HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 082 • 2nd SESSION • 41st PARLIAMENT

EVIDENCE

Tuesday, May 26, 2015

Chair

Mr. James Rajotte

Standing Committee on Finance

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● (0845)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. This is meeting number 82 of the Standing Committee on Finance.

Our orders of the day are pursuant to the order of reference of May 25, we are studying Bill C-59, an act to implement certain provisions of the budget tabled in Parliament on April 21, 2015 and other measures. This is our first session.

We have with us here this morning a number of individuals to present. I want to welcome all of you and to thank you for appearing here this morning.

We have Professor Maureen Donnelly from Brock University.

We also have Professor Allister Young, from Brock University as well, I understand.

We have from the Canadian Federation of Agriculture, Mr. Ron Bonnett, president.

From the Canadian Labour Congress, we have their senior economist, Ms. Angella MacEwen.

From the Canadian Manufacturing Council, we have the vice-president, Mr. David Podruzny.

From Imagine Canada, we have the president and CEO, Mr. Bruce MacDonald.

Welcome to everyone.

From the Library of Parliament, we have Monsieur Jean-Denis Fréchette.

[*Translation*]

Welcome once again, Mr. Fréchette.

[*English*]

You will each have five minutes for your opening statements, and then we'll have questions from members.

We'll begin with Ms. Donnelly, please.

Ms. Maureen Donnelly (Associate Professor, Taxation, Goodman School of Business, Brock University, As an Individual): Thank you.

Actually, Professor Young is going to begin and then we'll switch to me.

The Chair: Mr. Young.

Mr. Allister W. Young (Associate Professor, Taxation, Goodman School of Business, Brock University, As an Individual): I am here today to address provisions of Bill C-59 dealing with changes to the tax-free savings account, specifically the proposed increase of the TFSA annual contribution limit from the current $5,500 to $10,000.

I speak against this very large increase of more than 80% on the basis that the existing TFSA, with its $5,500 limit, is already failing to serve its stated purpose. To almost double the limit will exacerbate the inequity that research has already identified.

I will refer you specifically to our article published in the *Canadian Tax Journal* entitled "Tax-Free Savings Accounts–A Cautionary Tale from the UK Experience".

The purpose of that research project was to predict how Canadians would use the TFSA and specifically whether the government's promise would be borne out, i.e., that the introduction of the TFSA would benefit all Canadians at all income levels in all walks of life.

We used data from the British experience with their tax-free savings plan, the ISA, or individual savings account, a tax measure very similar to the Canadian TFSA. There was every reason to believe that the Canadian experience would be similar to the effects that the British savings plan had already shown, as follows:

One, as income rises, so does plan participation.

Two, the introduction of such a plan does little to break down the barriers to savings faced by low-income individuals.

Three, the plan take-up rate in terms of new savings by low-income individuals could be less than 5%.

Four, the proportion of accounts held by low-income individuals falls consistently over time, as the proportion held by high-income individuals continues to rise.

Five, these plans provide a significant opportunity for income splitting in single-income households.

Six, the typical account holder is a man, belongs to the highest-income cohort, and is approaching retirement.

The Chair: Ms. Donnelly, continue. You have three minutes.

Ms. Maureen Donnelly: These were our predictions for the tax-free savings account, and on that basis it belied the promise of universal benefit. As Canadian data emerges on the TFSA experience to date, research recently published by our Canadian tax academic colleagues, in particular Professor Kevin Milligan of UBC and Professor Jonathan Kesselman of Simon Fraser, suggests that our predictions were more accurate than we would have liked.

Yes, it is true that millions of Canadians in all walks of life have opened and made contributions to TFSAs; however, that does not answer the question as to which Canadians at which income levels will the largest benefits accrue and at what cost to the Canadian tax system.

One of the features of the TFSA that most unsettles tax policy scholars is the ability for interspousal contributions. Canada's benchmark tax has always identified the individual as the appropriate tax unit. Measures that allow transfer of wealth between spouses undermine that principle and represent significant disincentives for Canadian women to enter or re-enter the workforce by disproportionately benefiting single-income households.

In conclusion, this is an extremely expensive tax expenditure. Although early-year estimates may not shock, the long-term estimates of revenue to be forgone by future governments are enormous and will serve an increasingly narrow population of Canadians over time.

The budget speech refers to four reasons Canadians might use their TFSA to save: one, buy a home; two, start a business; three, pay for post-secondary education; and four, make retirement more comfortable.

Reducing the public treasury through increasing tax-free savings is a very blunt instrument to use in the pursuit of helping Canadians make these key aspects of their lives more affordable. More equitable and more finely tuned measures already exist for those specific purposes, and any additional expenditures through the tax system should be directly targeted. To simply expand the TFSA does not serve that purpose and is not worth the high cost to the citizenry as a whole.

Those are our remarks.

Thank you.

● (0850)

The Chair: Thank you for your presentation.

We'll now hear from the Canadian Federation of Agriculture, please.

Mr. Ron Bonnett (President, Canadian Federation of Agriculture): Thank you, and thanks for the invitation to attend.

As mentioned, I'm the president of the Canadian Federation of Agriculture, and we represent about 200,000 farm families across the country.

I'd like to make a few comments on some of the provisions in the 2015 federal budget and Bill C-59.

The first concerns the decrease in the small business income tax rate from 11% to 9%, applying to the first $500,000 of income.

This measure will provide broad tax relief for Canadian producers, providing them an additional flexibility to manage risk, to reinvest in their operations, and to improve productivity. Any such relief directly contributes to Canadians' agricultural competitiveness in global markets.

As well, the extension of the tax deferral regime that applies to patronage dividends paid to members of agricultural cooperatives through eligible shares is welcomed. Agricultural cooperatives provide valuable support to small and medium-sized agricultural producers as a resilient business model that provides improved risk management capacity, improved market access, and a variety of other benefits to their members.

These businesses play an important role in the economies of rural communities across Canada, and such a tax deferral enhances cooperatives' capitalization capacity and frees up important investment funds that would otherwise be directed towards addressing members' associated tax liabilities.

As well, I would briefly like to comment on the provision for accelerated capital cost allowance for investments in machinery and equipment. While the benefits of such a measure do not directly relate to the majority of agriculture operations, a vibrant food processing industry is essential to the ongoing success of the Canadian agricultural industry.

I would like to dedicate the rest of my time to discussing the increase to the lifetime capital gains exemption and the important role that tax policy plays in what is soon to be a significant transfer of farm businesses to the next generation.

The continued success of Canadian agriculture as an economic driver for Canada requires a tax policy environment conducive to continued viability and competitiveness for Canadian farm businesses. One of the most pressing issues facing Canadian agriculture is the rising age of Canadian farmers. Over the next 10 to 15 years we expect at least 120,000 farms to transfer ownership, with total assets well over $50 billion. As such, CFA would like to express its support for the bill's immediate increase to the lifetime capital gains exemption for owners of farm and fishing businesses from approximately $813,000 to $1 million.

The additional exemption of nearly $200,000 in capital gains offers producers important tax relief, allowing them to maintain more of their capital for retirement and also providing additional flexibility to develop a succession plan that meets the needs of both parties.

There are other things that can be done to improve the issue of succession planning. Capital gains exemption is just one aspect of the tax policy environment that influences the succession process and operational arrangements involved.

We have several outstanding recommendations.

The first concerns barriers facing farms transferred to the next generation under joint sibling ownership. Subsection 55(2), often regarded as the most complex section of the Income Tax Act, adds significant barriers to splitting up a farm corporation that is jointly owned by two siblings. This is because section 55 considers siblings to be unrelated or at arm's length.

Joint sibling ownership will be a common result of many intergenerational transfers over the next decade. Parents can transfer to their children on a tax-deferred basis, but unexpected issues can arise following the transfer that even the most comprehensive succession plan cannot account for. If the siblings then need to split up the operation, it can no longer be done on a tax-deferred basis. CFA has recommended that the Income Tax Act deem siblings to be non-arm's length, specifically for farm corporations.

Second, section 84.1 of the Income Tax Act currently limits the access to the capital gains exemption when a transaction occurs between family members. In the sale of a company's shares to a non-related purchasing corporation, a holding company is generally used as the purchasing vehicle. This allows the purchaser to access the acquired company's income stream and allows the vendor to access their enhanced capital gain exemption on the sale.

● (0855)

However, when dealing with family, the benefits of this structure are effectively denied. Most family farms now operate as corporations, and as such the intergenerational family farm transfer rules are not facilitating the transfer.

We recommend that amendments be made to section 84.1 of the Income Tax Act so that it no longer contains those constraints.

This is a brief overview. We have provided the members with a full pre-budget submission, and it goes into more detail.

In conclusion, I would like to thank the committee for allowing me to speak to this bill and once again reiterate our support for the four amendments I previously touched on.

The Chair: Thank you very much for your presentation.

We will now hear from the Canadian Labour Congress, please.

Ms. Angella MacEwen (Senior Economist, Social and Economic Policy, Canadian Labour Congress): Thank you.

On behalf of the 3.3 million members of the Canadian Labour Congress, we want to thank you for the opportunity to present our views today. The CLC brings together workers from virtually all sectors of the Canadian economy, in all occupations, and in all parts of Canada.

Part 1 of Bill C-59, which we're speaking to today, would implement a wide variety of income tax and related measures. Today our comments will be limited to three provisions: reducing the required minimum amount for withdrawal annually from the RRIF; increasing the annual contribution limit for the tax-free savings accounts; and renewing the accelerated capital cost allowance for investment in machinery and equipment.

First of all, in terms of retirement security, the changes to the RRIF withdrawals and the increases to the tax-free savings accounts are measures that are both related to retirement security, but it will be no surprise to members of this committee that the Canadian Labour Congress feels that expanding the Canada pension plan is a much better solution to the looming retirement security crisis in Canada. Changes to RRIF withdrawals benefit older workers who already have RRSP savings, but they do little for workers without the means to save through RRSPs. This is significant because only a third of Canadians today contribute to RRSPs, and the unused RRSP contribution room reached $790 billion in 2013. Eleven million workers in Canada have no pension plan other than the CPP. At the same time, the annual contribution limit for the tax-free savings account would increase to $10,000, as has already been discussed, and this measure would have an estimated cost to federal revenues of $1.1 billion by 2019.

Even at the maximum annual contribution of $5,500, the TFSA is projected to cost the federal government up to $15 billion annually, and cost the provinces another $8 billion when the program is fully mature. Doubling would further increase this cost almost exclusively to the benefit of higher income earners. In contrast, expanding the CPP would benefit all workers, follow workers who change employers or who have multiple employers, and be simple for employers to administer.

In terms of supporting manufacturing, we recognize that as a result of globalization, unfavourable trade deals, a high dollar, and the most recent recession, manufacturing in Ontario and across Canada has experienced devastating losses over the past decade. In recognition of this reality, we have long supported renewing the accelerated capital cost allowance for investment in machinery and equipment. This measure was first introduced in 2007, renewed in 2011 and 2013, and would now be renewed until 2026. While we support this measure, we want to note that corporate tax cuts have failed to spur business investment. In the same vein, we feel that continuing this accelerated capital cost allowance would be insufficient to support a struggling manufacturing sector in Canada.

Coming out of the recession, business investments in manufacturing have been very slow to rebound, despite the continuation of the accelerated capital cost allowance. In October 2014, the monetary policy report released by the Bank of Canada suggested that this is in part because of a semi-permanent loss of capacity in several manufacturing export sectors. Low interest rates and low taxes have not been sufficient drivers of growth. Weak and uncertain demand have played a significant role in subdued investment. All signs point to the need for the federal government investment in infrastructure to spur growth and therefore boost business confidence and private investment.

A singular focus on tax cuts has significant drawbacks. We note that while the budget 2015 documentation mentions the importance of investment in skilled labour in the same sentence as it mentions investment in machinery, government action on this front has been noticeably absent.

Let me remind the committee of some of the recommendations the Canadian Labour Congress has made in the past that would make a difference to investment in skilled workers.

One, establish a national skills council that brings key stakeholders together to identify skills gaps and develop strategies, policies, and programs to address them.

● (0900)

Two, establish a mandatory national workplace training fund. Employers with a payroll of more than $1 million who fail to invest 1% of their payroll in training should pay the shortfall into a public fund that is used to finance work-related training initiatives.

Three, increase funding for the labour market agreements, the LMAs, with the provinces and territories to help vulnerable unemployed workers, including immigrants, aboriginal peoples, persons with disabilities, women, older workers, younger workers, and less skilled individuals.

Four, mandate employers to hire and train apprentices. The federal budget should ensure that those projects receiving federal dollars through the new building Canada fund and the investment in affordable housing program mandate employers to hire and train apprentices.

This budget further erodes the fiscal capacity of the Canadian state and rejects the opportunity to take advantage of exceptionally low borrowing costs and invest in the current and future needs of working people in Canada.

Thank you.

The Chair: Thank you for your presentation.

We'll now hear from the Canadian Manufacturing Council.

Mr. David Podruzny (Vice-President, Business and Economics, Chemisty Industry Association of Canada, Canadian Manufacturing Council): Thank you for this opportunity to meet with you.

The Canadian Manufacturing Coalition represents 50 trade associations representing over 100,000 companies and is represented in all 21 subsectors of manufacturing. Sales in 2014 were $621 billion, and that was a 5% increase from the year before. Exports were $525 billion. That's also a new record. We've had a weak start to 2015 because there's been some short-term weakness in manufacturing.

I'm here today to speak in support of the accelerated capital cost allowance 10-year extension at a 50% declining balance rate as it was introduced in budget 2015. In summary, analysis shows that the competition had a better system. We believe budget 2015 will level that playing field in this area.

I personally represent the Chemistry Industry Association of Canada, so some of the examples that I'm going to be using will come from there.

Let me start by saying that we commissioned an independent study in early 2014 and we shared that with the standing committee during the pre-budget hearings in the fall. The study shows that the measure adopted matches what already exists as a permanent feature in the United States.

The second point I'd like to make is that there is an opportunity to invest in North America. The accelerated capital cost allowance, which is levelling the playing field, puts us back in the game. For over a decade there has been very little investment in North America; a lot of it has been going to developing economies. Shale gas and generally lower energy prices are changing and putting us back in the game.

The third point I want to make is, why 10 years. Why extend it for so long? This takes account of business cycles and planning processes. Investors can look with certainty on this aspect of planning in the future. I have an example, which I've supplied to you, of a timeframe for a large capital-intensive investment. Think of an investor considering a billion-dollar investment and looking at perhaps five years before there is any prospect of income. The ACCA will provide some front-end cash flow. Having a 10-year time horizon, or roughly two business cycles, will also allow everyone to measure if this is resulting in incremental investments. That's the last point I'd like to make.

There are budget pressures, and it's important to demonstrate that a measure is providing incremental net benefits and not costs. Our sector plans to measure incremental investments over the first five years of this ACCA. We want to demonstrate that it should be a permanent feature in the future.

In summary, we strongly support the federal government adopting a 10-year accelerated capital cast allowance.

I would be pleased to take questions later.

● (0905)

The Chair: Thank you very much for your presentation.

We'll go to Imagine Canada, please.

[*Translation*]

Mr. Bruce MacDonald (President and Chief Executive Officer, Imagine Canada): Thank you, Mr. Chair. I would like to thank you for your invitation and for giving me the floor today.

