

Mr. Murray Rankin: Yes, all right.

Mr. Parker, your presentation was excellent on behalf of Acumen Capital Partners. Basically, you left us hanging. You said we've got this real problem with small-cap investors not finding the capital. So $100 million seemed to be the threshold of market cap and then under that there is a real problem. You talked about how there had been a consolidation in the investment industries of Canada. These are very disturbing comments.

If you have any recommendations, I'd love to hear them.

Mr. Brian Parker: Yes, there are a number of them.

In general, we're in favour of supporting investment in these companies. One of the proposals is a capital gains rollover, which would allow you to take investment dollars out of a sold investment, as long as you put it to work within six months. That would enhance the investment capital that's available.

We talk to a lot of investors, both retail and institutional, and I think if you talk to most institutional investors, they would say... they're indifferent to taxation. They just want to make the rational decision. If you talk to retail investors, there are many with pregnant capital gains in large positions where they're unwilling to sell because of the capital gains that will be triggered. If you encourage them to sell and reallocate the capital to growth businesses, in my view that would encourage more jobs.

● (1800)

Mr. Murray Rankin: Okay, thank you for that.

I'd like to go now to Mr. Dancey of the CPA Canada.

In your written material, you talk about the fact we haven't had a royal commission since Carter to address the improvements to the Canadian tax and regulatory system. You talk about the need for tax reform. Is your organization taking the position that we need a Carter II?

Mr. Kevin Dancey: We need tax reform. And whether it's called Carter II or not, we can debate that issue. I think it is time to have a good step back to look at the whole tax system—the consumption tax system, the corporate system, the personal tax system—and see if we got the balance right and see, frankly, if the tax system is fit for its purpose in today's economy, because the world has changed a lot, as I said. Income is a lot more mobile.

Mr. Murray Rankin: Again, to specifics, you talk about maintaining competitive corporate tax rates by continuing to benchmark Canada's rates against the OECD average. I'm not sure what you mean by benchmarking. I believe we have the lowest corporate capital tax among OECD countries. Are you saying we benchmark to the average? What do you mean?

The Chair: Just a brief response, please.

Mr. Kevin Dancey: No, we don't have the lowest corporate tax rate among all the OECD countries. On the marginally effective tax rate in terms of capital investment, we actually have become very competitive with our move to the GST, etc. In terms of just our overall corporate rates, we are still middle of the pack when it comes to OECD rates.

The Chair: Okay, thank you.

We'll go to Mr. Adler please, for seven minutes.

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

Welcome here, everybody. Thank you for being here today. Thank you, all. This has been a very fulsome discussion. I would like to engage each and every one of you, but I only have seven minutes so I'm going to pick and choose here.

Let me start off with Mr. Kirkby.

You have made some pretty serious allegations here today. It seems like you're relying on some anecdotal evidence to support your allegations. Do you have anything more than anecdotal evidence?

Mr. Gareth Kirkby: I don't understand why you would say that, “anecdotal evidence”. I followed a process that's considered an excellent process in qualitative research. I went through all of the steps—

Mr. Mark Adler: If I may, sir—

Mr. Gareth Kirkby: I'm confused by your suggestion—

Mr. Mark Adler: Excuse me, this is my time.

If I may, you mentioned that there's political interference in CRA. I would like just like to know, and I'm sure the committee would like to know, what evidence you have of that.

Mr. Gareth Kirkby: Sure. I have the evidence of what I heard from the leaders and the experts condensed, and also looking at the literature—

Mr. Mark Adler: Anecdotal evidence is what you're—

Mr. Gareth Kirkby: No, it is absolutely not anecdotal evidence. It's based on people's experience.

Mr. Mark Adler: Okay, thank you very much.

You also mentioned charities you had spoken to that had seemed to have problems with being audited. I know Mr. Van Kesteren next me, who runs a car dealership, has been audited a number of times he's told me. He's not in a charitable business, I can guarantee you that.

There are organizations like IRFAN and ISNA. IRFAN has been sending money to Hamas, and ISNA to a terrorist group in Pakistan. Are these the kinds of expert charitable organizations that you are referring to or relying on for your evidence?

Mr. Gareth Kirkby: That's a very strange question, sir, I think.

Mr. Mark Adler: Give me an answer then.

Mr. Gareth Kirkby: Some of the charities I spoke to were among, I would say, many Canadians' favourite charities, small and large, in different sectors, and in different provinces.

Mr. Mark Adler: Okay, thank you.

I have a quote here from the commissioner and deputy commissioner of CRA. It says:

> As I have made clear in the past, the process for identifying which charities will be audited (for any reason) is handled by the Directorate itself and is not subject to political direction.

