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Mr. Massimo Pacetti

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● (0845)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): We'll begin. We're missing some witnesses and we're missing two members, but perhaps we'll have you start with your presentations and then have a round of questions, because if I fall behind now I'll be behind all day.

Thank you for having us here in Toronto. It's our first day here. I hope it's not going to be a long one, because we have two more days here after this one.

We're here pursuant to Standing Order 83.1 on the pre-budget consultations for 2005. I will allow you a seven- to eight-minute timeframe to present your brief, if that's okay. I don't want to interrupt, but the reason we keep it to a short timeframe is that the members are going to want to ask questions.

We'll start with the Arts Network for Children and Youth. Go ahead, please.

Ms. Rudy Ruttimann (Treasurer, Arts Network for Children and Youth): Hi. I'm on the board of ANCY. Thank you for allowing us to present to you today.

The Arts Network for Children and Youth, ANCY, is a national arts service organization formed by art practitioners who deliver programs to children and youth in Canada, both in schools and in the community. We came together by an identified recognition that there was no other organization at the provincial or national level that represented arts programming specific to children and youth.

In 2004 Canada's plan of action for children was created in response to the UN's special session on children. In the document created, *A Canada Fit for Children*, it states that, "Canada will increase opportunities for community-based involvement in artistic and cultural programs". From a national level to a local level, we see the need to ensure that all children and youth have access to the arts and creative programming in communities across Canada, and to ensure that Canada's plan of action is realized.

In the federal Speech from the Throne in 1999, it was announced that there would be more opportunities for children and youth to have access to cultural programming. Unfortunately, almost six years later, that has still not happened.

Over the past five years, research in Canada has shown that there are significant benefits to the health and well-being of children and youth when the arts and creative activities are included in community programming. The results show increased learning, reduced psychosocial behaviour, and a considerable reduction in the cost to the social, health, and justice sectors. Studies from other countries show a reduction in crime and high school dropout rates, improved social skills, and increased community involvement.

The present annual cost of keeping one youth in both the social and justice systems is up to $100,000 annually, which is roughly equivalent to the cost of offering community programs to as many as 75 to 100 youth for a year. It has been estimated that $1 spent on asset-based programs such as the arts results in $5 to $7 in savings in other areas. To quote Gina Browne, from her study entitled *When the Bough Breaks*, "It's costing us more not to do it." Simply put, it is a fiscally prudent investment of tax dollars.

Many have the conception that art programs are readily available to all children and youth in Canada, when in fact only a small percentage of families can afford to send their children to arts programs. In many rural communities the programs themselves do not exist.

We applaud the Government of Canada for recognizing culture as one of the four pillars of sustainable communities, along with economic, social, and environmental pillars. Culture is one of the fastest-growing sectors in Canada, and early exposure and training in the arts offer many youth a future career. Observational research shows that some of our most vulnerable youth are highly creative, and when placed in creative programming are more successful.

We are excited to see the emergence of new program models in Canada that have the potential to have a positive impact on a greater number of children, including programs that could be replicated in other communities. Examples include early years arts activities, after-school programs, youth-led initiatives, and outreach arts programs in first nations communities.

We are also seeing the emergence of programs for youth aged 12 to 18. New research is showing that these are also critical years for children's development. Not only do many of these programs offer arts activities, many of them take a more holistic approach by teaching life skills, mentoring, and encouraging educational and learning opportunities.

At the same time that the benefits of arts activities for children and youth are realized, we are very aware of the challenges that threaten the existence of these community programs. We have identified that, with the exception of short project-based funding on a one- or two-year basis, there is little funding available for these programs at municipal, provincial, and federal levels. Unlike funding to other sectors, no one is taking responsibility to support this emerging sector of arts for children and youth.

Lack of stable funding is critical not only to the health of organizations but also, more importantly, to their ability to have a positive impact on the lives of children and youth. For example, just as an at-risk youth becomes attached to both staff and programs, funding disappears, and once again this young person, already vulnerable, feels rejected. In some cases, sporadic programming such as this can actually do more harm than good.