As an umbrella organization for the charitable and non-profit sector, Imagine Canada is pleased to share its thoughts with you regarding the provisions in Bill C-59 and the federal budget for our sector.

I do not have to remind the committee about the contribution of charitable and non-profit organizations in Canada and around the world, whether in terms of social services, arts and culture, amateur sport, the protection of the environment, education, health care and health research, international development or religious practices.

We keep saying that the charitable and non-profit sector is a major economic asset for Canada. It accounts for 8% of the GDP and employs over 2 million people from coast to coast.

In 2012, this same committee held extensive hearings on the issue of tax incentives for charitable donations in Canada. You heard the testimony of organizations from across the country, you learned about our challenges and possibilities, and you made recommendations to improve our financial health.

[*English*]

Every federal budget since 2012, including this one, has responded to your recommendations.

With regard to Bill C-59, it clarifies eligibility for qualified donee status for foreign charitable foundations. We see this mainly as a housekeeping measure, ensuring that the letter of the law is brought into line with the intent of a previous budget measure.

While we would have liked to see other measures from the 2015 budget included in this bill rather than waiting for subsequent legislation that may or may not come prior to the upcoming election, we appreciate that the department wants to take the time to get the particulars right.

We are pleased that the budget expanded the Mitacs internship program, in which charities and non-profits are now able to participate. Access to specialized research will help many organizations improve the work they do.

We look forward to two budget measures in particular that arose from this committee's hearings in 2012, and which we strongly support.

The first one of these will see a capital gains exemption when the proceeds of selling real estate or private company shares are donated to charity. Members of the committee will know that in terms of encouraging donations from the broadest array of citizens this was not Imagine Canada's top priority. That being said, those of you with whom we have spoken also know that we have strongly supported this measure and we were pleased to see it in this year's budget.

We are particularly pleased that the provision will apply to cash donations made from the proceeds of the sale of such assets. While addressing potential valuation issues, this will make it easier for donors to split their donations among a greater number of charities, if they so wish. lt will also make it easier for recipient charities, particularly small charities, to manage the receipt of such donations as they will be dealing with cash donations and will not have to manage assets that may be transferred to them. We are hopeful this measure will translate into hundreds of millions of dollars' worth of new donations over the next several years.

The budget also announced that charities will be allowed to invest their assets in limited partnerships. This will benefit the sector in two ways. First of all, foundations will be able to make investments, which they previously could not do, to diversify their portfolios. Second, operating charities and non-profits may themselves be involved in limited partnerships. The ability of foundations to invest in these ventures could free up significant amounts of capital. While we are waiting for specific details on how this will work, our initial estimate is that tens or even hundreds of millions of dollars could be available annually for partnerships involving charities and non-profits.

These two issues were among those about which this committee heard testimony and made recommendations. By our count, the only significant outstanding recommendation is the stretch tax credit for charitable giving, which we recognize would come at the highest cost to the treasury, as we believe it would have the greatest impact.

I hope that next year I'll be invited back to testify about the adoption of the stretch tax credit. ln the meantime, I want to recognize the significant progress that has been made in budget 2015.

Thank you.

● (0910)

The Chair: Thank you.

I notice some of you have smartly begun next year's pre-budget consultations. I appreciate your innovation there.

[*Translation*]

Mr. Fréchette, the floor is yours now.

[*English*]

Mr. Jean-Denis Fréchette (Parliamentary Budget Officer, Library of Parliament): Thank you, Mr. Chair.

I'm the only witness who got some chocolate. I suspect it's a perk because I'm the last one to speak.

[*Translation*]

Mr. Chair, vice-chairs, and members of the committee, thank you for inviting me to assist with your study of Bill C-59, Part 1.

My comments are focused on the increase in the annual contribution limit for Tax-Free Savings Accounts (TFSAs), a measure the Office of the Parliamentary Budget Officer has studied in detail.

[*English*]

Before the changes proposed in Bill C-59, the fiscal impact of the TFSA program was expected to grow from $1.3 billion in 2015 to $54 billion in 2060. This is equal to a roughly eightfold increase as a share of the economy. The changes to the contribution limit proposed in Bill C-59 would increase the impact in 2060 by a further 20%, to $63.6 billion.

The proposed TFSA limit of $10,000 will not be indexed to inflation. This policy decision reduces total long-run fiscal costs by 15% in 2060.

The implications of the changes in Bill C-59 to the long-run sustainability of debt as a share of GDP will be assessed by the PBO in a future report, our fiscal sustainability report.

[*Translation*]

Over the long run, the TFSA program will become increasingly regressive, by income and especially by wealth, as you can see in Figures 2 and 3 of our presentation. By 2060, households in the top half of the income distribution will benefit by 20% more than households in the lower half. The wealthiest 50% of households are projected to benefit by 1.2 times more than the lower half.

[*English*]

Finally, Mr. Chair, as per your question the other day about the amount of new money or existing savings invested in TFSAs that involve the purchase of equity or bonds in Canadian companies, I can report that TFSA administrative data and other data sources that we have obtained so far cannot currently be used to determine whether investments in Canadian equities or bonds have increased due to TFSAs.

However, TFSA contributions are expected to originate mostly from the reallocation of existing savings and taxable accounts. External estimates of the responsiveness of savings through tax-preferred programs like the TFSA are mixed, but typically small. The PBO therefore expects that a comparatively small proportion of TFSA contributions will be the result of new savings. The TFSA is relatively new and the PBO has not yet independently assessed the savings behaviour of Canadians in response to the TFSA program, but this work could be pursued in a future study.

Thank you, Mr. Chair.

The Chair: Thank you very much for your presentation.

Colleagues, we'll do rounds of five minutes, or maybe five minutes and 30 seconds, please.

We'll start with Mr. Cullen, please.

Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP): Ms. MacEwen, you may be pleased to note that we were at a Chamber of Commerce event this morning and they cited workforce training as their number one priority for governments to take on going into the fall campaign.

Under some of your recommendations with regard to Bill C-59, I'm wondering what the gap is that is not being addressed with respect to companies taking on and training apprentices and bringing them up to their full Red Seal and Blue Seal qualifications. We're spending an extraordinary amount of money, both as government and as individuals across this country, with the promise that getting those skills will enable people to get into the areas where a skills shortage has been identified. What's the problem with Bill C-59 in terms of addressing that gap?

● (0915)

Ms. Angella MacEwen: As we mentioned, there was an opportunity here to mandate that employers use apprentices for any infrastructure building that government does. Part of the problem is that third-year apprentices are much more expensive than second-year apprentices, so employers will hire first-year and second-year apprentices to do work. Third-year apprentices have a much more difficult time. Completing their apprenticeship training becomes very challenging.

Mr. Nathan Cullen: Your suggestion is that when the federal government spends money on, say, infrastructure programs, which they're not spending nearly enough on right now given the needs of the economy, there be some qualification that the contractors actually pick up and help train those apprentices to get them up to full Red Seal and Blue Seal standards.

Ms. Angella MacEwen: Absolutely, because the Red Seal and the Blue Seal are also issues in terms of labour mobility across Canada, which is another issue that this government has raised. Having that quality training and those opportunities for those workers to get those skills that are transferable is really critical.

Mr. Nathan Cullen: Thank you.

I'm not sure who will take this, Mr. Young or Ms. Donnelly, but a comment from the Parliamentary Budget Officer just now was that the TFSA program gets increasingly expensive and regressive over time. You've studied the British model. How long has that particular example been going on? Do we feel confident with the experience and are we then able to transfer that experience on to Canada?

Ms. Maureen Donnelly: That was the purpose of the research we did. The U.K. experience has been in place since—

Mr. Allister W. Young: —1999.

Ms. Maureen Donnelly: —so they're quite a bit farther ahead than us, and since there wasn't enough Canadian data, this looked like it would behave the same way. That's what they have found.

Mr. Nathan Cullen: I'll turn to Mr. Fréchette in a moment, but one of the concerns is that the expense of this program over time becomes a choice that is placed upon future governments, which means that governments can't spend money on other things such as health care or infrastructure.

For the amount of money we're talking about—up to $63 billion within a generation, per year, in forgone revenue—I suppose that in terms of the wisdom and the effectiveness of that type of expenditure from the federal government.... I'm trying to think of what else we spend $63 billion a year on; perhaps health transfers, but I'd have to check that.

In terms of the impact on the economy and the benefit to Canada as a whole, can we measure that type of expenditure versus other options the government might have?

Ms. Maureen Donnelly: Well, yes, I think that's our point. It's that it's not targeted. It's removing revenue from the treasury. It's creating a large and ever-expanding hole, and there is really no target as to what individuals are using this money for. If there are problems with affordability, such as buying a home, which is one of the stated purposes, or with post-secondary education, then why don't we target that more?

Also, research has shown that low-income individuals respond much better to savings incentives when there is a grant portion involved, such as—

Mr. Nathan Cullen: So what's your—

Ms. Maureen Donnelly: —the RESP, which addresses the post-secondary issue. It's a much more effective vehicle with a defined purpose.

Mr. Nathan Cullen: My apologies for the short time we have. The government's about to say that lots of low-income people use it right now, but you said the typical user of the TFSA is who?

Ms. Maureen Donnelly: From the British experience, please note, the account is funded by a male from the highest income cohort that they used in their data. This is a U.K. government report. Also, it's someone who is approaching retirement. The prospect that this is for young low-income Canadians is not really, we think, going to be borne out. To say that 11 million Canadians have them is not to say who these people are and how much they have to put in them. I can open one up and put $300 in it and never put in another dime, and I'm a TFSA account holder. But that's not....

Sorry.

● (0920)

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

We'll go to Mr. Saxton, please.

Mr. Andrew Saxton (North Vancouver, CPC): Thanks to our witnesses for being here today.

I think Ms. Donnelly just answered my first question. You are a TFSA holder. You just confirmed that. Is that correct?

Ms. Maureen Donnelly: I am.

Mr. Andrew Saxton: Thank you.

Mr. Young, are you a TFSA holder?

Mr. Allister W. Young: I am.

Mr. Andrew Saxton: You're two of the 11 million Canadians who are TFSA holders, so obviously it's a popular program. In fact, it's the most popular program since RRSPs were introduced almost 50 years ago.

Do you think it's important that the government encourages Canadians to save for the future?

Ms. Maureen Donnelly: I think it's important that people can save, but there is a lot of conflicting research on the effectiveness of tax-assisted savings incentives for certain individuals. There is also a point at which saving should not be incentivized any further, because spending has a very positive economic effect as well, and squirrelling away unlimited amounts of money may not be the stimulant we want.

Mr. Andrew Saxton: Okay, but you understand that squirrelling away money also gets invested in the economy. It's not lost. It doesn't go into cyberspace.

Ms. Maureen Donnelly: Yes, but it's also coming out of the public treasury and is not going into a distributive mechanism that can benefit other Canadians at the same time.

Mr. Andrew Saxton: It's also allowing Canadians to save more of their own money, to keep more of their own money. Is that not correct?

Ms. Maureen Donnelly: Correct, if that's your goal.

Mr. Andrew Saxton: Thank you.

You mentioned something in your opening statement regarding benefiting single-income families. Can you explain what that was?

Mr. Allister W. Young: Actually, I can explain that.

Once again from the British experience, what we noted was that the dominant contributor to the ISAs in the U.K. were males. What we also noticed in the British experience is that there were some contributions.... For example, the maximum contribution to an ISA is £3,200. What we were noting is that primarily females were maxing out their £3,200 annual contribution to the ISA, and they had incomes of less than £5,000. That indicated to us, and to a certain extent the same thing is happening in Canada, that there is income splitting with the high-income earner to the low-income earner. That's what we were getting at.

Mr. Andrew Saxton: I'm sorry, but I fail to see the problem with that.

Mr. Allister W. Young: Well, the problem with that from a tax policy point of view is that the foundation of the income tax system in Canada is that the individual is the taxpaying unit in Canada, and there are specific rules in the Income Tax Act, for example, that disallow the transfer of income from one individual to the next.

What you're doing with this, the TFSA, is you're really circumventing those rules. Rather than having the individual as the taxpaying unit, what we're moving toward, more on a stealth basis, is joint taxation. When you move toward joint taxation, that opens up another whole can of issues.

Mr. Andrew Saxton: Yes, we call it income splitting.

It sounds to me you have a problem with a spouse giving money to the other spouse.

Mr. Allister W. Young: I do.

Mr. Andrew Saxton: Thank you.

My next question is for Ms. MacEwen. You talked about RRIFs. I believe you said you were against the changes to the minimum withdrawal. Is that correct?

Ms. Angella MacEwen: What I said is that the changes to the minimum withdrawal benefit the wealthy mostly, and allow people who have benefited from tax deferral at the front end to then again avoid tax at the rear end. What I'm saying is that benefits wealthy individuals, and you've done nothing that will benefit the lower.... It's very lopsided.

Mr. Andrew Saxton: It benefits people who have RRIFs and you are aware—

Ms. Angella MacEwen: Who are higher income—

Mr. Andrew Saxton: —that just about every single seniors organization in this country has praised that, including CARP. Are you aware of that?

Ms. Angella MacEwen: That's in their best interest to do so.

Mr. Andrew Saxton: Absolutely.

Ms. Angella MacEwen: It is in my best interest to provide advice that would benefit all workers, not simply workers that have had enough income to invest in RRSPs.

Mr. Andrew Saxton: Are you aware the RRIF program hadn't been changed in almost 40 years and that returns had changed significantly?

Ms. Angella MacEwen: That's kind of irrelevant to my point. My point is you've done nothing for low-income workers.

Mr. Andrew Saxton: It's not irrelevant to your point, because we're talking about improving a system that hadn't been changed in almost 40 years.

That's okay. Thank you.

I'll move to Bruce MacDonald of Imagine Canada.

Can you explain to us what in this budget 2015 has benefited charities?

● (0925)

Mr. Bruce MacDonald: The point I mentioned earlier in terms of individuals being able to convert real estate or shares into cash and make those contributions to charities is that it provides another tool in the tool kit for charitable organizations to be able to go to donors and offer them another benefit, not just from the passion and the desire to give.

For us, looking at the extension of the Mitacs program to charities is important, because as charities are under unprecedented pressure to be able to look at new sources of revenue and new opportunities, they're becoming more innovative and more creative. This kind of levels the playing field and provides opportunities for them to be able to access dollars that small and medium-sized enterprises do. There are a couple of examples.

The Chair: Sorry to have to cut that off, but we are going to the next round.

Thank you, Mr. Saxton.

We'll go to Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Mr. Fréchette, in annex B of your February 2015 report on TFSAs, you stated that 15% of the federal fiscal cost of TFSAs is due to additional GIS payments and 2% is due to additional OAS payments. Can you explain how TFSAs result in greater OAS and GIS payments?

Mr. Jean-Denis Fréchette: Essentially, in the old age security, the payments will not be affected, but they will be injected in the TFSA indirectly. It's interesting to see the behaviour of people. That's why I said in my remarks we should do some more study on it. In doing a study on the total savings in Canada, the rate of total savings will give us some information.

What is happening right now is that—to a question that was asked before about people who have incomes of $20,000 and who max out their TFSA—I suspect many people, senior people, wealthy people, inject money into their grandchildren's TFSAs, grandchildren who are 18 years old and older. That's the kind of behaviour you're going to see in the long run, but that's not new savings. It's basically just the same kind of transfer that we have.