Mr. Gareth Kirkby: The government has created—

Mr. Mark Adler: Thank you, that wasn't a question.

● (1805)

Mr. Gareth Kirkby: That wasn't? You don't want a reply to that?

The Chair: Order.

Mr. Adler, is that a question?

Mr. Mark Adler: No. You can choose to answer, but I would be happy if it's brief.

Mr. Gareth Kirkby: Sure. You've given $13.4 million now to CRA, told it to change its priorities on what it's auditing, hired a whole bunch of new people, specified to go and look at political activities. Some individual MPs—

Mr. Mark Adler: You don't have to agree with that.

Mr. Gareth Kirkby: You created a funnel that pushed CRA into auditing—

Mr. Mark Adler: Mr. Chair, it's my time, is it not?

The Chair: It is your time, but I think if a question is asked we should allow a witness to answer it.

Do you have a further question or do you want to move on?

Mr. Mark Adler: I'm moving on.

Mr. Campbell, Canadian banks have a reputation of being healthy and strong, comparatively speaking.

How strong are the Canadian banks right now compared to other global banks? For example, Canadian banks are very efficient. They have excellent return on earnings, but the capital position of other banks around the world has improved drastically.

Is this going to put competitive pressure on Canadian banks to change their behaviour? Could you address that, please?

Mr. Terry Campbell: You're right on a number of fronts there.

You're right that the capital positions of banks around the world, which were found efficient in 2007, 2008, and 2009, had to raise their levels to the level of Canadian banks. Then, of course, everybody has to move from that point on.

I draw your attention to the headlines of just a couple of days ago. I think 20-plus European banks failed their stress test which is a stress test on capital. Canadian banks are consistently and materially above what OSFI requires. It's a very competitive world. The World Economic Forum has judged us to have the strongest and soundest banks seven years running, and I hope that will carry on.

To bring things to a focus, in my remarks I said we were always well capitalized. That's still true. We were all very well managed with a big focus on prudence. That has sure not changed. But we're also very well regulated. We have OSFI as a good and strong supervisor. We've got a new leader there. I think he's going to carry on with that tradition, so I don't see the fundamentals changing.

Mr. Mark Adler: There is downward pressure on the return on equity. The regulatory environment outside of Canada is certainly changing. The plates are shifting underneath the Canadian banks. We know where we stand today.

Is there anything that we could do as a government to make sure that we maintain the position and the strength of Canadian banks on the global scene?

Mr. Terry Campbell: The strength of our system is that the Bank Act is reviewed every five years. That's coming up in 2017. We would encourage that there be a good, thorough review of what is already a strong system to see what can be improved.

The Chair: Thank you, Mr. Adler.

Monsieur Caron, for seven minutes.

[*Translation*]

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

My questions will probably mostly be for Mr. Parker, because the whole issue of venture capital is of great interest to me, fascinates me in fact.

Let's compare Canada's current situation to that of other OECD countries. How would you describe Canada's situation with regard to venture capital?

[*English*]

Mr. Brian Parker: I will focus my comments more specifically to Canada because I'm a Canadian practitioner.

We certainly have a very unique system in Canada and historically, a very robust market for capitalizing small businesses. What's different here, and certainly in the U.S. from where I have more direct experience, is that we tend to finance companies publicly earlier than they would in the U.S. For the last 20 years, it's been very robust with ups and downs with the cycles.

In the last four or five years, it's been a prolonged down cycle and we haven't seen it bounce back up.

I look at the U.S. and it's been more robust on their private equity side which is the comparison. I look to Canada and say there just needs to be a bit of the priming of the pump to kick-start the animal spirits and get people back in investing in the earlier stage companies.

● (1810)

[*Translation*]

Mr. Guy Caron: Your venture capital figures are quite interesting.In fact, I am going to quote your brief on this. It contains the following paragraph, and I quote:

> Over the past year or so, financing activity in venture markets has collapsed to near-record levels. The amount of capital raised by TSX-V companies over the past three years has fallen 63% from $10.1 billion in 2011 to $3.8 billion in 2013. Over the same period, new listings on venture exchange have declined by near two-thirds to 76 listings in 2013.

These declines seem quite significant, both as regards capital and as regards new listings.

[*English*]

Mr. Brian Parker: If your comment is that there was a substantial drop, there was. We've seen a bit of a bounce back in 2014 but not to the levels we've had before. We have what is usually a very healthy market, and to lose 25 competitors normally is a good thing. But in my particular case, as I look around the landscape and see 25 competitors go away I ask if there is a fundamental shift, and I believe there is.