As well, this lack of ongoing funding and infrastructure is a great barrier to the development of much-needed new programs. Children and youth are simply a sector that does not presently exist.

● (0850)

ANCY and others have a vision for arts activities in Canadian communities. We see the need to begin to develop creative community spaces designed for children and youth, including: multidisciplinary creative centres for children and youth; smaller youth centres in neighbourhoods, which become the entry point for children and youth to access larger arts programs; facilities specifically designed for older high-risk youth, including street-involved youth; facilities in rural, remote, and first nations communities, where arts programming has proven to be one of the most successful in positive intervention.

We are coming to the federal government asking you to take the lead role with us to assist with the development of the sector. We feel that it will take a top-down, bottom-up approach from the Government of Canada, working in partnership with organizations such as ours and those at the local level, to create the sector. We also know that there is an interest from the provincial, territorial, municipal governments and the private sector to be more involved.

The Arts Network for Children and Youth has two funding recommendations for the 2006 national budget. The first recommendation is that the Government of Canada develop a “creative spaces for children and youth infrastructure fund”. This would be an ongoing, annual fund, beginning in 2006, that would continue to grow as savings are realized in other sectors, with a minimum of $50 million the first year to be used for pilot infrastructure projects in urban, rural, and remote communities across Canada.

The second recommendation is for a “children and youth arts engagement fund”, to support the annual core operating costs to community organizations associated with both the creation of facilities and existing and new programs. We are asking that $5 million be placed in the 2006 budget with the intent that this will be an annual fund that will also increase yearly as more organizations and community programs are created, prove themselves, and show a savings to other sectors.

We want to thank you very much for giving us this opportunity to present to you today.

The Chair: Thank you, Ms. Ruttimann.

From the University of British Columbia, Mr. Tupper.

Dr. Allan Tupper (Professor of Political Science, Associate Vice-President, Government Relations, University of British Columbia): Good morning, and thank you very much for being able to see us. We were unable to meet in Vancouver because of people's schedules, so we're thankful for this opportunity.

Just by way of introduction, we believe the pre-budget consultation is now an important part of the policy and budget process, particularly this part of it. It contributes to public participation as well as transparency; we're welcome to participate annually.

The theme is productivity, which has large dimensions and implications for human capital. It's to some of these themes that I address myself this morning.

The economic role of universities has become very prominent in the public mind. For example, the University of British Columbia is now one of the major employers in the province. It is a major presence in research commercialization in North America. It has an operating budget of more than $1.1 billion, just to get some sense of it. But within this context of a discussion of human capital, it is important to always assert that the basic contribution of higher education is to improve the quality of life. I think the evidence is quite clear in those contributions.

I have a couple of points, and then I'll get directly to the main one. The last decade has seen a large expansion of the role of Government of Canada programs in Canadian universities. Several of these are noteworthy: Canada Foundation for Innovation; the Canada research chair program; the substantial increase of funding for the granting councils; the Millennium Foundation, which provides considerable assistance to Canadian students; and so on. These programs have all had a major impact on the quality of universities and the experience of students in them. One issue remains, though, and I'll make a couple of quick observations about it.

The Government of Canada is the principal funder of basic research in Canada, through universities. Historically, in performing that role, which is increasingly significant for the economy, it has paid for only a few of the costs of research. Until quite recently, it has never paid for overhead, or what we also call the “indirect costs of research”. And these are large costs in universities—for example, wear and tear in our physical plants, costly regulatory compliance, and major expenditures on our library and computing backbones, all of which are derived from research.

There is, in other words, a gap between the direct costs of research, which the government funds, and what it really costs the institutions. Over time, this has grown. For many years the funding for the indirect costs of research has been a basic request of universities. The request was first met, finally, in the year 2000, with a $200-million one-time allocation. Subsequently, a permanent program has been put in place, which is now $260 million.