Hon. Scott Brison: On the increase in the OAS and GIS payments, what you're saying is seniors who would otherwise not qualify for OAS and GIS because they're income tested could shelter income from TFSAs and as such, qualify and benefit. Would you agree that's not consistent with the objective of OAS and GIS for the lower income seniors?

Mr. Jean-Denis Fréchette: I'm not commenting on the objective; I'm just saying it is a reality of the system.

Hon. Scott Brison: Wealthier seniors will now qualify for GIS and OAS, and that's where your calculation has been leading.

Mr. Jean-Denis Fréchette: That's right.

Hon. Scott Brison: Now that the government is increasing the TFSA limit to $10,000, do these proportions of 15% for GIS and 2% for OAS for the federal fiscal costs still hold, or would they go up?

Mr. Jean-Denis Fréchette: It would kind of hold. We have to double-check that, but it would kind of hold. I think it's in the same neighbourhood in terms of percentage.

Hon. Scott Brison: You've stated the impact on the federal government will be eightfold as a share of the economy in terms of the fiscal framework by 2060. The impact on provincial government treasuries will be significant. Have you done some work on the impact on provincial treasuries?

Mr. Jean-Denis Fréchette: For the provinces, the cost is there for about one-third of that amount. That's why some provinces, including Quebec, are looking at that issue.

Hon. Scott Brison: We've done some work on the demographic trajectory in Canada and the increase in health care costs, as an example, for provinces. Is this proposal, juxtaposed with that demographic trend, troubling in terms of the capacity for provinces to afford to pay for health care?

Mr. Jean-Denis Fréchette: Time will tell. This is what we will do in the future with our fiscal sustainability report later this year, in October actually. We will assess the impact of Bill C-59 on that, the kind of impacts Bill C-59 would have on the health systems of Canada.

One thing which is interesting is when the PBO did its update on the TFSA, we had a graph that showed the status quo and the $10,000 limit. In 2070, if the status quo had stayed, the contribution room would have been the same as with the $10,000. What I'm saying is that, if nothing had been done, we would not have that kind of discussion, but we would be at the same kind of contribution room in 2070.

● (0930)

Hon. Scott Brison: Thank you.

The Chair: Ask a brief question, please.

Hon. Scott Brison: Professors Donnelly and Young, if it's a public policy objective to encourage more savings, that's one thing, but you're saying that much of the TFSA investment that will result from this will be simply a reallocation. It won't be new savings. It will simply be a reallocation of existing savings.

The Chair: Make a brief response please.

Ms. Maureen Donnelly: Yes, that's what the U.K. experience showed, and there have been other mentions this morning that a lot of it is existing money that is moved from places where tax would be collected on it to a place where a tax will not be collected on it.

Hon. Scott Brison: No new savings, just less revenue for health care and other....

Ms. Maureen Donnelly: I wouldn't say "no new" but not as much as one might hope.

The Chair: Thank you, Mr. Brison.

We'll go to Ms. Bateman please.

Ms. Joyce Bateman (Winnipeg South Centre, CPC): Thank you to all of our witnesses this morning.

[*Translation*]

Mr. Fréchette, I particularly liked your comment about the need to have more studies on the TFSA program and its impacts.

[*English*]

I have to start with the two academics in the room, if I may, because I don't actually understand how you're approaching things.

First of all, as academics, I'm certain you've studied the British case. Ms. Donnelly, your intention, I expect.... We have data from 2009 when the Conservative government introduced tax-free savings accounts. Then we augmented the tax-free savings account in 2013, and we're about to do that again. Are you planning on studying the Canadian data as well as the British data?

Okay, that's good.

The other thing I don't understand.... I actually went to business school. I went to Western and I did take tax policy. Actually, part of our study told us that, when capital is accumulated, that's a benefit to the economy. That's part of the study of tax policy. Has your study, Ms. Donnelly, in terms of the impacts of the tax-free savings account, done any analysis regarding the pool of capital that will be available to invest in the economy and in small businesses and in productivity and in growth in our economy, or is that still to come along with the Canadian analysis?

Mr. Allister W. Young: There's insufficient data right now on the accumulation of capital and just exactly—

Ms. Joyce Bateman: There's what kind of data?

Mr. Allister W. Young: There's insufficient data. There isn't enough information yet on the impact that the TFSA will have on the accumulation of capital. We just don't have the numbers yet.

Ms. Joyce Bateman: Since 2009, you don't have the numbers.

Mr. Allister W. Young: No.

Ms. Joyce Bateman: Okay.

The other thing I'm very curious about—and as a chartered accountant I practised tax for a period of time—maybe I don't understand what you're saying but you are saying that there is a huge loss to the treasury. The way I understand it, we have two tax saving models. One is an RRSP where you're making a lot of money working at your university and you probably have an RRSP that you can put money into at your highest tax rate and then you take it out way down the road when you're much older. In fact, you're required to start managing that plan at age 71. The tax consequence to the treasury is quite a lot greater because you don't pay until present value of money has had significant implications. When you talk about the tax implications of the TFSA, have you done an equal or converse study with the same questions about the impacts on the treasury regarding registered retirement savings plans?

● (0935)

The Chair: You have one minute for a brief response.

Ms. Maureen Donnelly: The focus of our research has not made that comparison. Our major concern is the fact that, to go back decades, we have had in the Canadian tax system a fundamental principle that a buck is a buck, where a dollar of wealth or income was to be taxed regardless of its source.

Ms. Joyce Bateman: Funnily, if you look at the present value of money, with your tax-free savings account that you've invested in, you already paid the tax on that money and now—

Ms. Maureen Donnelly: First of all, you're making assumptions about me that I don't think are necessary for this discussion.

The Chair: Okay—

Ms. Joyce Bateman: —or person, but that's my assumption. It could be person A. My question is, how are you balancing the research?

The Chair: Just a brief response please.

Ms. Maureen Donnelly: How am I balancing my research? I'm looking at the impact on the average Canadian of an extremely large tax expenditure that has not come under adequate scrutiny.

The Chair: Okay, all right. Sorry, but the time is up for that round.

Mr. Dionne Labelle, *s'il vous plaît*.

[*Translation*]

Mr. Pierre Dionne Labelle (Rivière-du-Nord, NDP): Thank you, Mr. Chair.

Good morning, everyone, and thank you for joining us today.

If I'm not mistaken, an OECD study was published last week about the increasing inequality in our societies and the impact of this increase. I am talking about the Gini coefficient. I'm guessing that most of you are familiar with this concept. The study says that this increase in inequality has a major impact on GDP growth. We see that the budget proposes two measures: the TFSA program and income splitting, which will lead to increasing wealth and income inequalities.

My question is for Mr. Fréchette. Have you calculated the impact of those two measures on GDP growth?

Mr. Jean-Denis Fréchette: As I mentioned in my presentation, we have calculated the impact on tax expenditures.

In terms of the impact on GDP growth, we are not there yet. As I was saying, more studies are needed. The TFSA program is relatively new. We don't have the required data to measure it yet.

Mr. Pierre Dionne Labelle: I'm sorry to interrupt you, but you are already anticipating an impact in terms of inequalities. For instance, in 2060, wealthier households will benefit from the TFSA in a proportion that is 10 times higher than low-income households.

Mr. Jean-Denis Fréchette: That's right and that's sort of what the discussion has been about since the beginning. The maximum contribution amount is being raised from $5,500 to $10,000. Not everyone can make a maximum contribution of $10,000 from one year to another to reach $600,000 after 60 years.

The inequality you are referring to is regressive. We are talking about the wealthy. It is not just a question of income, but also of wealth. That is the major aspect that needs to be considered. We talk about income a great deal, but we need to look at wealth. As you mentioned, there is a significant gap there.

Mr. Pierre Dionne Labelle: With respect to the TFSA, the gap is one to ten. In income splitting, there is an impact in terms of the increase of wealth.

In the TFSA analysis document, you said the following. If we divide the incomes of the population into strata of 20%, the lower 20% will not benefit at all, whereas the higher 20% will benefit by 27%. Once again, we have a measure that promotes the concentration of wealth. At the same time, that will have an impact on the economy in general. Based on the OECD study, when wealth is concentrated, the economy does not do so well.

● (0940)

Mr. Jean-Denis Fréchette: The OECD study looks at inequalities, not just at the level of savings. It looks at the gap in incomes. The Gini index does not look at income only. It is a question of wealth—

Mr. Pierre Dionne Labelle: We agree that it is more difficult for low-income people to save. It is more difficult for someone who makes $400 a week to set money aside than it is for someone who makes $4,000.

Mr. Jean-Denis Fréchette: That's probably what a number of you will be hearing during the summer. You will meet families with two parents and two children whose annual income is $100,000. They will tell you that they need to pay their mortgage and their car and that they cannot contribute to a TFSA, at least not for the time being. As I said, it is not just a question of income. It is also a question of wealth. Those people have more difficulty contributing to a TFSA.

Mr. Pierre Dionne Labelle: That is certainly the case.

I would like to come back to the impact of this measure on the provinces.

You said that, in 2080, there would be a loss of tax revenue of $77 billion at the federal level and of $39 billion at the provincial level. I'm not sure whether that is before or after doubling the TFSA. Perhaps you can clarify that. For Quebec, my province of residence, this means several billion dollars that it will not be able to invest in education and health.

Would it not have been a good idea to bring the provinces together to reflect on this measure? I know that it is a political question, but before initiating a measure that takes $39 billion from the revenue of the provinces, it seems to me that they should have been consulted.

Thank you, Mr. Fréchette.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Dionne Labelle.

[*English*]

Mr. Cannan, please, for your round.

Hon. Ron Cannan (Kelowna—Lake Country, CPC): Thanks to our witnesses. I'll just go around the horn here. I thank you for being here for this first meeting as we talk about economic action plan 2015.

Ms. Donnelly, perhaps you could elaborate on your academic terminology of “squirrelling” money away. I have three adult daughters, and I'm encouraging them to save for their future—for their families, for their homes, and for their retirement. Do you think it's a good idea that people do the best they can to squirrel their money away and save for their future or for whatever they want to buy, whether it be a home or a car or for their future retirement, in a tax-free manner, such as the tax-free savings account?

Ms. Maureen Donnelly: Well, the first part I couldn't disagree with; it's when you said that it would be in a tax-free savings account that I would begin to disagree. The point is the inequity of the plan across the Canadian population.

As well, in terms of saying that it would give people a chance to save, the people who have the chance to save are the people who have the money with which to save. If the average Canadian, or the average low-income Canadian, needs help with life's key aspects, such as raising their family, buying a home, or educating their children, then I think the government plan to help them with that should take a much different form.

Hon. Ron Cannan: Are you aware that 60% of Canadians earning approximately $60,000 or less have used a tax-free savings account?

Ms. Maureen Donnelly: I'm well aware of that, yes.

Hon. Ron Cannan: I think that's a pretty high number.

Another thing, do you think it's important that government work within a fiscal framework to have a balanced budget?

Ms. Maureen Donnelly: Perhaps not as important as you think it is. I—

Hon. Ron Cannan: We all have to live within our fiscal means. You don't think it's important to model that as a government?

Ms. Maureen Donnelly: I think there are lots of ways of doing that, if that's your goal. I don't think the TFSA measure does that at all.

Hon. Ron Cannan: No, I'm talking overall as a balanced budget, just as our economic action plan—

Ms. Maureen Donnelly: I would say it's not a priority of mine for the government, no.

Hon. Ron Cannan: How do budgets, or how do you work or continue to operate...? For instance, can a university continue to operate by spending more money than they have coming in?

Ms. Maureen Donnelly: I think the university that employs me sometimes does that and sometimes does not.

● (0945)

Hon. Ron Cannan: Okay, thanks.

I'll move on to Mr. Bonnett.

Agriculture is a big component of my riding of Kelowna—Lake Country, and I appreciate the work that you do as far as your representative is concerned.

On page 202 of the budget, with Minister Ritz under the lead, we're expanding the agri-marketing program. I'm just wondering if you wanted to comment from your perspective in the industry on the proposal to provide $12 million over two years starting in 2016-17 to the agri-marketing program to promote Canadian agriculture and agrifood products around the world.

Is that something your association supports?

Mr. Ron Bonnett: Yes, we support that initiative. As I mentioned, in the brief we highlighted the top four things that we support.

On the agricultural marketing initiative, I think it's becoming even more critically important now with all of the discussions on opening up new markets around the world that getting a trade agreement in place is just the first step.

If you really want access to markets you have to go out and fight for those markets and be competitive. I think putting some emphasis on market development is critical.

The other thing I think that's not widely recognized is the economic impact that agriculture has on the overall economy. If you talk to people in western Canada, they're now starting to recognize that there are two pillars to the economy out there. There is the oil sector, but the agricultural sector is also getting more and more recognition and it's core to keeping the economic activity of Canada going, and this marketing will enhance that.

Hon. Ron Cannan: Absolutely. I was at the farmer's market on Saturday. It was hug your farmer day. They're very important. That's one of the reasons I've been on the trade committee for nine years. We're expanding the 38 new markets as well to provide and enhance the trade commissioner service.

I have a quick question for Ms. MacEwen on the importance of our trades.

The budget has proposed $1 million over five years to promote the adoption of the Blue Seal certification program across Canada. Do you support that initiative?

Ms. Angella MacEwen: Yes.

Hon. Ron Cannan: Also, it's expanding the eligibility for working with our provinces to support the facilitation of harmonizing apprenticeship training and certification requirements in targeted Red Seal trades. Do you also support that?

Ms. Angella MacEwen: Absolutely.

Hon. Ron Cannan: I have one quick question for Mr. MacDonald.

The Chair: You have 10 seconds to go.

Hon. Ron Cannan: It's regarding corporate social responsibility. While you've been a free enterprise with a social conscience, do you find that within the government or within the private sector there's more of a movement in that direction as well?

Mr. Bruce MacDonald: We're seeing more and more companies understand that their consumers are demanding that they be good corporate citizens.

The Chair: Thank you very much. We'll have to leave it at that.

[*Translation*]

Mr. Côté, the floor is now yours.

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

My thanks to all the witnesses for being here with us today.

Ms. Donnelly and Mr. Young, in your very interesting article on the issue, you pointed out something that I already knew but that I'm certain will benefit everyone. Over 30 years ago, in 1982, Canadians' personal savings were at about 20%. Since 2000, this rate has systematically gone under 5%.

Clearly, one of the arguments for the TFSA is to encourage people to save. However, just like Mr. Fréchette, you showed that, unfortunately, it is mostly a shift in savings. Clearly, the tax-free approach solves nothing at all. The problem seems to be elsewhere. Can you give us some idea of what we should do to promote savings?

[*English*]

Mr. Allister W. Young: There was an OECD study on tax-assisted savings done in 2003-04. What that showed is that if you want to encourage savings by the lower income earners and middle-income earners you should have subsidies or grants similar to the RESP. If that's the target group that you're trying to bring in to save, as opposed to the higher-income earners, then you should look at grants like the RESP.

[*Translation*]

Mr. Raymond Côté: In my view, the TFSA is a subsidy for a shift in savings. I'm not sure how you feel about my opinion on the matter. Am I correct?

[*English*]

Mr. Allister W. Young: I would agree with that.