[*Translation*]

Mr. Guy Caron: You probably followed the debates when the government announced the gradual withdrawal of the labour-sponsored venture capital funds tax credit. In Quebec, that is a very important source of risk capital, not only for workers' funds, but also for their partners. For instance, the Fonds de solidarité de la FTQ and Fondaction often pool their resources with those of investors and private funds so as to invest in high tech areas or other growth areas.

The problem is that the government withdrew that tax credit gradually. As for you, you recommend that there be tax incentives to contribute to strengthening the venture capital market.

Do you think the government is heading in the wrong direction, if it wants to ensure a sound venture capital market?

[*English*]

Mr. Brian Parker: We tend to take the view that, as opposed to specific targeted investments to be propped up, it's more to encourage a broader initiative. That would be our view. It's not necessarily the wrong direction. It's simply that we look at it as being very hard for anyone, let alone government, to be able to say this is the one sector in which we're going to be the best in the world. It's better to create an environment where all small companies have easier access to capital, and then some smart entrepreneur in a garage somewhere is going to come up with that great idea. Is it going to be in technology, or is it going to be in the oil field? We simply don't know.

To too finely pinpoint where you're going to drive policy would be wrongheaded, in our view.

[*Translation*]

Mr. Guy Caron: I also believe that the government should not choose the industries investments are made in. It is up to the funds to make those decisions. They do so by taking into account the health of the industry in question and its future perspectives. We agree on that. The venture capital market is really different from the market of investments or established businesses. We talk a lot about start-up companies and solidifying emerging companies. They need venture capital because they cannot necessarily offer guarantees to their investors.

However, in the case of the labour-sponsored funds, the government decided to eliminate that tax incentive. It created its own venture capital fund, but it refused the massive investments the labour-sponsored funds were willing to make.

I wonder if at this time the government has a truly viable strategy to promote the strength and vigour of venture capital in Canada. Indeed, we are lagging behind our partners, in particular Israel and the United States, who are leaders in this area.

[*English*]

Mr. Brian Parker: I would say that in any initiative there will be pros and cons. I would say with regard to labour-sponsored funds, it's not that it's a bad thing, but it wouldn't be at the top of my list of initiatives to ask how you would kick-start broader investments, more businesses. You want to take away as many restrictions as possible, and the historical rate of return of some labour-sponsored funds have been imperfect, so I don't know that it would attract the capital necessarily that a broader initiative would.

It wouldn't be my favourite. That's not to say it's bad, but my personal view is it wouldn't be the one I'd go after.

The Chair: You have about 30 seconds.

● (1815)

[*Translation*]

Mr. Guy Caron: I will now ask you a question that I also put to the previous group.

The government is heading toward a cooperative securities regulatory organization, but Alberta and Quebec do not want to adhere to this. I doubt that we will able to convince them to change their mind. However, that situation may lead to two-tier, dual regulation.

What risks would you say there are to having two-tiered securities regulation?

[*English*]

Mr. Brian Parker: In fairness, the Investment Industry Association asked me to come to speak on their behalf in pursuit of positive initiatives. Being an Albertan, my view might not be the same as Ian Russell's on this particular topic, so I'm going to defer comment and allow Ian to answer the question.

[*Translation*]

Mr. Guy Caron: I can understand that.

[*English*]

The Chair: I think we can probably read something into that.

Thank you.

Merci, Mr. Caron.

We'll go to Mr. Van Kesteren, for seven minutes.

Mr. Dave Van Kesteren: Thank you, Chair.

Thank you all for coming.

I think I had better clear the air as Mr. Adler mentioned my audits. I'm going to direct this to Mr. Baker, too. An audit is something performed by the government. We're not talking about businesses that bring their boxes in and the guy who's sticking half the money under the table. For most businesses, mine in particular, and I think it's the case with just about every business that would be reputable, goes through an accountant. There's the difference between—and we keep saying this and we need to hear it again and again—tax avoidance and tax evasion. Tax avoidance is legal. If there are $50,000 worth of taxes to be paid, obviously it's within a citizen's right or an organization's right to reduce that by legitimate means, and sometimes the auditor comes down and say “No, no, that's not what that means. You can't do that.”

Am I right in that assumption? Is that pretty much a fair—

Mr. Albert Baker: Yes, the rules are complex and oftentimes there will be debate. There are grey areas in the law, and sometimes the auditor will have a view and the taxpayer will have a view. Ultimately it's up to the courts to resolve those situations. All of that is fair game and it falls within that tax avoidance, which, as you say, is legal. It's tax evasion that everyone agrees has to be stopped.

