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## Standing Committee on Finance

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**Monday, May 8, 2006**

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**Chair**

**Mr. Brian Pallister**

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## Standing Committee on Finance

Monday, May 8, 2006

•(1530)

[English]

**The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)):**  
Order. We'll proceed.

I welcome our guests and thank the committee members for being here.

Pursuant to Standing Order 81(4), I now call vote 1 under the Canada Revenue Agency, main estimates 2006-07, referred to the committee on Tuesday, April 25, 2006.

To our guests today, thank you for being here. I would invite you to introduce yourselves to the members of the committee.

Following that, Monsieur Dorais, I understand you're going to make a brief presentation.

**Mr. Michel Dorais (Commissioner, Canada Revenue Agency):**  
Thank you very much, Mr. Chairman.

Let me introduce my team. Brian McCauley is responsible for legislative and regulatory affairs. Jim Ralston is the chief financial officer for the Canada Revenue Agency. Barbara Slater handles most of our operation. All of the returns and the service to taxpayers associated with the returns are handled through Barbara.

[Translation]

First, I would like to thank you and your colleagues for this early opportunity to appear before this committee. The Main Estimates that are before you for consideration call for an appropriation of \$3.2 billion for the Canada Revenue Agency. That is an increase of \$189 million over last year.

Before I respond to questions, please allow me to briefly provide some context for the \$3.2 billion we plan to spend on tax and benefit program administration for the coming year. In 2004-2005, the Agency collected over \$300 billion in revenues. That's an average of over \$1.2 billion for every working day of the year.

[English]

The \$3.2 billion we're seeking is a large amount, but it represents slightly more than one penny for every dollar of revenue collected.

The agency also distributed close to \$12.5 billion in benefit payments to millions of families and individuals on behalf of the federal, provincial, and territorial governments as well as first nations.

In the coming year, we are poised to administer many of the new measures announced in budget 2006, such as the proposed universal child care benefits and the reduction in the GST rate to 6%.

In 2004-05 the agency processed more than 24 million individual and trust tax returns and 1.5 million corporate tax returns. It provided joint program delivery for 141 client governments and agencies, answered approximately 22 million public inquiries over the phone, peaking at times, such as during the recent tax season, to more than 35 calls per second.

We recorded 24 million tax-related visits to the CRA website. We're also very proud of having trained over 15,000 volunteers, who completed more than 458,000 simple tax returns for low-income eligible taxpayers.

To accomplish all of this, the Canada Revenue Agency has approximately 44,000 full- and part-time employees across Canada; 81% of our workforce is located outside of headquarters.

•(1535)

[Translation]

As the Main Estimates indicate, it will cost slightly more to maintain Agency services to Canadians in the coming year. The main reasons the authorities are going up include: the impact of recent collective agreements; the cost of providing additional services to the Canada Border Services Agency, which are being fully recovered from them; increased costs associated with administering measures in the 2004 and 2005 federal budgets; and changes to the Children's Special Allowance Statutory Vote.

[English]

These increases are partially offset by savings, including a reduction in government-wide employee benefit plan rates, as well as by program savings resulting from the expenditure review exercise.

As I mentioned earlier, in 2004-05 the agency collected over \$300 billion for Canadian governments. As of May 4 of this year, we had received about 21 million tax returns from individuals. That is up by more than 600,000 for the same time last year.

This year we were able to accommodate increases in workload within our budget, in part by realizing internal economies and reallocating the savings. We remain committed to serving Canadians within the budget provided while ensuring that our tax system generates the revenue needed to deliver the government programs that Canadians expect.

Mr. Chairman, my colleagues and I would be pleased to answer any questions the committee may have.

**The Chair:** Thank you very much, Mr. Dorais.

We'll proceed with Mr. McCallum. Seven minutes, sir.

**Mr. John McCallum (Markham—Unionville, Lib.):** Thank you, Mr. Chair.

I'd be badly placed to offer any kind of criticism of the agency, since I not too long ago was the minister, and I think it was, at least in those days, very well run.

Certainly, to be serious, I do believe that. Having worked with the people at the end of table, I know they manage the operation with a high degree of professionalism, with which I was always proud to be associated while I was there. I do have three questions nevertheless. *[Translation]*

Mr. Dorais mentioned the expenditure review process. I chaired the committee that oversaw this exercise. I recall the discussions that took place and the ensuing cuts stemming from the review process. My question concerns the measures that will eventually be implemented.

During the election campaign, the Conservatives announced cuts in the order of \$22.6 billion over five years. Compared to the cuts made by the Liberal government, these cuts are going to be much deeper. The Agency had some problems dealing with the cuts made by our government. It should have an even more difficult time with the new government, since we've already identified the reductions that will be the easiest to make.

*[English]*

Looking forward to the next round of expenditure review, or cuts of a much greater severity, what will this imply for the services of the agency, the regional distribution of jobs in the agency, and things of that nature?

My two remaining questions have to do with the GST. I'll begin with the overall cost. I'd like it if Monsieur Dorais could confirm or deny reports that the government was out by \$500 million to \$700 million in its estimate of the cost of reducing by one percentage point. My understanding is that they didn't display great competence, in the sense that they were looking at the net numbers after the cost of the credit. When you look at it properly, the cost was out by \$500 million to \$700 million per year, which is a lot of money.

To Monsieur Dorais, can you tell us the true cost of the 1% reduction in GST and the degree to which that differed from the estimate that the Conservatives put forward during the election?

Finally, this is really a tax administration question. I know that the CRA is administration rather than policy. When you change the GST by one point or two or whatever, there are large costs imposed on

businesses to change all of the systems to make this happen. Certainly there are costs imposed on the CRA itself to make this happen.