Just as an aside, most modern countries fund this as a percentage of the direct costs as opposed to a lump sum. Broadly speaking, we are at 25¢ overhead on our indirect costs on the research dollar, as we now sit. Other countries are generally in the mid-forties, so there is a substantial variance.

The particular request in this context—and then I'll conclude with one other comment—is that the Government of Canada, and the other political parties in the House of Commons, see fit to support the idea that the indirect cost of research program be moved to roughly 40¢ on the dollar, which would move the existing lump sum of $260 million to $420 million. This would put Canada, in its economy and its universities, on par with those of other G-7 countries in this respect.

● (0855)

This seems like a complex and arcane matter, and it is. The very term “indirect costs of research” is one that is not normally understood or discussed. But I do want to make one point above all. Obviously, these federal funds have benefited greatly the research environment of universities, because they allow us to fully cost our services. But the fundamental point I want to stress is that the major beneficiaries of these are Canadian students. This is because over the years, because of this shortfall in funding and the lack of coverage of overhead, students have paid indirectly for indirect costs through lesser services than they would have otherwise received. Universities have had to divert funds from their general operating money to pay for this funding shortfall.

So I think the experience has been that this program has been a transparent one. In the last several years since the government has put this program in place, there is considerable accountability, at least at UBC, for the way the moneys are allocated. It's given a tremendous boost to our operations, and we hope there can be another appreciation of those points in the budget this year.

Thank you very much.

The Chair: Thank you, Mr. Tupper.

From the Horse Racing Tax Alliance of Canada, Ms. Catherine Willson.

Ms. Catherine Willson (Legal Counsel, Horse Racing Tax Alliance of Canada): Good morning.

We're not here today asking for money. We're here simply asking that a restraint be removed from the tax system that will allow our industry to compete like any other business in Canada.

We represent the Horse Racing Alliance of Canada, and it consists of all owners, breeders, racetracks, and industry associations involved in thoroughbred and standardbred racing in Canada. Some of you may recall that we were before your committee in 2001, asking for the removal of taxpayers engaged in the “breeding and maintaining of horses for racing” from section 31 of the Income Tax Act. At that time, this committee recommended that section 31 be repealed in its entirety. The full text of your recommendations is set out in our materials before you. The recommendation did not become law, so we're here again today.

This is the problem: racehorse owners and breeders are defined as farmers under the Income Tax Act. Farmers are subject to a severe restriction on the deductibility of business losses against other income, created by section 31 of the Income Tax Act. Losses from any business, except a horse racing or farming business, are fully deductible against other income generated by a taxpayer. Section 31 of the act restricts the taxpayer operating a horse racing business from deducting losses exceeding $8,750 against other income, regardless of whether the taxpayer has invested $5,000 or $500,000 in the business. This severe restriction on the deduction of losses discourages new investment in the industry and acts as a disincentive for any investment whatsoever.

To put it in context, when a taxpayer who derives income from employment or a business decides to start up a restaurant business, for example, losses generated by that restaurant business are fully deductible against his other income. A taxpayer could set up a sideline business in any industry in Canada, with the exception of horse racing or farming, and if the investment generates losses, the taxpayer is allowed to fully deduct those losses against other income.

All business activity is inherently risky, and it is manifestly unfair for the government to share only in the profit generated by a taxpayer's business without also sharing in the losses. Most Canadians take for granted the right to reduce the amount of their income that is subject to taxation from a profitable business or occupation by deducting any losses incurred in another business. A horse racing business is only permitted if the deduction of loss is totalling $8,750, regardless of the amount invested. Why would a Canadian invest in this business, given this situation? That's our problem.