In the information we looked at from the British experience, that was one of the conclusions of the ISA study. What happened in the U.K., as I said, was the ISAs were introduced in 1999, and they had a sunset clause that they were going to be under review in the year 2007. They did an extensive study on the ISA holders at that time and exactly what types of new savings they were trying to generate, because when the ISAs were introduced by the then Labour government of Tony Blair, they said the goal of the ISA was in fact to encourage low-income and middle-income earners to save and participate.

The study that was concluded in 2007 indicated that there was a take-up rate by that cohort; however, the largest take-up rate was in the upper income levels. There was definitely a reshuffling of assets or money out of taxed accounts.

● (0950)

[*Translation*]

Mr. Raymond Côté: Thank you very much.

Mr. Bonnett, in the brief that you submitted for the prebudget consultations, we see a very important and interesting recommendation. The federation recommends deeming siblings to be non-arm's length, specifically for farm corporations.

My colleague Francine Raynault introduced Bill C-661 to address this recommendation and help brothers and sisters be properly recognized. Unfortunately, the Conservative government is against this measure.

Could you comment on the government's position in that sense?

[*English*]

Mr. Ron Bonnett: Yes. First of all I would like to say that Bill C-661 does attempt to address that issue. We have actually consulted with some accounting firms, and I think the proposal looks like a simple way to fix the issue.

Maybe I should explain a little further. Quite often farmers will develop a succession plan. When you're passing an operation on to siblings, you get the capital gains exemption on the transfer. However, if they split that operation soon after the transfer, that money has to be paid back.

I don't think it recognizes that now we have some very, very large farms that are transferring, and there may be siblings, and even with the best laid plans you may need to change the operation, and there shouldn't be a disincentive. I think what we're trying to suggest is that there's a flaw in the system in that it treats siblings differently than it would treat other people. I think the idea is to clean up the language within the tax policy. I think we were talking earlier with some of the professors about tax policy becoming very detailed. I think one of the things that we noticed in Bill C-661 is it tried to simplify dealing with the issue, so we would support that legislation going ahead.

The Chair: Okay.

[*Translation*]

Thank you, Mr. Côté.

[*English*]

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

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you all for being here.

I'm tempted to go to our two academics.

I'm puzzled; I really am. I'm a businessman and maybe I've just done everything wrong my whole life. Maybe I should have gone to business school. I would suspect that there are other schools that would disagree with different academics. As a matter of fact, I'm quite sure of that.

I can tell you from my own experience.... It's no secret; I think everybody around here is in that bracket that is somewhat privileged. I don't use the tax-free savings account. I suspect part of the reason is that I have a decent pension now. I make enough money that I can save; I can invest in other places. My wife, on the other hand, who has been a stay-at-home mom her whole life—now, mind you, we're still together, so she'll have that benefit of my experience in life—but she uses that, and her income is substantially less.

I don't know if I want you to comment. I know it's not fair, possibly, but I just think this has to be said. I think you really need to get out of the British model and really study the Canadian model, because there are so many dissimilarities, starting with a tax system where they just tax the living daylights out of people and there is no money left to save.

I would direct this to Ms. MacEwen, too, that if I were a worker who was making $40,000 or $60,000 a year, and if all I was getting was CPP, you know, that's a whole different discussion. We can have that discussion. There are probably reasons for why that happens, and part of it is because we have inequity in our pension system in this country. Then I would be really enticed to start saving. I suspect that when you do your study, you will find that in actuality that is what is going to happen.

The last thing I'd like to say is that—and this is why I find this discussion so bizarre—the money is mine. If it's $40,000, $60,000, or $150,000, once I've paid the taxes, it's mine. If I want to stick it in a tin can and bury it in the backyard, that's my business. I just, for the life of me.... But to put it into a bank or put it into a savings account where it can be reinvested by people, that's where I'm going next.

● (0955)

Mr. Dave Van Kesteren: Mr. Podruzny, wouldn't you agree that it makes good sense for a business to save money and to build equity, and then to reinvest it? Isn't that in essence what we're encouraging the general population to do?

Mr. David Podruzny: From a business perspective, if you don't have a profit, you don't have anything to reinvest. So absolutely, it's all about cash flow.

Just as a personal observation, I too have a youngster in his early twenties, and he and his wife have already started saving. They pay themselves first. They don't have big incomes, and they're not getting a big supplement from their dad.

I think it's encouraging a behaviour.

Mr. Dave Van Kesteren: Does it make you somewhat nervous when people talk about taxing our businesses more and more that we've lost some vision that if businesses aren't profitable, the consequences are much more dire than the suggestion that we can tax our way into prosperity?

Mr. David Podruzny: The point we made in our presentation is that we're in competition globally, and industry is, like it or not, quite footloose in that regard. We're competing, whether it's with Singapore or Texas, for investment and growth and jobs, so we must have a competitive environment if we're going to attract those investments. They're going somewhere in the world. We want to bring them into Canada.

Mr. Dave Van Kesteren: Thank you.

The Chair: Thank you, Mr. Van Kesteren.

Mr. Adler, please, for your round.

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

I want to begin my questioning, first of all, with Mr. MacDonald.

As you know, the existing capital gains tax exemption for the donation of publicly listed securities is going to be extended to include donations resulting from the sale of private shares and real estate, which will.... On your website, it claims an extra $265 million over the next four years.

Could you comment on that and on how positive it would be for your sector?

Mr. Bruce MacDonald: Absolutely, creating an environment that inspires Canadians to contribute to charitable organizations is such a healthy thing for us in a society where we're seeing fewer and fewer Canadians actually doing that. We're hoping this is a measure that will provide incentive for Canadians to give more to charities and non-profit organizations.

Mr. Mark Adler: So do you welcome that measure wholeheartedly?

Mr. Bruce MacDonald: Yes.

Mr. Mark Adler: Thank you.

Mr. Podruzny, Canadian Manufacturers & Exporters calls budget 2015 a “big win” for Canadian manufacturing. You indicated to my colleague Mr. Van Kesteren just a few minutes ago that we're in a competition globally to attract investment, attract jobs.

I'm curious. Some people in some quarters are in favour of raising corporate taxes. What, in your opinion, would that do to our ability to compete globally, if corporate taxes were to go up?

Mr. David Podruzny: In the case of manufacturing, it's a very visible number to compare in different jurisdictions. It may not be the major tipping factor in where you invest. For example, if you have to have the raw material, Canada has some resources that attract certain kinds of investments, and that might trump the tax rate, but for the most part, companies are going to go where they can maximize their profits. If the corporate tax rate is materially higher.... And we have to be careful about looking at posted tax rates. The U. S. federally has a 35% tax rate, but our counterpart association likes to mention that the taxes paid because of deductions and whatnot, in our sector at least, average about 16.6%.

Having the money within the corporation gives you the option of reinvesting and adding new capacity. That's what we see happening globally. As the money is available, there are investments taking place somewhere. We're going after some of that, and we're being compared very easily. They can look at certain measurables, whether it's corporate tax or electricity rates or whatever.

● (1000)

Mr. Mark Adler: Thank you.

In regard to the accelerated capital cost allowance extension for 10 years, writing off 90% after four years, 95% after five, would you agree it keeps Canada competitive in its tax treatment of investment and production technologies?

Mr. David Podruzny: Yes, I would agree with that.

Mr. Mark Adler: Thank you.

Earlier you had indicated once again that we're in a global competition right now. Canada's marginal effective tax rate for new investment in manufacturing will be 9.1% in 2016. This compares to the United States, which will be the same timeframe, 31.7%, and 26.4% in Germany. How important is it that Canada's effective tax rate on new investment be that low in attracting investment for jobs to Canada?

Mr. David Podruzny: This is a pretty important consideration. The investor in many cases is in Germany or the United States, so they already have a bit of a home court bias, home court advantage, and with measures that encourage buying local, there is some pressure on some of these head offices to reinvest where they are. There has been some resistance to that, but there is a very real home court advantage, particularly since the market that we're going to be seeking...and thank you for things like the EU—

The Chair: You have 30 seconds.

Mr. David Podruzny: —free trade agreement. The market we're going to be seeking is the same market that the owner is in. It is important to be better than when you are a very small player in a big field.

Mr. Mark Adler: How important is fiscal certainty for business confidence? When I say fiscal certainty, I mean a balanced budget.

Mr. David Podruzny: The business community would expect to see rates going up if there is a long-standing and long-term prospect of deficit.

The Chair: Thank you, Mr. Adler.

I'm just going to follow up on a few points.

Mr. MacDonald, I want to follow up on your presentation. You talked about the measures in the BIA. You also talked about charities being allowed to invest their assets in limited partnerships. You talked about it benefiting the sector in two ways, and the second benefit is that operating charities and non-profits may themselves be involved in limited partnerships. You're waiting for specific details on how this will work, but your initial estimate is that tens or even hundreds of millions of dollars could be available annually for partnerships involving charities and non-profits.

I'm going to take advantage of your being here today to have you indicate to the committee and perhaps Finance officials in the room how you would like to see these partnerships work.

Mr. Bruce MacDonald: Right now the sector is faced with the challenges around trying to build capacity-type dollars. In the future I think there is going to be this need for the sector to be allowed to work in ways that might be more akin to business in a sense. Ensuring that as this moves forward we're almost considered on the same level as small and medium-sized enterprises in looking to invest in businesses and limited partnerships I think would be important to keep top of mind.

● (1005)

The Chair: My understanding is the country that has done the most in this area is the U.K. Is that correct?

Mr. Bruce MacDonald: In many areas the U.K. is considered to be a little ahead of Canada when it comes to the relationship with charities and government and the climate they've set.

The Chair: Thanks very much. I appreciate that.

Mr. Podruzny, the ACCA measure I think is a sign of committees doing effective work. I think, going back, if we recall, and we're dating ourselves, this came out of a 2007 industry committee report, which was a unanimous report at the time. It called for ACCA for five years. Then as you know, it was put in place for two years and it kept being extended. Now I think the minister has very wisely put it in place for ten years, to judge how it will be for a five-year period initially and then for a second period.

Over the years you've argued for it to be longer than two years. Explain to the committee why it needs to be longer than the two-year renewal period.

Mr. David Podruzny: The two-year rollover works well for small investments. That was working fine there. When we're considering very large flagship investments that might be in the $1 billion to $4 billion range in manufacturing, the planning process before a board makes a decision to go ahead will take up to two years. It will then take almost two years to get regulatory approvals and for site preparation. It's only after anywhere from three years to four years, or four and a half years, before the machinery and equipment is brought onsite and is eligible for this reduction. Therefore, in the initial planning process where the board is trying to make a decision, they will not count this benefit in their calculations unless the measures are in place to that time period in the future when that machinery and equipment would be arriving. Therefore, it respects the business cycle and it also respects the ability to count on that measure being in place.

It was very important to go for a full business cycle.

The Chair: Okay, I appreciate that.

I have limited time remaining, but in your presentation, you talked about sales in 2014 being $621 billion, up 5.2% for the year, which is very good news. Exports were a record $525 billion. And 2015 is not starting out as positive, but can you give us some sense as to why figures were up that much in 2014? What led to that positive outcome?

Mr. David Podruzny: First of all, there was a significant increase in markets around the world that we could be a part of, and so we were exporting to a larger degree. That large and record export number represents increased improved access to certain markets around the world. That has a lot to do therefore with the growth in shipments. Our capacity utilization was up. Those are all linked together. If you have more exports to markets, you're going to have more production, more shipments.

The Chair: Offhand, just in my brief remaining time, which of the 21 subsectors performed best?

Mr. David Podruzny: I'm very biased on that, of course. It was the chemical sector.

The Chair: Yes, okay, other than yours—

Mr. David Podruzny: Food processing did very well. The machinery and equipment sector did well. We had a higher dollar in the beginning of 2014, but as it came down in 2014, the increase was right across all sectors. Aerospace was another one that did very well.

The Chair: I'd like to continue this conversation. I'd like to go to Mr. Bonnett on that theme, but unfortunately, our time is up for this panel.

On behalf of the committee, I thank all of you for presenting your views to the committee this morning. If you have anything further for us to consider, please do submit that to the clerk.

Colleagues, we'll suspend for about five minutes and bring our next panel forward.

Thank you.

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(Pause)

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• (1015)

The Chair: I call this meeting back to order. We are resuming our study of Bill C-59, an act to implement certain provisions of the budget tabled in Parliament on April 21, 2015, and other measures.

I want to welcome all of our officials here this morning. Thank you so much for being with us.

Colleagues, I've received some feedback in terms of priorities, so this is how I will proceed as chair. We will do part 1 first, then we will proceed to part 2, and then we will proceed to part 3. In part 3 we will do divisions 1, 6, 7, 10, 18, and 20. If we have time, and that's a big if, we will do part 3 divisions 8 and 19. Those are the sections that committee members have indicated are priorities for them.

I want to welcome our officials for part 1. I ask you to make an extremely brief opening statement. Members have all had extensive briefings on the bill itself, so we'll just do a brief introduction of part 1 and then we'll go to members' questions.

Mr. McGowan, I think you'll be doing the statement.

Mr. Trevor McGowan (Senior Legislative Chief, Tax Legislation Division, Tax Policy Branch, Department of Finance): Yes, I will. Thank you.

Part 1 of the bill implements a number of tax measures that were proposed in the April budget or that were referenced in that budget. Most notably, it reduces the required minimum amount that must be withdrawn annually from a registered retirement income fund, a variable benefit money purchase registered pension plan or a pooled registered pension plan. It ensures that amounts received on account of the new critical injury benefit and the new family caregiver relief benefit are exempt from income tax. It decreases the small business tax rate and makes consequential adjustments to the dividend gross-up factor and dividend tax credit. It increases the lifetime capital gains exemption to $1 million for qualified farm and fishing properties. It introduces the home accessibility tax credit. It extends for one year the mineral exploration tax credit for flow-through share investors. It extends for five years the tax-deferred patronage dividend regime for shareholders in agricultural cooperatives. It extends until the end of 2018 the temporary measure that allows certain family members to open a registered disability savings plan for an adult individual who may lack the capacity to enter into a contract. It permits certain foreign charitable foundations to be registered as qualified donees for income tax purposes. It increases the annual contribution limit for tax-free savings accounts to $10,000. It creates a new quarterly remitter category for certain small new employers. Last, it extends, with some modifications, for 10 years the accelerated capital cost allowance for investment in machinery and equipment in the manufacturing and processing sector.

The Chair: Thank you for that brief overview.

We'll begin members' questions with Mr. Cullen, please, for five minutes.

Mr. Nathan Cullen: Thank you to our officials.

Here we are again.

I'm going to focus in on part 1, paragraph (j) in the summary, regarding doubling the contribution to the TFSA. I'm wondering if the department has done any analysis of the fiscal impact of doubling the TFSA over the next 5 to 40 years.

Mr. Miodrag Jovanovic (Director, Personal Income Tax, Tax Policy Branch, Department of Finance): We've done a long-term analysis projection until 2035 that's with respect to long-term cost. In today's dollar, we assess that the enhancement would cost about $650 million. That is about—

Mr. Nathan Cullen: Is that per year?