Mr. Dave Van Kesteren: And auditors are put into the system to make sure everybody is following the rules. It's not as though the government can chase an organization. It can direct or it can say it thinks these guys need to be looked at. In my line of work—and my line of work is here—when I talk to my constituents, I hear all the time, “I got another audit, and it's not fair”. We hear it repeatedly. But it is fair, and it's something the government has to continue to do. Is that a fair assessment?

Mr. Albert Baker: Audits happen and they always will.

Mr. Dave Van Kesteren: Thank you.

I want to talk to Mr. Campbell.

Mr. Campbell, you know, I've been a big advocate of good sound banking. Your organization, Canadian Bankers, has performed very well and we're very proud of what's happened. But I'm also a big fan of credit unions. Would you agree that we need both strong banks and strong credit unions?

Mr. Terry Campbell: I would agree.

First of all, thank you very much, Mr. Van Kesteren, for your comment. I do appreciate that.

We do need both. We need strong banks and we need strong credit unions. On the latter, I think the more choice in competition there is, the better it is for customers and the better it is for Canadians. You can choose and you have options available to you.

I would say, however, in the interest of strengthening those competitors, one has to look at the nature of the regulatory system across this country that credit unions are under. One of the strengths of our system is that we have OSFI with world-class standards. Because credit unions are now at a provincial level, the quality of that regulation supervision will vary, and some of those credit unions are getting very big. This is why the federal government put in place the option for some of these larger credit unions to transition to the federal sphere, so they can be under that quality of regulation under OSFI. None have done that yet, but the rules are still relatively new. So yes, we should strengthen both sides, but we have to look at the quality of regulation.

Mr. Dave Van Kesteren: That leads me to the next question. They have asked for a capital growth tax credit. They don't have the same access to funds that banks have. Would you be supportive of that ask as well?

Mr. Terry Campbell: I have discussed this quite a bit with my counterpart at Credit Union Central. I will be very honest here: I am not a tax expert, and I cannot really get into the ins and outs of whether that particular ask makes sense or not. I have a sense that the Department of Finance felt that it was a long-standing anomaly, and it had to be addressed. I would say as a general principle that when you are competing for the customer's dollar.... You're right that they don't have access to the same degree of funds, but they do have themselves structured differently, and there are, I think, legitimate tax breaks for credit unions. You do have to ask yourself whether what you're doing is for the good of the customer or whether you are introducing anomalies into the system that may look good now but that will come back to bite you at some future date. I would hesitate to say yay or nay on that specific issue.

● (1820)

Mr. Dave Van Kesteren: That's fair.

Mr. Chair, how much time do I have left?

The Chair: You have just under two minutes.

Mr. Dave Van Kesteren: I'm going to give you another quick question.

Would Canadians be on the hook for banks that fail as are the customers in Cyprus? What's it called—a buy-in or something?

Mr. Terry Campbell: It's a bailout, or bail-in, actually.

Mr. Dave Van Kesteren: Do we have any laws that would make that happen in this country?

Mr. Terry Campbell: That is not a scenario that could happen in Canada, quite frankly. In fact, there was a lot of confusion when Cyprus happened, because bail-in was a new concept. The federal Department of Finance has put out a paper on bail-in, which makes it very clear that no depositors and no taxpayers would have to step up in the extremely unlikely case that a Canadian bank would fail. Debt would be bailed in as capital.

Mr. Dave Van Kesteren: I'm sure a lot of Canadians would like to hear that.

I want to talk about invest industries. I want to go to your number one proposal. How much money do you feel is locked in, and what would that result in, do you feel, if we released this capital?

Mr. Brian Parker: It's anecdotal and it's hard to give you hard facts. When I was asked to come down here, I talked to a number of colleagues in the industry and said, “You know, this is the proposal the investment industry is putting forward. What are your clients saying?” When I talked to a retail broker, he said, “You know, I've got clients sitting on a million dollar capital gain in this stock. He should sell it, but he doesn't want to. He doesn't want to pay the tax.” You have enough of these conversations.... I don't know what the answer to the question is. I don't know what the number is, but it's a big number.

Mr. Dave Van Kesteren: Just to be clear, we're talking about investments that are locked in so people don't want to pay the taxes.

Mr. Brian Parker: They don't want to sell. Maybe they should sell, maybe they know they should sell, but there will be a big tax paid if they do.

Mr. Dave Van Kesteren: Compares to how much money—

Mr. Brian Parker: I don't have the number.

The Chair: Thank you.

If you want to provide that or if you have any further information, you can always provide it to the committee.

Mr. Brian Parker: Okay.

The Chair: Thank you.

For the last round, Mr. Leung, please.