Section 31 was originally created to provide an advantage to the part-time farmer. Prior to 1951, no taxpayer could deduct losses from a secondary business against his or her chief source of business. In 1951, an early version of section 31 was enacted to provide the part-time farmer with a limited business loss deduction available for use against the farmer's primary source of income. The amount, $5,000, was more than twice the average annual income of a Canadian. This benefit quickly became an encumbrance when, in 1952, losses from secondary businesses became fully deductible for all taxpayers—with the exception of the part-time farmer, who was still stuck at $5,000. Fifty years later, this amount has increased by $3,750, not keeping up with inflation, obviously.

The legislation is confusing, which makes planning and compliance difficult. It is applied inconsistently by the CCRA, and it unfairly singles out the part-time farmer or, in our industry, the racehorse owner and breeder. Most commentators, including the Carter commission report of 1966, advocate the repeal of section 31.

David.

● (0900)

Mr. David Willmott (Chair, President and Chief Executive Officer, Woodbine Entertainment Group, Horse Racing Tax Alliance of Canada): Good morning. Bonjour. Thank you for seeing us today.

What I want to speak to briefly is the effect of this strangulation of capital provision to our industry that section 31—inadvertently, I believe—results in. As Catherine has said, it was not meant to be a restriction on capital; it was meant, in fact, in 1951 to be an incentive for an agribusiness and for the use of marginal farmland and the dissipation of farms at that time.

Horse racing is not a sport. Horse racing is a large commercial business in this country. There are hundreds of thousands of customers, coast to coast, betting billions of dollars a year on tens of thousands of races involving tens of thousands of horses. Being a large commercial activity, it requires capital. It's very labour-intensive, it's capital-intensive, and it requires fresh capital, like any other business, and fresh investment.

Probably the most simple way I can put this, to demonstrate the problem with section 31, is that the racehorse business depends upon its income from the money bet, and the racehorse industry takes a commission of the money bet. That money is bet on the product. The product is the horse in the races. And that product is produced and supplied by people engaged in the business. They are business people like anyone else; they take risk and they seek reward and they expect, if things go against them in any year, that they should have full deductibility against other income.

The difficulty we have as a Canadian industry—a large Canadian industry, employing over 120,000 people, with many other tangential jobs and economic benefits from all the other agribusinesses associated with racing and breeding—is that we are now a global economy. We no longer bet at a racetrack on races at that track. Through simulcasting, Internet account wagering, and telephone account wagering, races are being bet on by everyone around the world on races from around the world. For instance, at Woodbine racetrack today, you can bet on Hong Kong, Australian, and South African races live, as well as many American races, as well as Canadian races.

The difficulty is that our industry suffers from this restriction on capital because the single most important determinant to pulling wagering dollars out of a customer's pocket is field size, meaning the number of horses in a race. So if a bettor is looking at five different racing products—one Canadian, four international—they are going to bet on the races that have the most horses, because the profit margin of their betting depends upon getting the best odds; more horses, better opportunity.

In Canada we are losing the production and the supply of horses because of this restriction on capital. Therefore, wagering is moving off of Canadian product by Canadians and off of Canadian product by international customers who bet on our product. As this happens, we are the only jurisdiction of all the ones I've mentioned that has this artificial and discriminatory restriction and disincentive on the provision of capital to our industry.

Our main point today is that the provision of supply and the provision of our product depends desperately upon new capital, just as it does in any other industry. Section 31 is anachronistic, it's unfair, and it's discriminatory. As Catherine said, this committee agreed with that decision in 2001, and we're here again to have another try today.

Thank you.

● (0905)

The Chair: Thank you, Mr. Willmott.

We're going to allow the members to ask questions before we wrap it up. Just to remind the witnesses, I'm going to limit them in terms of time, so if you can keep your answers to a brief intervention, I think everybody would appreciate it.

Mr. Solberg and then Monsieur Loubier.

Mr. Monte Solberg (Medicine Hat, CPC): Thank you very much, Mr. Chairman, and thank you to all of you for coming to present this morning.