Mr. Miodrag Jovanovic: Yes. That's about 0.03% of GDP and 0.3% of tax revenues. With respect to the overall program, we've assessed that the long-term cost over the same horizon would be about 0.22% of GDP. With respect to the short term, or the cost over the planning horizon, you have that in the budget on page 440. It would go from $85 million in 2015-16 to $360 million in 2019-20, for a total of $1.135 billion.

● (1020)

Mr. Nathan Cullen: The PBO has estimated that the program cost would roughly double in four years' time as measured as a share of the economy. Do you agree with that assessment from the Parliamentary Budget Officer?

Mr. Miodrag Jovanovic: As I said, our assessment is that by 2035 the cost would be 0.3% of tax revenues, about $650 million in current year dollars.

Mr. Nathan Cullen: The federal department often uses quintiles to assess any tax measure and its impact on Canadians. Is that true?

Mr. Miodrag Jovanovic: They don't necessarily use quintiles. For instance, we can look at tax brackets, which are not necessarily tied to quintiles. As you know, 1% of Canadians, the wealthiest, earn above $200,000.

Mr. Nathan Cullen: I'm wondering, just in terms of those income quintiles, the income brackets, which quintile will see the largest benefit, in absolute terms, from the doubling of the TFSA.

Mr. Miodrag Jovanovic: I'm sorry. I haven't done that analysis. I don't have the answer.

Mr. Nathan Cullen: Has the department done that analysis?

Mr. Miodrag Jovanovic: Sorry, I mean the department hasn't done that analysis.

Mr. Nathan Cullen: The department has not done that analysis.

The PBO has done that analysis and has estimated that the top quintile, the top 20% of Canadian earners, will gain approximately $9 billion from doubling the TFSA, which exceeds all other gains by all other groups of Canadian earners, so of the bottom 80%, I suppose, combined. Do you refute that evidence?

Mr. Miodrag Jovanovic: What I can tell you is that the individuals taxed in the third and fourth brackets in our tax system represent about 9% of the population, which is basically half of the top quintile. If you use the top quintile as a point of reference, you'd have many people, actually, taxed in the second bracket. I'm not sure what the top quintile, in that context, really means.

Mr. Nathan Cullen: Has the department done any assessment of the impact on savings since the TFSA was first introduced in 2009?

Mr. Miodrag Jovanovic: When it was introduced in 2009, we said that the long-term impact of the TFSA would be about $3 billion in income.

Mr. Nathan Cullen: Has the TFSA, since being introduced, increased the savings rate of Canadians?

Mr. Miodrag Jovanovic: We haven't done that analysis. The Department of Finance hasn't done that analysis.

Mr. Nathan Cullen: No, I heard you. I'm a little surprised, because the whole point of the program is to increase the savings rate of Canadians. This is not a complicated analysis to do. We can look at the savings rate.

The PBO has testified in front of this committee that the savings rate of Canadians has not changed since the introduction of the TFSA. People are simply choosing vehicles, switching money from one savings vehicle to another one, but the overall rate has not changed. This is not a complex analysis. I'm surprised that, if it was the intention of the program, the department wouldn't have assessed that impact.

Mr. Miodrag Jovanovic: The economic literature on savings rates is quite complex. If you look at the literature and you look at many, many studies that have tried to assess the determinant of saving and have even tried to determine the definition of a proper savings rate, doing that is extremely complex.

What we know is the government has created a vehicle that is very attractive to Canadians of all income classes and all ages.

The Chair: Thank you, Mr. Cullen.

[*Translation*]

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

Mr. Emmanuel Dubourg (Bourassa, Lib.): Thank you, Mr. Chair.

I would like to take this opportunity to greet all my parliamentary colleagues and our guests.

I will briefly continue with the TFSA topic that my colleague addressed.

We often hear in the House that the families making $60,000 have made a maximum contribution to a TFSA. Do you have any information on that and can you tell us how it is possible to state that families making $60,000 contributed a maximum amount to a TFSA?

● (1025)

Mr. Miodrag Jovanovic: We have data on people who contribute the maximum amount. About 20% of people contribute the maximum amount to a TFSA. Of that number, which represents approximately 1.9 million people, we see that 60% have an income under $60,000 a year.

Mr. Emmanuel Dubourg: You are saying that 60% have an income under $60,000. However, is it true that, before the inception of the TFSA, those people perhaps had a number of years' worth of savings and, once the TFSA was set up, they all seized the opportunity if they had $6,000, $7,000, $8,000 or $10,000 in their bank accounts?

Right now, can we expect families making $60,000 to still contribute the maximum amount, which is $10,000?

Mr. Miodrag Jovanovic: The money used for a TFSA can come from various sources of savings or from income earned during the year.

Mr. Emmanuel Dubourg: Okay, but I would like to point something out.

People who have a gross income of $60,000 also do their income taxes. After paying their taxes, how many people can have $10,000 in savings for a TFSA?

Mr. Miodrag Jovanovic: I can simply tell you that the statistics speak for themselves: 60% of people contribute the maximum amount.

On page 234 of the budget, there are tables on the distribution of people according to age.

Mr. Emmanuel Dubourg: Okay.

Mr. Miodrag Jovanovic: I can also tell you that almost 50% of the people who will benefit from the increase are estimated to have an income under $80,000 a year. That will be the case in 2019.

Mr. Emmanuel Dubourg: Thank you for this information.

I don't think I have a lot of time left, but I would still like to address another issue very quickly.

In terms of charitable organizations, the Income Tax Act uses the term “qualified donee”. Why have foreign charitable foundations been excluded from the definition of “qualified donee”?

Mr. Miodrag Jovanovic: Let me give you a little background on that.

In 2012, we changed the approach used by the government to designate foreign organizations as charitable organizations by adding some conditions. Yes, a state donation is needed. In addition, the charitable organization must carry out certain activities.

If you don't mind, I will continue in English.

[*English*]

That's just for disaster relief or humanitarian aid, or if it's in the national interest of Canada.

What this provision does in this budget is it extends these rules not only to what we refer to as charitable organizations but also charitable foundations. This is to add flexibility, because in an international context, for instance, it may be a bit more difficult to determine the nuance, the distinction. It gives more flexibility and it allows what would be considered a foundation under our rules here to still qualify if all the other conditions are met. That's basically the purpose of this provision.

● (1030)

The Chair: Thank you.

[*Translation*]

Thank you, Mr. Dubourg.

Mr. Dionne Labelle, you now have the floor.

Mr. Pierre Dionne Labelle: Thank you, Mr. Chair.

Welcome, Mr. Jovanovic.

I would like to talk about the RRIFs.

We see that the minimum retirement rate will go from 7.38% to 5.28%. How was this 5.28% rate established? What foundations and indicators are we looking at?

Mr. Miodrag Jovanovic: It is simply a calculation of the actuarial values, but it is slightly less complicated than that. It is based on the person's age.

Suppose that you are 75 years old and that you are counting on using all your funds by the time you turn 100. If, every year, you expect to have a 5% rate of return on your investment and you want to escalate your pension by 2% a year, you will therefore need to withdraw an amount this year with the age of 75 in mind. That calculation is basically done every year.

Mr. Pierre Dionne Labelle: So you are anticipating a 5% rate of return?

Mr. Miodrag Jovanovic: We are anticipating a nominal 5% rate of return and a 2% escalator.

Mr. Pierre Dionne Labelle: What are you basing your rate of return on?

Mr. Miodrag Jovanovic: We are basing it on a more recent analysis on the historic rates of return in the medium and long term.

Mr. Pierre Dionne Labelle: It is a very good thing that the new benefits for veterans are not taxable, but other incomes are taxables. What is the logic behind taxing some sources of income and not others? For instance, the earnings loss benefit and the permanent impairment allowance are taxable, but the two new allowances will not be taxable. What is the logic behind that?

Mr. Miodrag Jovanovic: Generally speaking, if an allowance seems to replace an income, it will be taxable. If it is related to a one-time event, such as disability-related compensation, it might not be taxable.

Mr. Pierre Dionne Labelle: I have another question about the numbers you presented. I'm wondering about the child care benefit increasing from $1,200 to $1,920. What is that increase based on?

Mr. Miodrag Jovanovic: That figure reflects the new amount of the improved benefit for children under six years old.

Mr. Pierre Dionne Labelle: Was it calculated on the basis of day care needs? How many places in day cares will this measure create? Did you analyze the impact on day care places?

Mr. Miodrag Jovanovic: The objective of the universal child care benefit was not to create day care places.

[*English*]

The Chair: We're just doing part 1 for this session and then we'll move to part 2.

[*Translation*]

Mr. Pierre Dionne Labelle: Okay. Excuse me, Mr. Chair.

Were there discussions with your provincial counterparts on the medium- and long-term impact of TFSAs in terms of lost taxes? It has been said that, by 2080, the provinces will lose $39 billion. Did you discuss that with your provincial counterparts? Were there discussions between officials about that?

Mr. Miodrag Jovanovic: The Minister of Finance communicates with provincial representatives on an ongoing basis. We frequently meet with our provincial counterparts.

● (1035)

Mr. Pierre Dionne Labelle: How much will this cost in lost taxes?

Mr. Miodrag Jovanovic: You would have to ask the provinces how their taxes are collected.

Mr. Pierre Dionne Labelle: Thank you.

The Chair: The floor is yours, Mr. Côté.

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

I am going to continue to talk about the impact on the provinces.

Did you do a prior assessment of the loss in revenue for the provinces and territories?

Mr. Miodrag Jovanovic: When we develop new proposals, part of our briefing for the minister is always to examine the impact on the provinces. So the simple answer is that we did examine the impact on the provinces.

Mr. Raymond Côté: To go back to my colleague Pierre's question, were the provinces consulted before this measure was announced in order to assess the impact it might have on their revenues? Were there any consultations before the decision to increase the TFSA limit was made?

Mr. Miodrag Jovanovic: The increase in the TFSA was part of the Conservatives' 2011 platform. The provinces were already aware. During our ongoing discussions with the provinces, we often exchange ideas on the potential impact of the measure. As for the extent to which we deal with the provinces when a budget initiative is being developed, that is another question.

Mr. Raymond Côté: If I understand correctly, there were no formal consultations on the matter.

Mr. Miodrag Jovanovic: There were no specific consultations as this measure was being developed.

Mr. Raymond Côté: Okay.

Mr. Miodrag Jovanovic: As I said earlier, we maintain a constant dialogue with the provinces.

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

The Chair: Thank you.

Are there any other questions?

[*English*]

Okay, then it's back to you, Mr. Cullen, please.

Mr. Nathan Cullen: Perhaps the officials could tell us, when the TFSA was first introduced it was indexed.

Is that correct?

Mr. Miodrag Jovanovic: Yes.

Mr. Nathan Cullen: Is it continuing with that policy of indexing the TFSA contributions?

Mr. Miodrag Jovanovic: The annual contribution limit of the TFSA has been increased to $10,000 annually. It has been de-indexed.

Mr. Nathan Cullen: How come?

Mr. Miodrag Jovanovic: It was the decision of the government to de-index the tax-free savings account.

Mr. Nathan Cullen: Let me be more specific.

What is the impact of indexing the original TFSA? What does that effectively do to the impact of the TFSA on the treasury and to the size of the TFSA?

Mr. Miodrag Jovanovic: Well, if you assume a 2% indexation, for instance, by 2046, the TFSA at $5,500 would have reached $10,000.

Mr. Nathan Cullen: Sorry, but could you say that last sentence again?

If you had allowed the indexation to continue on the original contribution limits, by what date would it have reached that amount?

Mr. Miodrag Jovanovic: I think that if you do the calculation at 2%, again it's an assumption—

Mr. Nathan Cullen: Sure, take it at 2%.

Mr. Miodrag Jovanovic: —because we don't know what the inflation will be. If I remember well, I think it's 2046.

Mr. Nathan Cullen: Given the original policy, again assuming a 2% indexation rate connected to inflation, the TFSA contribution limit would have gone to $10,000 over the next 30 years or so, if you allow that trajectory. Is that right? The ceiling limit would have increased naturally as per the original policy.

Mr. Miodrag Jovanovic: Yes.

Mr. Nathan Cullen: When the government decided to double the original contribution ceiling from $5,000 to $10,000, it chose not to index.

What would the impact have been if the indexing had remained as part of the TFSA policy?

Mr. Miodrag Jovanovic: I don't have this figure.

Mr. Nathan Cullen: It would have increased.

Mr. Miodrag Jovanovic: Yes, the costs would have been higher.

Mr. Nathan Cullen: The costs would have been higher.

The government recognizes the impact on the federal treasury to de-index the TFSA, thereby trying to minimize the impact on the treasury.... It seems strange then that there's some recognition that the impact on the treasury is significant and therefore it changes the policy of the TFSA—not indexing it anymore—but it refuses to acknowledge that the costs into the future are so significant as to limit the government's ability to do anything in terms of contributions to health care, infrastructure, and the like. It seems to be, in part, a recognition that the costs would spiral out of control, yet it is not addressing the main and concerning question.

In the budget document itself around this bill, who is it that puts together the construct of the typical family? There's a typical family that is used to give some sense of the taxation policies. The government has been using it for how many years. It's usually a family of four: a husband, a wife, and two kids. Is that correct?

● (1040)

Mr. Miodrag Jovanovic: Yes, it's usually a family of four, with two kids.

Mr. Nathan Cullen: In previous years, the typical family that was used by the government had the woman or wife earning significantly more than the man. That reversed this year. Why is that?

Mr. Miodrag Jovanovic: It's an illustration. There's no real reason.

Mr. Nathan Cullen: I know, but the illustration that was used suddenly changed the genders as to who was the top income earner.

In this year's example, the wife took the pay cut. In your example, then, you showed how income splitting would benefit that family and allow her to stay home—

Mr. Miodrag Jovanovic: Yes.

Mr. Nathan Cullen: —as opposed to allowing the man to stay home in previous examples.

Mr. Miodrag Jovanovic: Yes.

Mr. Nathan Cullen: It's an interesting illustration choice by the government.

I'm still confused that you have not done any assessment of the savings rate as per the impact of the TFSA policy. It's a very large expenditure. It's intention was to help Canadians to save.

Are you telling the committee today that you don't have an analysis of whether that's actually worked or not?

Mr. Miodrag Jovanovic: What I'm saying is that the Department of Finance has not analyzed, as of now, the effect on the savings rate.

Mr. Nathan Cullen: It's been six years since the TFSA was first introduced.

Mr. Miodrag Jovanovic: Yes, it was 2009.

Mr. Nathan Cullen: It's intention was to help Canadians save, and in over six years we have not analyzed whether it's worked or not.

Mr. Miodrag Jovanovic: That's what—

Mr. Nathan Cullen: You can understand why that's.... If the intention of a policy, especially an expensive one like this is to do X and we don't study whether it's effective or not.... As the Prime Minister told the United Nations, if you don't measure then you can't manage.

I'm still concerned that the Department of Finance hasn't bothered to study the impact of this policy and whether it's worked or not.

Mr. Miodrag Jovanovic: The tax-free savings account has been designed to be attractive for specific individuals—

Mr. Nathan Cullen: To increase savings.

Mr. Miodrag Jovanovic: —and classes of individuals who, for instance, under an RRSP, may not have that level of attraction to savings. In that context, it's a nice complement to the different tools and different savings vehicles. The design of the TFSA is suggestive of that. This is something that would improve savings.

The Chair: Thank you.