Mr. Chungsen Leung (Willowdale, CPC): Thank you, Mr. Chair.

Thank you to the panel members.

Prior to entering politics, I worked in many parts of the world. I have also looked at corporations both in the public sector as well the public corporations versus private corporations that have fared very well internationally. Returning back to Canada, it appears to me that we are in a very over-regulated regime, over-regulated to the point that we almost have to hire full-time accountants and lawyers for tax compliance and for regulatory compliances. I just want to drill down a bit on the simplification of our system and where we could be internationally competitive for attracting international investment dollars.

If I could sort of conjecture, some of these may have to do with standardizing reporting. Rather than having our reporting so complex that our financial accounting and our tax accounting have to be reconciled, is there some way that could be done? This has to do with our philosophy of taxation.

In one country I worked in, they had uniform invoices. There's no way that you can create an invoice of whatever, you always have a uniform invoice so that the tax department knows exactly what is the expense and what is the revenue at all times.

For certain businesses, I think, depending on the business sector, we would achieve a better efficiency by going back to the cash basis of accounting rather than the accrual basis of accounting.

I certainly share with you that we've come a long way since the 1966 Carter commission and then the 1972 Tax Act. It was implemented when I started my public accounting career. As we we move 40 years from now and look back, I think we need to rethink some of that, as you suggested.

I'd like to hear your comments on that, starting with Mr. Dancey first, on the four issues that I've touched upon.

● (1825)

Mr. Kevin Dancey: Sure.

Let me give you a couple of topside observations.

You know, you talked a lot about working around the world, seeing businesses around the world. When you came back to Canada, you saw that the regime was complicated in Canada in terms of a business operating in Canada that wants to operate around the world. One thing in terms of the tax side of that is, I would refer you back to the international tax panel that was created by the Department of Finance in 2008. Peter Godsoe, former chair of the Bank of Nova Scotia, was the chair of that group, and I was the vice-chair of the group. That panel had a lot of recommendations that we believe would have led to a super regime for the operation of entities in Canada that wanted to operate around the world. Some of those recommendations have been implemented; a number of them have not. I think that those recommendations from that 2008 report are all valid today in terms of simplifying the operation of entities that are based in Canada that want to operate abroad.

The second point I would make in terms of just simply compliance with Canada, interaction with the government in Canada, which is really back to the reporting in terms of XBRL, this standardized business reporting would be a mechanism through which entities could provide their information to the government, and that information could be used for many purposes by the government. It would be much more efficient and be much more effective. This is a recommendation that I know that this committee has endorsed in the past, and we would encourage you to recommend it again. It has been implemented in other countries, for example, Australia, with some good savings.

So those are two thoughts that I would give back to you on your observations.

Mr. Chungsen Leung: Mr. Baker, have you any comment on that?

Mr. Albert Baker: Yes. I can start by saying that complexity is relative as well. It depends upon which countries around the world we are comparing it to. If we compare Canada to the U.S., for example, I'd say Canada is in pretty good shape relative to the complexity.

On some of the other suggestions you made about standardizing some of these things we have, such as financial reporting and financial accounting, it seems that some countries have just taken that and used it in their tax regimes.

To me, it comes back to the tax policy. That's a simple regime, but there are a lot of nuances in accounting. Accounting isn't easy. For accounting purposes, some instruments are treated differently from their legal nature. Given that, it would be very difficult in Canada, from my perspective, to have a regime that simple without having some adjustment for it to actually reflect the policy objectives we want to achieve.

Cash accounting, for example, which you mentioned, is perhaps a simpler regime, but if indeed the financial reporting continues to be on an accrual basis, it would require some adjustment, plus there would be a cost to that, I think, because that likely would be a deferral for a lot of companies. From a policy perspective, I think there would also have to be a look at what the financial cost of that would be to the government in terms of revenue.

The Chair: Thank you. We're bumping up against the time. Is there a brief question or comment?

Mr. Chungsen Leung: Would we need to go to an internationalized equivalent in compliance in order to simplify our international...?

The Chair: Do you have a brief response?

Mr. Albert Baker: That would achieve it.

The Chair: Thank you.

Colleagues, thank you.

I want to thank all of our witnesses on this second panel. It's been an excellent three-hour panel. Especially given what happened in this room, the other room opposite, and the hallway last week, it has been an especially wonderful time to have a very robust discussion here at the finance committee.

I also want to thank many of you for your member organizations' contributions to the funds for the two soldiers' families. I really appreciate it. On behalf of all committee members, I want to thank you for that.

Thanks to all of you, colleagues. We'll see you tomorrow.

The meeting is adjourned.