As you might imagine, we hear from a lot of people. Many of the submissions, perhaps most, seem to be very worthy on the face of it. We have a lot of options to choose from. We obviously are trying to choose those options that have real and demonstrated outcomes, where it's fairly obvious that they will have a beneficial effect. With that background, I'll ask a few questions, and perhaps you can sort of help convince us that they'll have the great and positive effect that we want to see.

I'll start with representatives from the Horse Racing Alliance. You've been before us a number of times; I appreciate how dedicated you are. You correctly point out that in 2001 this committee actually argued for the repeal of section 31 of the Income Tax Act.

I guess my first question really has nothing to do with your presentation, but I'm wondering, when you sit down and talk with finance officials behind closed doors, which I expect you probably have done, what kind of feedback do you get? This does seem to be hard to justify, given the arguments you've made and how long you've been pressing for this. What arguments do you get?

● (0910)

Ms. Catherine Willson: I think they're operating under a misconception with respect to what this industry is. They're still considering this industry the sport of kings, when this industry really is the sport of your neighbours. Many people you know, the ones who live next door to you, in many neighbourhoods, own horses, or own a part of a horse. Syndications are very much the way horses are purchased in Canada today, and in other provinces. The owners are regular people.

They're concerned that this will create some kind of a windfall to owners or breeders if this restriction is removed. That couldn't be further from the truth today.

The Supreme Court of Canada in 2002 recognized that this is a commercial business and a commercial business only, and that it should be treated as such. CCRA cannot now sort of second-guess and think that this isn't a business. We have given them—as best we can, with our figures and with our reports—evidence that in fact this will be a boon to Canada, a boon to the government, on the side of employment, on the side of taxation, on the side of job generation and everything else. We just don't seem to be getting through.

Mr. David Willmott: One of the things that frustrates us is that the government is quite happy to tax profits from horse racing; they're just not happy to allow you deduction on losses. But they will tax profit. Our view is that if more capital is allowed to be provided to the industry, it will generate more economic activity and will result in more profit to be taxed, because we'll be attracting much more investment from around the world in terms of gaming.

I made a comment in front of the Blenkarn committee, back in the days when the GST came in, that for every Mercedes in our business there are 300 pickup trucks, maybe more. It is a huge agribusiness, perhaps the biggest agribusiness in this country. As Catherine says, I really think it's misunderstood. There's this notion of the hobby farmer, the hobbyist. Well, the hobbyist has never had deductibility and will never have deductibility. That's not the issue. The issue here is that our business is a commercial enterprise. There's no hobby involved in it whatsoever. It's expensive; it's no hobby.

Mr. Monte Solberg: Mr. Tupper, thanks very much for appearing, it's good to see you again. We're sorry to have lost you to British Columbia from Alberta. At any rate, we appreciate your presentation.

Help us understand the impact of funding indirect expenses of research. Are there some examples you can point to of things that aren't going forward possibly because this funding is not occurring? On the other hand, can you point to some successful research that is making a difference, maybe because you've scratched to find the funding?

Dr. Allan Tupper: These are good and hard questions.

On the program of funding overhead and so on, there are a number of points I'd make in response to your question. The absence of the full funding is very noticeable at colleges and universities throughout Canada. It is one of the substantial reasons for the erosion of the university infrastructure. It's now being rebuilt in many ways and in some provinces, but it's a historic problem.

The other real problem on this one, Monte, is that if Canada's economic productivity is to be enhanced, the role of universities will be very crucial. The problem will simply be exacerbated if in fact the Government of Canada and the provincial governments and business keep funding university research costs directly. The gap on the overhead costs will grow, again at the expense of students.

In direct response to really the second part of your question, we have annually prepared at UBC a very clear statement about how each of the dollars that comes in the indirect cost allocation is spent, to the level of the improvement of the laboratories in B wing of the physics building and all those kinds of things. It's very concrete in terms of the ability to improve the real quality of institutions, because it puts money where it is. It really sort of says there's a crucial function that is being not properly funded. Of course, when any basic function of an institution is not properly funded, the implications throughout the institution are profound. This has been this thing of putting money from teaching and instruction into, in effect, a research deficit.