There are a couple of minutes left. I want to follow up on this and then on a RRIF question.

The budget itself says, "As of the end of 2013, nearly 11 million individuals had opened a TFSA and the total value of assets held... was nearly $120 billion." It also says that it's "a popular means of saving for Canadians at all income levels". As well, it says, "Individuals with annual incomes of less than $80,000 accounted for more than 80 per cent of all TFSA holders and about 75 per cent of TFSA assets as of the end of 2013."

I'm a little puzzled at the responses to the questions, because this and the other evidence that the department presented in the budget itself is evidence that the TFSA is in fact encouraging Canadians to save more for their retirement or other issues. The budget itself talks about the link between the TFSA and seniors.

Maybe I'll give you an opportunity to respond again, Mr. Jovanovic.

Mr. Miodrag Jovanovic: The TFSA has been extremely popular. There's now roughly a 45% take-up. We can see that adult Canadians of all ages and all income classes have opened TFSAs. It is extremely popular.

The Chair: Maybe just as a point of comparison, is there any other type of vehicle—RESPs, RDSPs—that has 11 million accounts open?

Mr. Miodrag Jovanovic: I don't have the numbers on RRSPs. RRSPs have been here since 1957, so we're comparing different systems.

The Chair: Okay.

My final question, then, is on RRIFs.

The budget changes the amount in terms of what is to be withdrawn. This was asked for by many seniors groups, by CARP and others, who said that Canadians are living longer. This is just a reality. My understanding is that those numbers have not changed since 1992. This is reflecting the fact that people are living longer, and also what Mr. Saxton said earlier about how the benefits from their investments have been lower with the lower interest rates. This is obviously dealing with that.

Did the department do a costing in terms of actually completely eliminating any type of mandatory withdrawal from RRIFs?

● (1045)

Mr. Miodrag Jovanovic: I cannot really comment on speculation on potential future changes like that.

The Chair: Okay. What are the changes in costs in terms of the changes that are proposed in this budget?

Mr. Miodrag Jovanovic: Excuse me?

The Chair: With respect to this budget bill, what are the changes in terms of the costs that the Finance department has estimated?

Mr. Miodrag Jovanovic: For the RRIF measure?

The Chair: Yes.

Mr. Miodrag Jovanovic: It is expected to cost $140 million in 2015-16 and a total of $670 million over the fiscal planning period.

The Chair: Okay. I think I'm going to stop there, because we should probably move on to part 2.

My understanding is that the four officials here with us now will stay for part 2 and we'll have two more from another department join us. Is that correct?

Mr. Trevor McGowan: We have division 1 of part 2, and the other officials would have division 2 of part 2.

The Chair: Let's do both divisions together. I would suggest that we do that. We'll have two officials from ESDC. Let's do divisions 1 and 2 of part 2 together.

Again, if someone wants to do a brief overview of part 2, divisions 1 and 2, we'd welcome that. Then we'll go to questions from members.

Mr. McGowan, please.

Mr. Trevor McGowan: Division 1 of part 2 has three main components. It increases the child care expense deduction by $1,000 to $11,000 for disability tax credit eligible children, to $8,000 for children under seven, and for seven through sixteen to $5,000. It repeals the child tax credit. Last, it introduces the family tax cut credit.

The Chair: Ms. Hardy, on division 2, please.

Ms. Siobhan Hardy (Director General, Social Policy, Department of Employment and Social Development): Thank you.

Enhancements to the universal child care benefit are proposed to assist the child care choices of parents or other eligible individuals by providing them with direct financial assistance up to $1,920 for each child under the age of six, and up to $720 for each child six years of age or older but under the age of eighteen.

The amendments to the Universal Child Care Benefit Act from 2006 are being introduced to provide the Minister of Employment and Social Development with the authority to pay parents or other eligible individuals a monthly benefit of $160 for each child under the age of six, and a monthly benefit of $60 for each child six years of age or older but under the age of eighteen.

Thank you.

The Chair: Thank you very much. We appreciate that.

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

Mr. Nathan Cullen: I'll start with you, Ms. Hardy, since you just spoke.

Does ESDC keep track or have a sense of what child care costs are across the country, the provincial averages, averages for some of our larger cities?

Ms. Siobhan Hardy: We monitor. There is a publication available online called “Public Investments in Early Childhood Education and Care in Canada” and you can get some data there. The data comes from the provinces. There is sometimes a lag, but it's not something the federal government monitors. It's something the provinces would provide.

Mr. Nathan Cullen: But it's made available to your department and your department is aware of what the average is in Ontario, comparing that of Toronto with Vancouver.

Ms. Siobhan Hardy: I would say that at a very high level, or more or less, but it's entirely dependent on the provinces providing the data.

Mr. Nathan Cullen: Right.

Does the department do any analysis of how many child care spaces we're hoping will be created as a result of the increase to the UCCB?

Ms. Siobhan Hardy: No, because that's not the intent of the benefit. It is intended to provide parents with choices, and those choices can range from accessing that kind of care that you just described, or other arrangements that might be made on a private basis.

● (1050)

Mr. Nathan Cullen: Sorry, by “that kind of care”, do you mean child care?

Ms. Siobhan Hardy: Child care, as in a regulated space.

Mr. Nathan Cullen: The provision of choices means that there is a choice. Within some of our communities, particularly some of the larger cities—I'm thinking of Montreal, Vancouver, Toronto—there is an extraordinarily long wait-list. Is it a choice if there isn't any child care available? Does the department have any opinion with respect to providing a choice that doesn't exist?

Ms. Siobhan Hardy: The department has no opinion.

Mr. Nathan Cullen: What was the figure you said was the augmentation? Was it $1,900 and how much?

Ms. Siobhan Hardy: There are two types of augmentation. The first is for children six and under, so the amount goes from $100 to $160 per month. The second increase is for children from the ages of seven until just under eighteen, and that amount is now $60 a month.

Mr. Nathan Cullen: Obviously, $160 a month is not meant to pay for child care, because no one would put their kid in a space that cost $160 a month. It obviously wouldn't meet any standard.

How many child care spaces...? It was mentioned in the 2011 platform with respect to TFSAs. Also in that platform was the commitment by the Prime Minister to create 125,000 child care spaces. Do we know how many have actually been created since that time?

Ms. Siobhan Hardy: There is money transferred through the CST to provinces. The provinces are responsible for creating those spaces, so again I would refer you to the public investments in child care publication.

In practice it's hard to separate what the federal contribution is in relation to the provinces' expenditures in this area because, as you know, the CST is a block transfer.

Mr. Nathan Cullen: So the government's position is that we spend the money, but we don't track whether the provinces actually create child care spaces.

Ms. Siobhan Hardy: As I said, that amount is transferred through the Canada social transfer and that's a block transfer.

Mr. Nathan Cullen: I understand, but my question is, does the government actually track whether the money creates child care spaces?

Ms. Siobhan Hardy: The nature of the block transfer doesn't permit us to and it would be up to the provinces to notify us.

Mr. Nathan Cullen: I want to talk about income splitting for a moment. What is the first-year cost of income splitting for this year's budget?

Mr. Miodrag Jovanovic: The cost reported for 2014-15 is $2.4 billion. That includes five quarters, because of accounting. On a yearly basis, for 2015-16 it's about $1.9 billion.

Mr. Nathan Cullen: That first year the cost is a little bit higher because of that extra quarter that's been added. Was this done, in a sense, not retroactively but in such a way that the legislation could apply within this taxation year?

Mr. Miodrag Jovanovic: Yes.

Mr. Nathan Cullen: What was the deficit this year, 2014-15?

Mr. Miodrag Jovanovic: It was $2 billion.

Mr. Nathan Cullen: So it was almost—

Mr. Miodrag Jovanovic: It's in this budget document. We can check, but I think it was $2 billion.

Mr. Nathan Cullen: It was $1.9-odd billion, almost exactly the same amount. So we ran a deficit to pay for income splitting if you look at it dollar for dollar.

Does the department have any estimate on who will benefit by income?

Mr. Miodrag Jovanovic: The family tax cut was part of a broader package for families.

Mr. Nathan Cullen: I mean specific to income splitting.

Mr. Miodrag Jovanovic: Typically when we provide briefings to the minister and advice to the minister on any measure we look at, we provide as part of any other calculations income distribution, and that is part of the advice to the minister and it's up to the government to decide what to release from there.

Mr. Nathan Cullen: The PBO has estimated that for the lowest 20% of Canadian earners, the impact of income splitting will be "near zero".

Is that what the department analysis showed for income splitting?

The Chair: Could we have just a brief response, please.

Mr. Miodrag Jovanovic: I can't respond to that, because, as I said, this is advice that has been provided to a minister. It hasn't been made public.

The Chair: Thank you, Mr. Cullen.

Mr. Saxton.

Mr. Andrew Saxton: I have a quick question to follow up on the income splitting.

The PBO has done a report in which he mentions the middle-class beneficiaries of income splitting, those with an income level of between $60,000 and $120,000. Can you share with us what percentage of beneficiaries of income splitting will be in the middle-income tier?

Mr. Miodrag Jovanovic: What we've said is that the vast majority, at least two-thirds, of beneficiaries would be low- and middle-income families.

Mr. Andrew Saxton: That was confirmed by the PBO in his report as well.

I think my colleague Mr. Cannan has a question as well.

● (1055)

The Chair: Mr. Cannan.

Hon. Ron Cannan: Thanks, Mr. Chair.

Ms. Hardy, I have a follow-up to Mr. Cullen's question.

Just for clarification, the CST, which is the Canada social transfer payment, I believe has increased 3% per year. Is it $13 billion this year?

Ms. Siobhan Hardy: I'm going to refer to my colleague from the Department of Finance regarding the total amount for the CST.

Hon. Ron Cannan: I think I was just reading that it was $13.5 billion and it's the third-largest budget transfer from our budget to the provinces and territories.

Mr. Miodrag Jovanovic: We can get back with that number. I'm sorry, but I don't have that number.

Hon. Ron Cannan: It's at an all-time high, correct?

Mr. Miodrag Jovanovic: Again, I'm sorry, I can't comment.

Hon. Ron Cannan: The other question is whether the provincial auditors general then ensure that the funds are spent appropriately.

Mr. Miodrag Jovanovic: I can't comment on that.

Hon. Ron Cannan: Thanks.

The Chair: Thank you.

[*Translation*]

Mr. Dubourg, the floor is yours.

Mr. Emmanuel Dubourg: Thank you, Mr. Chair.

I am going to go back to income splitting.

Earlier, we talked about what was in the Conservatives' platform. I would like to know how many assessments you have done on income splitting. Was there one two years ago, for example, in order to inform the government about how much it might cost, or is that just done as the budget is being prepared? As we know, the way in which income splitting was introduced has changed.

How many assessments has the Department of Finance conducted in support of this measure?

Mr. Miodrag Jovanovic: I really cannot give you an exact number. I can say, however, that briefing was constantly being done for a certain period, as is done for all the measures that are proposed.

Mr. Emmanuel Dubourg: Okay. Thank you.

Have you also assessed the impact of income splitting on men's and women's participation in the workforce?

Mr. Miodrag Jovanovic: The effect on workforce participation was considered when the credit was being designed. For example, the credit limit of $2,000 is simply federal. It may be claimed by the spouse whose income is lower. In our view, the design of the credit means a minimal effect on the decision to be part of the workforce.

Mr. Emmanuel Dubourg: I am sure you understand the crux of the question I am asking.

If the spouses have more or less similar income, the measure provides them with no advantage. Is that not an incentive for one of the two spouses to work less, or simply stay home, in order to take advantage of what income splitting offers?

Mr. Miodrag Jovanovic: As I mentioned, the way in which the credit was designed minimizes the effect very significantly. For example, for a family with a single income of $95,000, the other spouse may enter the workforce and earn $20,000 or $25,000. If there are day care costs as a result, that family could continue to receive the maximum credit of $2,000. In that case, access to the workforce has no effect on the credit. That is just one example to illustrate the way in which the design of the credit minimizes the effect on workforce participation.

Mr. Emmanuel Dubourg: To wrap up, some experts are saying that only 15% of Canadian families will benefit from income splitting. Based on your analysis, can you confirm or deny that figure?

Mr. Miodrag Jovanovic: There are 19.5 million families who submit a tax return. The credit will benefit about 1.7 million families with children, which is about the 15% you alluded to. Of those 19.5 million families, about 40% are single, are by themselves. So the notion of “family” has to be understood when these statistics are being used.

● (1100)

[*English*]

The Chair: Thank you.

[*Translation*]

Mr. Dionne Labelle, the floor is yours.

Mr. Pierre Dionne Labelle: It has been said that this measure benefits couples most, especially when the difference between the two incomes is reasonably big. Is that the case?

Mr. Miodrag Jovanovic: The credit is limited to $2,000; its value depends, not only on the difference itself, but also on the relative position given the function of the amount transferred and the difference in rates. A family with a moderate income can also get the $2,000 maximum. It is not just limited to families with a very high income.

Mr. Pierre Dionne Labelle: So what counts is the gap between the two incomes.

Mr. Miodrag Jovanovic: Well, there must be a gap, but, as I was saying, the relative position counts too.

Mr. Pierre Dionne Labelle: You say that 40% of Canadians have no spouse. So that is saying that 40% of working Canadians have no way to access this possibility of paying less tax.

Mr. Miodrag Jovanovic: The objective of the credit is to reduce the differences in the amount of tax paid by couples.

Mr. Pierre Dionne Labelle: In other words, 40% of the population can't take advantage of this measure. Is that 40% an approximate figure?

Mr. Miodrag Jovanovic: I don't have the exact number with me, so it's approximate.

Mr. Pierre Dionne Labelle: Thank you.

The Chair: Mr. Côté, you have the floor.

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

My question is for all the witnesses.

Are you authorized to use the term “income splitting”?

Mr. Miodrag Jovanovic: Could you please repeat the question?

Mr. Raymond Côté: I would like to know whether you are authorized to use the term “income splitting”.

[*English*]

The Chair: Okay, this is for members to question on, not on.... For policy decisions, we will have the minister present to the committee, and it's fair to ask the minister policy questions as to why certain decisions were made.

This meeting is to get background information on the measures in the budget bill. Let's keep focused on that. That is why we're here today with the officials, so let's keep focused on the measures in the budget bill and any background information the officials can help us with.

Monsieur Côté, I don't see how that relates to the measures in the budget bill in terms of background information.

[*Translation*]

Mr. Raymond Côté: Mr. Chair, it's still important to mention it since the term is not used in the bill, which talks about “split adjustment” or “split-adjusted income”. Yesterday, during the meeting of the committee of the whole, the Minister of Finance carefully avoided using the term “income splitting”. In fact, he always used the term “family tax cut”.

I still think it's important to know whether there is a directive within the department to avoid using the term “income splitting”.

[*English*]

The Chair: That's a question we can ask the minister when he appears here on the budget bill. It would be a very good question for him.

[*Translation*]

Mr. Raymond Côté: Very well. That's fine. Thank you.

[*English*]

The Chair: Okay, then I will thank our officials for part 2. Thank you very much for being here.

Colleagues, we'll bring forward the officials for part 3.

The way we're going to do this, I recommend, is we have about 40 minutes, so we'll do division 1, division 6, and division 7 at the same time. Then the second panel, if you want to call it that, will be on division 18 and division 20.

We'll do part 3, division 1, division 6, and division 7.

I want to welcome all of you to the committee. Thank you so much for being with us.

We have division 1, the federal balanced budget act. We have division 6 regarding the Export Development Act. We have division 7 regarding the Canada Labour Code.

I would ask one official to address each division, and I would ask you to be very brief to allow time for members' questions.

We'll start with division 1.

Mr. Recker, I believe you'll be addressing that, please.

● (1105)

Mr. Brad Recker (Senior Chief, Fiscal Policy Division, Economic and Fiscal Policy Branch, Department of Finance): Yes. Division 1 of part 3 of the budget implementation act introduces the federal balanced budget act. The act is consistent with balanced budgets during normal economic times and requires concrete timelines for returning to balance in the event of a deficit. It is consistent with the plan to return to balanced budgets followed by the government in the wake of the great recession, and is relatively straightforward, transparent, and easily verifiable.

Specifically, the proposed legislation requires that should a deficit be published for any reason, the Minister of Finance must appear before this committee within 30 days to present a plan to return to balanced budgets with a concrete timeline. Should that deficit be due to a recession or extraordinary situation, the plan must include an operating budget freeze and a salary freeze for ministers and deputy ministers. The operating freeze and the salary freeze will be put in place after the recession or extraordinary situation ends. However, should the deficit not be due to a recession or extraordinary situation, the plan must include an operating budget freeze and a 5% salary reduction for ministers and deputy ministers. The operating freeze and salary freeze would be automatic and would stay in place until a return to a balanced budget is recorded.

The Chair: Thank you very much for that.

We'll go to division 6. Who will be presenting that?

Monsieur Bertin.

[*Translation*]

Mr. Marc-Yves Bertin (Director General, International Assistance Envelope Management, Strategic Policy, Department of Foreign Affairs and International Trade): Thank you, Mr. Chair.

[*English*]

Division 6 of part 3 amends the Export Development Act to add a development financing initiative to EDC's current trade-related mandate. EDC will be able to provide development finance and other types of development support in accordance with Canada's international development priorities. This will enable EDC to provide financing to projects in high-impact sectors in developing countries that would normally face challenges in securing financing. This new financing support would enable more effective partnering with the private sector in developing countries on projects that support development results and thereby complement Canada's official development assistance.

Amendments will also provide that the minister responsible for EDC, essentially the Minister of International Trade, will consult the Minister of International Development on matters related to EDC's development financing initiative.

The Chair: Okay, thank you very much.

We'll do division 7.

Ms. Hill, please.

Ms. Margaret Hill (Senior Director, Strategic Policy and Legislative Reform, Department of Employment and Social Development): Thank you, Chair.

Division 7 of part 3 would amend part II and part III of the Canada Labour Code in order to protect interns in the federal jurisdiction.

Currently there are no specific provisions in the Canada Labour Code related to interns. The policy intent of the amendments is to ensure all interns in the federal jurisdiction receive full occupational health and safety protections under part II of the code as well as appropriate labour standard protections under part III.

Under the proposed amendments, an intern is considered to be a person who is not an employee, but who performs activities for an employer, the primary purpose of which is to enable the person to acquire knowledge and experience.

The proposed amendments would do three things.

First, they would amend part II of the code to ensure all interns in the federal jurisdiction are entitled to full occupational safety and health protections, including the right to refuse dangerous work.

Second, the amendments would clarify that part III of the code applies to interns, subject to specific exceptions. The amendments would specify two exceptions when part III protections, such as minimum wage, do not apply to interns. In practice, this would establish when an intern can be unpaid. The first exception would be if the internship is formally part of an educational program. The second exception would be if the internship meets all of six specific criteria.

Last, the amendments would permit regulations to be made to apply and adapt part III labour standard protections to interns who could be unpaid because their internship meets one of the two exceptions I've noted. It's expected that labour standard protections related to maximum hours of work and sexual harassment at a minimum would be provided to unpaid interns through these regulations. The regulations would be put in place as quickly as possible following consultations with stakeholders as part of a normal regulatory process.

● (1110)

The Chair: Thank you very much for that overview.

Colleagues, I suggest we do four five-minute rounds and then we'll bring the other officials forward.

We'll start with Mr. Cullen, please.

Mr. Nathan Cullen: I may have missed it, Chair. We did part 3, division 1 as well. Yes?

The Chair: This is part 3. We're doing division 1, division 6, and division 7.

Mr. Nathan Cullen: Right. I just missed division 1.

On division 1, on the balanced budget legislation, can officials point us toward any other country models that were specifically used for academic works and that were used to base this legislation on?

Mr. Brad Recker: The legislation is quite unique. It's not modelled after what most other jurisdictions have in terms of balanced budget legislation. We had a look at the balanced budget acts of many European countries. We found them largely to be rather opaque and the targets not easily verifiable.

We also looked at Canadian jurisdictions and found a lot of them had to be amended during the great recession, which was something we wanted to avoid.

Mr. Nathan Cullen: Would you say that one of the major differences in this piece of legislation is that it accounts for recessionary times and doesn't bind the government to a budget that is balanced during those particular economic cycles?

Mr. Brad Recker: It doesn't specifically outlaw a deficit, but it is meant not to be procyclical. It focuses on the bottom line and the budgetary balance, but in order to avoid any procyclicality in terms of fiscal—

Mr. Nathan Cullen: Could you define “procyclicality”?

Mr. Brad Recker: That is cutting spending or raising taxes during a recession.

Mr. Nathan Cullen: I'm going to turn to division 7 for a moment.

Ms. Hill, can you remind us of what is put into legislation and not through regulations? What protections are given to interns? Is it part II of the Canada Labour Code?

Mr. David Charter (Senior Advisor, Strategic Policy, Department of Employment and Social Development): The legislation includes three components. First, it offers all protections under part II of the Canada Labour Code occupational health and safety protections to interns, whether paid or unpaid. In addition, it offers part III labour stand protections to interns, with the exception of those who meet two specific exceptions.

Mr. Nathan Cullen: May I stop you there for a moment, between part II and part III, because in Ms. Hill's testimony, and previously in some of our briefings, you said it was expected through regulations that the part III protections would be brought in. Did I hear you right? Part II is codified in law, and that's what's been brought in. Part III is meant to be done later through regulatory efforts.

Mr. David Charter: Part II is codified in the law. Part III protections are available to interns who don't meet the two exceptions to be excluded from the application of part III, but for those who are excluded from the application of part III, that is, those who are participating in an internship that's part of an educational program or those who meet six specific criteria, the labour standard protections for those interns will be set through regulations.

Mr. Nathan Cullen: You can understand there have been some concerns raised about this, because part III, for those who don't know the Canada Labour Code, includes things like excessive hours of work and sexual harassment. Why not codify those two protections into law as well? Can you explain the mechanism and why we're not offering that assurance to interns, and particularly their parents and others, that we're going to codify that in law and not wait for a regulatory thing later?

● (1115)

Mr. David Charter: All the part II protections apply to all interns, so it was done through the legislation. All the part III protections apply to interns who don't meet the two specific circumstances to be excepted. Some of the reasons for applying the labour standard protections, such as sexual harassment and maximum hours of work, through regulations is to provide the opportunity to identify an appropriate set of labour standards that meets the unique circumstances of unpaid interns, and also to provide an opportunity to consult stakeholders, through the regulatory process, to get their input on the appropriate labour standards.

Mr. Nathan Cullen: Thank you, but my question is quite specific, and I sense you're attempting to get there. The two provisions in part III under the Canada Labour Code are around something as important as preventing interns from being sexually harassed, and from excessive hours of work. Was there not a mechanism to codify that into law as well, to give that the same strength as what happened under part II of the Canada Labour Code?

The Chair: May we have a brief response, Ms. Hill.

Ms. Margaret Hill: As he said, interns who do not meet the two criteria to be excepted all receive part III protection under legislation, including maximum hours of work and protection against sexual harassment. The only labour standard protections that would be identified through regulations are those related to unpaid interns who meet either of the two circumstances.

The Chair: Thank you.

Thank you, Mr. Cullen.

We'll go to Mr. Cannan, please.

Hon. Ron Cannan: Ms. Hill, approximately how many people are we talking about who are affected by this amendment to the legislation?

Mr. David Charter: No official statistics are available on interns in Canada. However, widely circulated stakeholder estimates put the number between 100,000 and 300,000.

Hon. Ron Cannan: Thank you.

The Chair: Thank you.

We'll go to Monsieur Dubourg, *s'il vous plaît*.

[*Translation*]

Mr. Emmanuel Dubourg: Thank you, Mr. Chair.

Good morning, everyone.

I would like to start with the federal balanced budget act.

When we legislate, there are often negative effects. Have you provided for the possibility that, in a given year, there might be a deficit of $1 billion, while measures have been taken and the debt continues to decrease? Have you looked at a certain number of elements in that regard? When there is a deficit situation, should we consider it a bad thing and automatically adopt drastic measures? For example, the government might be tempted to sell assets to absolutely balance the budget. What is your opinion on that?

[*English*]

Mr. Brad Recker: In completing our analysis, we ran through a lot of scenarios, in terms of things that could arise when this legislation is in place. Again, overall we're not implementing anything that's really new here. We're enshrining in law the practice that the government has already been following, so we felt safe in that regard.

[*Translation*]

Mr. Emmanuel Dubourg: In short, you are admitting that there should still be some flexibility with the economic situation. It is true that there may be a deficit, due to a recession or some other reason, but there should be some flexibility to look at other economic indicators rather than only at a few years of deficit.

[*English*]

Mr. Brad Recker: In the past, in order to provide protection to the budgetary balance outside of a recession, for example, the government has made it its practice to include a set-aside for contingency. Including such a set-aside would protect you from more minor fluctuations in the budgetary balance outside of a recession scenario.

● (1120)

[*Translation*]

Mr. Emmanuel Dubourg: Okay.

Should this bill set parameters regarding the number of years that should pass before coming back to a balanced budget? What suggestions do you have?

[*English*]

Mr. Brad Recker: I believe that would depend on the circumstance, and it would be up to the government at that time.

[*Translation*]

Mr. Emmanuel Dubourg: Okay.

[*English*]

The Chair: Thank you.

I just want to follow up on division 6. I'm very pleased this was in the budget and in this BIA. This is one of the items recommended by Engineers Without Borders, and I was very pleased to see some of the work they were doing in Ghana last summer.

Perhaps I could get officials who are on this division to talk about the need for balancing the provision of financing with poverty reduction goals. One of the concerns is how you ensure you are providing development finance. EDC obviously has a trade mandate. How do you ensure that you are also addressing poverty reduction?

Mr. Bertin, please.

Mr. Marc-Yves Bertin: Thank you for that question.

It's fair to say that while official development assistance has done a tremendous amount of positive work, or has worked positively internationally for the past four years, there is a growing recognition, a consensus internationally, that post-2015 objectives, the objectives the international community is trying to negotiate at this time, will need more resources than official development assistance. Within that context, countries, including developing countries, have increased the focus on foreign direct investment as a source of funding for growth and development. Within that context, a number of donors have already acted to optimize their contribution to this space.

Canada doesn't have a DFI, development finance institution. Other G-7 countries have DFIs, and what the DFIs ostensibly do is they operate in the space where the private sector currently isn't. What I mean by that is they occupy a space where the perceived risks might be too great for the private sector. Therefore, from that perspective, the DFIs will entertain initiatives as long as there is a development outcome as well as a viable project on the table.

Within that context, this initiative will occupy specific space that is complementary and additional to official development assistance. Official development assistance will continue to work on establishing a good governance context, promoting sustainable economic growth in areas where there are market failures or an inability for the private sector to play; whereas this will present an opportunity for the government to partner with the private sector on ventures that yield a development outcome but are also viable enterprises or projects unto themselves.

The Chair: Will the resources provided under this type of initiative be considered part of Canada's eligible official development assistance?

Mr. Marc-Yves Bertin: DFIs offer customized commercial tools such as loans, guarantees, and equity stakes to respond to the specific financing challenges of the private sector in developing countries. Typically, these types of investments are not covered by the international rules set by the OECD DAC in terms of what constitutes official development assistance. While the DFI investments would not technically be ODA, they would nonetheless be guided by...and the initiative would have the opportunity as it stood up to examine international best practices that are out there, including domestic norms, to ensure the conduct of the initiative meets the highest standards, both financial as well as corporate social responsibility.

The Chair: Thank you. We appreciate that.

There's about one minute left in this round, Mr. Van Kesteren.

Mr. Dave Van Kesteren: I have just as a quick follow-up on DFIs. Which countries are practising that at this time?

Mr. Marc-Yves Bertin: I'm sorry?

Mr. Dave Van Kesteren: Can you give me an example of some of the countries that are practising the DFIs?

Mr. Marc-Yves Bertin: Countries that have DFIs? All G-7 countries have DFIs, for example. We're the odd man out, if you will. There are a few other countries beyond the G-7 that have them.

● (1125)

The Chair: Thank you.

Monsieur Dionne Labelle.

[*Translation*]

Mr. Pierre Dionne Labelle: I want to go back to division 7, which amends the Canada Labour Code.

It contains three new articles relating to interns. I don't see why there should be three new articles when we could simply broaden the provisions of part III to protect anyone carrying out activities for federal employers. Why not simply broaden the existing provisions?

Mr. Charles-Philippe Rochon (Assistant Director, Labour Law Analysis, Department of Employment and Social Development): Thank you for your question.

One of the difficulties with part III is the fact that it sets a number of labour standards relating to a person who receives a salary, whether it involves vacation pay, compensation for stat holidays, overtime and so on.

Because of how part III is structured, it would have been difficult to simply extend all the protections, for example to unpaid interns, because some of these protections would not make sense at that time. It would be impossible for employers to respect these provisions.

The decision was made to adopt a bit of a different approach. It aims mainly to improve protection for everyone, but it recognizes that there are very different circumstances for interns. That is how we improved protections while avoiding more confusion.

Mr. Pierre Dionne Labelle: Thank you.

I would like to talk about the federal balanced budget act.

In the case of a projected deficit or in an exceptional situation, government employees' salaries are frozen. But who decides when this exceptional situation is over? What criteria or what figures would lead the government to decide that the exceptional situation that required the salaries of those people to be frozen has ended?

[*English*]

Mr. Brad Recker: There are two situations. There could be a recession or an extraordinary circumstance, in fact. In the case of a recession, the proposed act indicates that the recession ends when Statistics Canada reports the second quarter of economic growth. In the case of an extraordinary circumstance, this ends at the time the public accounts are tabled, which shows the impact of that extraordinary circumstance, which needs to be greater than $3 billion.

[*Translation*]

Mr. Pierre Dionne Labelle: I see that over time, in other governments, at the provincial or other levels, the balanced budget legislation is more or less followed in the end. A situation can always be described as exceptional in order to apply the legislation or not.

[*English*]

Mr. Brad Recker: No. In fact, the legislation lists specifically the —

[*Translation*]

Mr. Pierre Dionne Labelle: Provincial legislation has often been amended and repealed. Do you agree with me on that?

[*English*]

Mr. Brad Recker: It's true.

Mr. Pierre Dionne Labelle: That's true. Okay.

The Chair: Colleagues, we have 15 minutes. If members want to continue with this group of officials, it's fine, but if you want to question the next group, then we're going to have to move on.