● (0915)

Mr. Monte Solberg: Ms. Ruttimann, you said in your presentation, or you suggested at least, that your program is really making a difference in children's lives. I noted somewhere in here that there was a reference to aboriginal children. Can you tell us specifically about some of the results of this? We all want to hear the good news story, so please go ahead.

Ms. Linda Albright (Executive Director, Arts Network for Children and Youth): Actually, I'll respond to the question, if you don't mind.

We're hearing great stories coming out of aboriginal communities. In one of the areas it's taking place, artists are actually going in for sort of two-week blocks into some of the highest-risk communities. One of the observational comments that comes back is how well the kids are doing. No suicides happen when those artists are in those communities, and suicide is a huge issue.

Some of those organizations that have been going in now for a series of, say, two and three years, band and council are now coming back to them, saying, “We know how well those children are doing when you're here; we now need to find long-term, sustainable programming all year round.”

De-ba-jeh-mu-jig Theatre Group, for instance, goes in and works with the community, pulls out two or three of the key youth who are incredibly creative, and gives them two years of training to go back in to sustain that programming.

But we're also very aware that there are no creative spaces in those communities. That's been identified in several national issues, that there are almost no culture spaces in those communities. As a national organization, we're starting to work with two or three of those communities on pilot projects to do with the building process, which would be training through the building; it could go into housing as well as doing training for local youth and adult artists who would be able to maintain programs. So both the economic and the health ripple effects of that have great potential.

I think those are the key areas. It also makes sense research-wise. They're very oral communities. I mean, their culture with art was storytelling. Actually, a study out of UBC does state that when the culture opportunities are given to first nations communities, many of the at-risk things just automatically disappear.

So it's one of those things that's very simple but is being highly overlooked.

Mr. Monte Solberg: All right. Thank you very much.

The Chair: Thank you, Mr. Solberg.

Mr. Loubier.

[*Translation*]

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Thank you, Mr. Chairman.

Ms. Albright, I was especially interested to hear what you said to my colleague about Aboriginal youth. For two years, I served as my party's critic for aboriginal affairs. I had an opportunity to visit several aboriginal reserves and communities in Canada. Our main concern was and continues to be the future of Aboriginal youth. As you mentioned, the suicide rate among this group is approximately double that of the general population. You stated that when pilot projects were introduced to young people on native reserves, the suicide rate plummeted to nearly zero.

I'd like you to share the secret of your success with me because for years now, particularly since the 1997 Royal Commission on Aboriginal Peoples, we've been looking for a way to rekindle aboriginal pride and to get communities to take charge of their future. Young people hold the key to that future.

What kind of resources do you have at your disposal, given the fantastic results that you've achieved? What kind of resources and programs are currently available to you? What kind of money are we talking about?

● (0920)

[*English*]

Ms. Linda Albright: I think the tools are really just having professional artists who are very much directly engaging children in arts experiences. That sounds simple, and in many cases it is extremely simple. I think that's our frustration with it. Up to date, as I said, many artists are only going in for small, two-week blocks, and we need to get beyond that.

So the tools really are having a professional artist, and from that local community, hopefully, one or two constantly engaging the youth. And that's partly the secret; it's the ongoing engagement. An example is Cirque du Soleil, which has been working in aboriginal communities for month-long blocks. It's engaging them, but there's more sort of research that digs a bit deeper in that...but we also need community spaces. That can also be quite simple.

So how much money do we need? Ideally, because we are working directly with one community, Summer Beaver, in the far north...which would be to erect a building, a small community space, with the youth and the community helping to do that. My instant response would be under $1 million, also using a lot of HRSDC money for training. Then I would like to say maybe $300,000 maximum a year.

Those are sort of high numbers, but I don't want to underestimate what they would be. But you're also, through that process, expanding employment in those communities. So we're looking at additional employment in those communities, we're looking at additional training.

That's very simple, but it is bringing those artists in and working with the youth. It's not complex on that one, it's simple. I mean, it's amazing to see the change in the youth, but we have to keep it ongoing. The minute those projects stop, the youth go back in.

We have anecdotal stories, going back 20 years, of engaging youth in theatre. Actually, some of those youth from the far north Inuit communities are some of the national actors we see on television today.

So I just can't say enough about the positive response we have had.

[*Translation*]

Mr. Yvan Loubier: Thank you.

Mr. Willmott and Ms. Wilson, outside of Canada, what kind of taxation regime applies to race horse breeders, particularly in the United States, but in Europe as well? Have you looked into this? Horse breeding is a highly developed industry, not only in Europe, but in the US as well. The U.S. represents our main competition in this field. What kind of taxation scheme applies elsewhere?

[*English*]

Ms. Catherine Willson: None of them, in my research, have this restriction on the deduction of losses. This is just an anomaly in our system that really shouldn't be there either. I think it was, quite frankly, a mistake in 1952, and was just forgotten. So I don't see that anywhere.

The U.S., in fact, has a very favourable system for horse racing and breeding. President Bush himself has put in some new rules recently that have created further investment into the field. The U.S., I am certain, has recognized the importance of this industry to its country, and has created incentives more than anything else for this industry, as compared with Canada, which has a great disincentive.

● (0925)

[*Translation*]

Mr. Yvan Loubier: Is it fair to say that an taxation regime that is unfavourable to race horse breeders has an indirect impact on other equestrian sports, in particular on the propensity of Canadians to raise purebred horses, for instance? This would mean that often breeders would need to look to the United States for purebred horses for racing, jumping or dressage events. It's rare these days to see an efficient breeder in Canada. This industry is on the wane.

[*English*]

Mr. David Willmott: That's absolutely true. As I said earlier, there are all these other tangential benefits that flow from capital provided to, or invested in, horse racing and breeding. I think an analogy could be made with the ownership of hockey teams or hockey franchises. They don't all make money—some make money, some lose money—but if this same restriction applied and the owners of junior teams and junior A teams across this country could not deduct losses, there would not be a system to bring along young hockey players, and therefore all the other benefits that flow from the economic activity of hockey.

There has to be proper fairness with respect to risk and reward in any commercial activity. They are not all profitable, but to only tax profits and not allow deduction of losses is, I believe, unique to the tax treatment that was developed here in Canada. I agree with Catherine; unwittingly, they left section 31 behind in 1952, and they allow deductability of other businesses.

[*Translation*]

Mr. Yvan Loubier: I would be rather incongruous for a Commonwealth nation to lose this equestrian tradition. Would you not agree?

[*English*]

Mr. David Willmott: Absolutely.

[*Translation*]

The Chair: Thank you, Mr. Loubier.

[*English*]

Ms. Albright or Ms. Ruttimann, in your two recommendations, where you're talking about the $50 million to create funds, what are the benchmarks? What is going to be the accountability? How are we going to know we're getting our money's worth, to put it bluntly?

Ms. Linda Albright: I should say that the original recommendation came partially from FCM, the Federation of Canadian Municipalities, two years ago, in looking at youth engagement capital funding. We've been working with them over time.

In terms of the benchmark, we would see it very much as we would for recreational spaces. I know that both in Ontario and I think...we've retrofitted arenas, to the tune of almost $1 billion here in Ontario over the last two years. So it's very much looking at that.

Benchmarks can be built into evaluation systems as to the benefit that children and youth are receiving out of it. We really see it as a re-creation of not just the recreational and sport facilities we have in communities; we're also starting to look at what we're doing with our creative youth. To be honest, those are many of the youth who are falling through the cracks.

The Chair: Heritage Canada has a program, Cultural Spaces Canada, of half a million dollars. I think it's one for eastern Canada and one for western Canada.

Ms. Linda Albright: Yes, we're very aware of that program. It's a good program. It could even happen that this gets wrapped into that, in a sense. We work closely with that ministry, directly with the people who are delivering that program.