An hon. member: Go to the next group.

The Chair: I'm sensing there's consensus for the next group, so we'll thank this group of officials. Thank you so much for being with us today.

We'll bring forward the officials for part 3, divisions 18 and 20. Division 18 deals with the Ending the Long-gun Registry Act, and division 20 is sick leave and disability programs.

We have officials from Public Safety and from Treasury Board. Welcome to the committee.

Perhaps I'd ask one official from Public Safety and one official from Treasury Board to give a brief overview of these two divisions.

We'll start with Public Safety. Mr. Potter, would you be doing that?

● (1130)

Mr. Mark Potter (Director General, Policing Policy Directorate, Law Enforcement and Policing Branch, Department of Public Safety and Emergency Preparedness): Good morning.

Many of you will recall that in October 2011, the ending the long-gun registry bill was introduced in the House. In April 2012, the Ending the Long-gun Registry Act came into force. That act had two primary objectives. The first was to end the registration of long guns in Canada. The second was to destroy the long-gun registry data. The second objective of destroying the data is primarily to respect the privacy rights of Canadians who had registered their long guns.

The amendments in the budget implementation act are intended to comprehensively address that second objective by ensuring that no other act of Parliament, including the Access to Information Act, would compromise that key objective of destroying the data. Put simply, the amendments to the budget implementation act address a gap in the original Ending the Long-gun Registry Act.

Thank you.

The Chair: Thank you, Mr. Potter.

For Treasury Board, Ms. Kolk, go ahead, please.

Ms. Bayla Kolk (Assistant Deputy Minister, Pensions and Benefits Sector, Treasury Board Secretariat): Thank you and good morning, Mr. Chair and committee.

As stated in budget 2015, the government will make every effort to reach agreement with bargaining agents within a reasonable timeframe on necessary reforms to disability and sick leave management.

A new round of collective bargaining between the Government of Canada and the federal public service bargaining agents began in 2014 to renew the government's collective agreements. The government's overarching goal in these negotiations is to reach agreements that are fair and reasonable for both employees and taxpayers. The negotiations held today reflect the government's commitment to good faith collective bargaining.

The government's priority in these negotiations continues to be to provide for a disability and sick leave management system that is modern, comprehensive, and responsive to employees needs. The government's outdated existing system of bankable sick days is failing both employees and taxpayers. For example, over 60% of employees in the core public administration do not have enough banked sick leave to cover a full period of short-term disability.

Twenty-five per cent of our employees have fewer than 10 days of banked sick leave. Many employees, especially new and younger employees, have no banked sick leave at all. In contrast, long-tenured individuals, including many executives, have far more banked sick days than they will ever reasonably need.

The government will continue to make every effort to negotiate and to reach agreement with bargaining agents within a reasonable timeframe on necessary reforms to disability and sick leave management. The government continues to negotiate with bargaining agents to identify mutually acceptable design parameters for the new system and is prepared to consider reasonable improvements to its tabled proposals.

In the event that agreement cannot be reached, the government will take steps required to implement a modernized disability and sick leave management system within a reasonable timeframe.

Under the Financial Administration Act, the Treasury Board may establish terms and conditions of employment for public service employees, including those respecting sick leave, and may modify any group insurance or other benefit program for employees.

In accordance with requirements under the Public Service Labour Relations Act, the government is bargaining in good faith and is proposing changes to the terms and conditions of employee sick leave as well as the introduction of a new short-term disability plan.

The government believes in the bargaining process and is committed to making every effort to reach a negotiated settlement.

Under the proposed legislation, the government—

The Chair: Could we get you to wrap up? We have time for five minutes more.

Ms. Bayla Kolk: Okay, I'm wrapping up.

The government, on the recommendation of the President of the Treasury Board, specified a date by which Treasury Board can establish the short-term plan. If this occurs, the proposed legislation will allow Treasury Board to modify the short-term disability plan. Importantly, it will also enable Treasury Board to establish a new committee composed of bargaining agents and employee representatives which Treasury Board must also establish.

My last point is that because the short-term plan would now duplicate the duration of waiting for a long-term plan, that is also included in the legislation.

Thank you.

● (1135)

The Chair: Thank you for your presentation.

Colleagues, we have time for three five-minute rounds, so essentially each party will have time for five minutes.

We'll start with Mr. Cullen.

Mr. Nathan Cullen: Thank you to Ms. Kolk.

Have we ever done this before?

Ms. Bayla Kolk: Have we done this before?

Mr. Nathan Cullen: Have we ever legislated a term of a bargaining position into law before the bargaining was complete?

Ms. Bayla Kolk: I'll turn to our legal counsel.

Ms. Jennifer Champagne (Counsel, Treasury Board Secretariat): I cannot speak to prior precedents. There may or may not have been some. Some research would have to be conducted to confirm it.

Mr. Nathan Cullen: Does this fall into the government's legal definition of good faith bargaining, when it's prepared to legislate parts of the collective agreement?

Ms. Jennifer Champagne: I cannot answer that.

Mr. Nathan Cullen: Why not?

Mr. Carl Trottier (Associate Assistant Deputy Minister, Compensation and Labour Relations Sector, Treasury Board Secretariat): I'll take that question.

The government is negotiating in good faith. We have been with the bargaining agents for over a year now negotiating at the table. This issue has been before them for about a year now and discussions have been going onward.

Mr. Nathan Cullen: So you are prepared to legislate rather than negotiate in terms of the public sector sick leave.

Mr. Carl Trottier: The legislation is an enabling one, so we're still very hopeful, and the objective and our sights are on settlements with the bargaining agents.

Mr. Nathan Cullen: But you're allowing the government to legislate part of what's being bargained right now. Is that not correct?

Mr. Carl Trottier: The legislation provides the ability to set terms and conditions.

Mr. Nathan Cullen: Right. That's the broadest definition of good faith I think I've ever heard, to the point of breaking.

In terms of the registry, also in looking for precedents, it's a backdated change to the law, essentially. Is that correct? You called it a gap.

Mr. Mark Potter: Exactly. This is a unique situation where you're actually ending a program, the registration of long guns, and it flows from that, that you would not have any legitimate purpose to keep the data. To fully achieve that objective, you do need in this case to address that gap, putting in place retroactive legislation.

Mr. Nathan Cullen: Okay. So retroactive legislation is an interesting precedent and it's a worrisome precedent for some privacy advocates. It's illegal to destroy federal documents under the law, correct?

Mr. Mark Potter: Under normal circumstances, it's not appropriate to do that. But the clear objective of the Ending the Long-gun Registry Act was to destroy the data, so that was the clear will of Parliament.

Mr. Nathan Cullen: Yet it wasn't imagined that somebody would seek out the information this way?

Mr. Mark Potter: Exactly. Hindsight is 20/20 and this was clearly an omission, and this gap is now being addressed through these amendments.

Mr. Nathan Cullen: Yet we now have the OPP investigating this. This is a very dangerous precedent, is it not? It would enable future governments, if they so chose, under different circumstances that they called unique, to backdate legislation to retroactively change the law to allow something that was illegal now to be made legal. Is the department not at all concerned with the jurisprudence, the precedent-setting nature of this?

Mr. Mark Potter: No, I think this is a unique situation where there was a specific requirement and a specific provision to destroy the data.

Mr. Nathan Cullen: I understand, but I'm trying to think of another circumstance in which government backdated legislation, retroactively changed the law to make something legal that was at the time illegal. I'm not sure how it's going to stand up in a court of law. More importantly, as it's been raised by many, we're setting a precedent by allowing government this kind of power and accepting this kind of power.

Aside from the issue that's in front of us in particular, this precedent for government to go back in time and retroactively make a thing that was illegal now legal seems on the surface very dangerous.

Mr. Mark Potter: I think in general I would say that the amendments were fully consistent with the original intent of the Ending the Long-gun Registry Act.

Mr. Nathan Cullen: Do you believe they're constitutional?

Mr. Mark Potter: I do.

The Chair: Do you want to address that, Ms. Fobes?

Ms. Caroline Fobes (Deputy Executive Director and General Counsel, Department of Public Safety and Emergency Preparedness): Yes, just to reiterate, the legislation is sometimes made retroactive to prevent people with advance notice of it from avoiding it. It's intended, in fact. As Mr. Potter said, in this case the intended effect was to abolish the long-gun registry. So in this case, that's why the legislation is retroactive. Parliament does have the authority....

The Chair: You have one minute.

Mr. Nathan Cullen: I want to go back to this notion of good faith bargaining with my last question for Mr. Trottier.

Can you understand the union's position that this is a legislative gun held to their head as they go through trying to negotiate with the government? The fact that it's been at the table for more than a year doesn't necessarily suggest that it's been the union that's been holding up the negotiations on this particular issue. If a government in future were to say that it's going to hold up a particular issue because it knows it has an ability to push something through law that it can't negotiate, does that not create an atmosphere in which good faith negotiation is not possible?

● (1140)

The Chair: Give a brief response please, Mr. Trottier.

Mr. Carl Trottier: We have been at the bargaining table for a year or more, and we have been very forthright and forthcoming and wanting to discuss the issue with the bargaining agents. We haven't been all that successful with getting them engaged on the issue, and still we're striving today to get them engaged on this issue. We're going out in all different ways to try to get them to talk to us and provide us with reasonable improvements to the plans we're putting forward for discussion, and we're still hopeful that we're going to be able to get them involved in that.

The Chair: Okay, thank you.

Thank you, Mr. Cullen.

We'll go to Mr. Saxton first, and then Mr. Cannan.

Mr. Andrew Saxton: Very quickly, going back to the long-gun registry, Parliament did vote to end the long-gun registry. This particular change is simply to comply with the will of Parliament. Is that correct, Mr. Potter?

Mr. Mark Potter: That is correct.

Mr. Andrew Saxton: Thank you.

Thank you, Chair.

The Chair: Mr. Cannan.

Hon. Ron Cannan: Reading on the sick leave and disability program and meeting with some of the employees, I'm just trying to clarify: how many employees are we talking about, first of all, who would be affected by this change?

Mr. Carl Trottier: By the change? About 180,000 employees.

Hon. Ron Cannan: About 180,000. You're saying that 60% of them do not have enough banked sick leave, so for 100,000 or so you're looking at trying to make the system more modernized.

What is the cost to sick employees right now who don't have sufficient coverage? If they have to leave on stress leave, or medical leave, what's the present plan in place?

Ms. Bayla Kolk: Right now, if an employee without a sufficient amount of sick leave for a longer-term illness found themselves ill, they would be out of income. They would be on leave without pay. They would look to apply for EI sickness benefits, which have a lengthy waiting period. If they get the EI sickness benefits, they're at 55% of pay. Longer term, they would look at accessing the long-term disability program, at 70% of pay.

All our new proposal would have, from the depletion of sick leaves...a short-term plan for several weeks at 100% pay and active case management, a third party service provider working with the employee, the employer, and the medical practitioner to determine what the needs are, how long they need to be away, and what the accommodations would be to come back.

That tells us that a lot of people will not be out of income and likely will also not go towards a long-term disability plan, but will get the support they need from the employer.

Hon. Ron Cannan: You're talking about 120,000 people. There are different types of jobs, from public administration to CBSA— I've met some of them, for example—or law enforcement. It's hard to get one size that fits all.

In the negotiations, is that something you're considering with regard to the job responsibilities and the coverage to fit their needs?

Ms. Bayla Kolk: Absolutely. In fact, last week we talked to a number of organizations who are at the bargaining table, and we heard about the unique needs of CBSA and correctional services. This is the kind of discussion we are having at the bargaining agent table. Carl leads the negotiations. We're discussing how to accommodate different kinds of jobs, high-stress jobs, sometimes dangerous jobs, and the desk jobs with the different kinds of illness that come up, both physical and mental health.

Hon. Ron Cannan: How long has the present plan been in place?

Ms. Bayla Kolk: Well, the accumulated sick leave bank regime started in 1923. All of these systems are about 60 to 70 years old, in contrast to provinces which have had short-term disability plans for about 40 years. We're about 40 to 60 years out of date.

Hon. Ron Cannan: What's the cost to the treasury if we don't modernize the system?

Ms. Bayla Kolk: There is a cost in the budget, but that's a cost of contingent sick leave liability, an estimate that is a subset in the budget of a larger number.

We are not giving costs of a new system yet, because we need to go to procurement. We have not gone to procurement, because we're in collective bargaining and honouring that process first.

Hon. Ron Cannan: I respect that. I'm wishing you all the best. We want happy, healthy employees. I think it's a win-win for everybody, so good luck.

Thank you.

The Chair: Thank you.

In the one minute remaining, can you again explain the $900 million? I have been approached on it, as other members have, so perhaps you could just explain what the actual $900 million in the budget is.

Ms. Kolk.

● (1145)

Ms. Bayla Kolk: Yes.

The Chair: When you say that it's a subset of a contingency.... When I say that to people, they sort of look at me and say, “What do you mean?”

Ms. Bayla Kolk: It is complex. It is about accrual accounting and contingent liability.

The $900 million booked in the budget is a subset of the contingent liability associated with banked sick days that have accumulated over decades under the existing regime. The current total number, I'm told, stands at $14.7 million. This savings target is a commitment to taxpayers that government takes seriously—

The Chair: These are sick days that have not been used, that the government has to account for in an accrual system—that they may be taken—and it has to be.

Ms. Bayla Kolk: Should the government eliminate those banked sick days, this would equate to the savings.

The Chair: Okay. Thank you.

[*Translation*]

Mr. Dubourg, you have five minutes.

Mr. Emmanuel Dubourg: Thank you, Mr. Chair. I will be very brief.

Ms. Champagne, in terms of sick leave, I would like to know whether a legal opinion was presented with regard to the constitutionality of the proposed measures.

Ms. Jennifer Champagne: Yes. Various legal opinions were provided.

Mr. Emmanuel Dubourg: Okay.

Can these opinions be made public so that they are available for—

Ms. Jennifer Champagne: As you will understand, the Department of Justice is subject to lawyer-client privilege. Unfortunately, the opinions are not made public.

Mr. Emmanuel Dubourg: Okay.

But you must surely be aware that previous governments have shared information they obtained.

Ms. Jennifer Champagne: I expect you'll understand that the decision is not mine.

Mr. Emmanuel Dubourg: I understand.

Mr. Chair, I would like to ask a brief question about the long-gun registry.

Mr. Potter, this is a topic we've heard a lot about. Much has been written about it. My question is perhaps more of a moral one. You may say that I am on the wrong track, but in your position, don't you sometimes advise the government or provide your personal opinion on a given situation? In this case, did you consider making a recommendation to the government about destroying data, even though my colleague, Mr. Saxton, said that measures in this regard had been passed in the House?

Mr. Mark Potter: Thank you.

Generally speaking, our role is to advise the government.

[*English*]

That advice is confidential. It is a typical part of our role to provide that frank and honest advice to the minister, and we do that in confidence. In terms of this bill, I would say, as I stated earlier, there is, in my view, a clear, logical consistency between the original intention of the Ending the Long-gun Registry Act and these amendments.

Mr. Emmanuel Dubourg: Thank you.

The Chair: On behalf of the committee, I want to thank you for participating in this session today. We will see you again at clause-by-clause, I'm sure.

Colleagues, I appreciate that.

The meeting is adjourned.