I mean, our concern has been that much of that money originally went to the larger institutions—the AGOs, the Shaws, the Stratfords. Now some of it is trickling, only slightly, to the children and youth space, although we do know that one of the theatre companies in Manitoulin had that. Generally, it is going to retrofit now a lot of the sort of traditional community theatres, etc., so very little is trickling.

The Chair: Thank you.

Mr. Tupper, we've had lots of requests for the indirect costs, so I'm not going to ask you a question.

Since we have a little bit of time, I have some more technical questions for the Horse Racing Tax Alliance. How are the provinces treating the losses? Are they matching the way Canada Customs applies the rules? For instance, the Province of Quebec has its own tax regime. Would they be taxing it the same way, or are you aware of that?

● (0930)

Ms. Catherine Willson: These losses are being taxed under the federal Income Tax Act. So this is all just federal, under section 31.

The Chair: But do you know if they're treated differently in Quebec, for example?

Ms. Catherine Willson: Quebec owners and breeders have the very same problems we have. They're absolutely united with us on this problem.

The Chair: In your brief, you say that it is applied inconsistently from Revenue Canada. But if the limit is $8,750, what's the inconsistency?

Ms. Catherine Willson: What happens is that very often you'll start a business, you'll be at it for three, four, five, seven years, and then suddenly you'll get a knock on the door from CCRA, who will say, “I'm sorry, your business is not a full-time farm but a part-time one. And all those losses you deducted the last few years? We're taking them away. You'll have to pay for them. And from now on....”

This is a problem not just for our industry but for farmers as well. You have a bad year, you get a second job. That second job suddenly becomes your primary income if you've had a bad year. And then CCRA, on top of that, says, “Oh, you've changed your situation. This second job you've got is your primary income. We're getting rid of your losses.” So you get hit twice.

The Chair: Is there an alternative in maybe requesting that we increase the losses to a more reasonable amount? Are people incurring half-a-million-dollar losses?

Ms. Catherine Willson: Yes, they are, and yes, that is an alternative. It is not our preferred alternative, but quite frankly, we've been before you so many times, we'll take what we can get at this point and carry on. If at the very least you could increase it to the amount of inflation, that would certainly help our industry.

Would it solve our problem? No. Is it a logical choice? No. But if it's all we can get, then, you know—thank you.

The Chair: But the fact that we can take those losses and carry them back and then carry them forward, eventually do your breeders not make profits down the line?

Mr. David Willmott: They do. They're like any other farmers; it's a cyclical business, and you have good years and bad years. But people in other businesses don't just use the capital provided or what is generated in that business. In other words, the owners of the Hamilton Tiger-Cats and the Toronto Argonauts do not use the profit or the capital generated in that business for reinvestment only in that business. They use income that they pool with their other businesses.

If I own a lumberyard, a hotel, and a restaurant, I can pool the income and the losses from those activities, and I can apply my investment capital to where I think the risk and the reward ratio is most appropriate. To restrict, in any industry, to the capital only in that industry for reinvestment in that industry is to not allow for growth and expansion in employment and economic activity.

The Chair: Finally, you may have addressed this in your brief, but can I ask, at what point is it part time and at what point does it become full time?

Ms. Catherine Willson: That's where you can pick it out of the air. I've read hundreds of these CCRA decisions, and it's completely arbitrary, quite frankly. That's the problem, or one of the problems.

Mr. David Willmott: In a former life, I was a tax lawyer. The jurisprudence in this area—and this was pointed out by the Carter commission—is a minefield of subjectivity and inconsistency, with so many different individual situations.

The Chair: Thank you for your presentations, I appreciated them very much. I'm sorry that some of the members were late, but that's only normal; a lot of them are travelling. I'm also sorry that some of your colleagues didn't show up, but at least I was able to stay on time.

Again, thank you for your presentations.

The meeting is adjourned.

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