Are the businesses going to be ready in time for the announced date of the cut? Do you have any idea of the order of magnitude of the dollar costs that businesses will have to pay to make this change? And do you have any idea, or an approximation at least, of the dollar costs in terms of resources that the agency will have to pay to make this change?

I think the question about the private sector is more important, if more difficult. A change of this nature is not simple. How many person-hours of work, how many dollars of costs, are involved in making such a change? Will it be so onerous a risk that a number of businesses won't be ready on the prescribed date?

• (1540)

**Mr. Michel Dorais:** Thank you, Mr. Chairman.

*[Translation]*

I'll answer your first question concerning spending cuts.

As was mentioned earlier, the CRA has reduced costs. Next year, \$110 million will be trimmed from our budget. I wouldn't qualify this exercise as easy. On the contrary, the task is a very difficult one for the CRA. As for speculating about the future, the government has not to date issued any directives regarding additional cuts.

*[English]*

As for the GST, I'm not familiar with the estimates the member refers to that are supposedly off by a number of millions, but I suppose we're referring to the Department of Finance estimates. Frankly, Mr. Chairman, the question would be better addressed to the Department of Finance for those estimates.

As for the cost imposed on the agency, I will ask my colleague Mr. McCauley to talk on this. The cost of business is very difficult to establish. The government has announced the first of July as the implementation date, which was far enough to allow the necessary time for business to adjust, and also not too long to have a negative impact due to the lag time between the announcement and the implementation. July 1, as the member knows, is a very important date for business. A number of changes are brought to systems at that date, so it makes life a little easier for business.

I'll ask Mr. McCauley to add on the specific costs to the agency.

**Mr. Brian McCauley (Acting Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency):** Very briefly, Mr. Chair, our current estimates are about \$10 million to implement the GST reduction over two years. That's on a reduction of approximately \$10 billion, which is the \$5 billion projection of the lower tax rate for Canadians, or it works out to about \$1 to administer every \$1,000 of tax reduction. Those numbers, of course, will disappear, because after the two years in which we have implemented the rate reduction we will fall back to our regular budget.

We don't have any estimates in terms of costs on the private sector. We are fairly confident, working with Finance and in fact, over the last few days, with the private sector and with industry associations, that we will be ready and they'll be ready. There are obviously some transitional rules we will be putting in place, and we'll be working with industry to make sure they're ready to make the changes. So far, what we've seen is that they see the ramp time to July 1 as being reasonable, not so long that it's going to have an effect on retail sales or the economy, but long enough for them to be ready.

That's our current assessment.

**The Chair:** Thank you, Mr. McCauley.

For Mr. McCallum's benefit, I will note that there are officials coming from Department of Finance on Wednesday who will hopefully be able to address your question.

Mr. Loubier, seven minutes, please.

[Translation]

**Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ):** Mr. Chairman, I'll be brief, unlike my Liberal colleague. I merely have a question for Mr. Dorais.

In passing, I'd like to congratulate you on your staff's professionalism. Each time we need to contact the Agency about some problem a taxpayer is having, we receive top-notch service.

I'd like to verify something. About a year and a half ago, a journalist reported on an incident of fraud involving telephone solicitation businesses that were soliciting funds on behalf of charitable organizations. The reporter mentioned several cases in which inquiries were conducted. He even went so far as to put himself in the shoes of someone being solicited. The businesses in question would ask taxpayers if they would like either to make a cash donation or purchase some promotional items. In many cases, they would choose the promotional items, but would not receive a tax receipt, even though they had been led to believe by the solicitors that they were making a charitable donation.

In other cases, the solicitation operations amounted to out and out theft because only a minute portion of the funds collected were turned over to charitable organizations. Even the directors of these charitable organizations knew that there was a problem, but solicitation represented their only source of regular funding.

Since the CRA is authorized to inquire into similar incidents, would we be well advised to suggest that you take a close look at these types of operations? Basically, they are misrepresenting themselves to the taxpayers with false promises of tax receipts. Could you not investigate their operations, on behalf of all

taxpayers? I can give you the background material supplied by the reporter from the *Journal de Montréal*.

• (1545)

**Mr. Michel Dorais:** Thank you, Mr. Chairman.

If you're referring to an incident that took place 18 months ago, then that was probably before I arrived at the CRA. I'm not very familiar with the case. But based on your description of the events, this is a clear case of fraud. In cases like this, our colleagues at the RCMP and the CRA conduct a hard-nosed investigation. Obviously, that's what we will do if you provide us with the details of this incident. One of our divisions is responsible for conducting investigations of this nature.

As far as charitable organizations are concerned, two concrete measures, albeit of a more general nature, have been taken. Each year, the CRA audits the operations of some 600 charitable organizations. In the process, we collect a significant amount of information about a great many agencies. Recently, we issued some notices warning taxpayers about various things, including the possibility of fraud. We issue the warnings on our website and we also send them to all of the country's weekly newspapers. Regardless, we'll proceed with an investigation once we've received the information from you.

**Mr. Yvan Loubier:** I promise to get that information to you.

**Mr. Michel Dorais:** Thank you.

[English]

**The Chair:** Mr. Christopherson, over to you for seven minutes.

**Mr. David Christopherson (Hamilton Centre, NDP):** *Merci*.

Thank you very much for appearing before us today.

For the benefit of colleagues on the committee, I am subbing for Judy Wasylycia-Leis on the revenue piece because I'm the revenue critic for our caucus. But other than that, Judy will return to her rightful place.

If I can, through you, Chair, the Liberals started a process of cutting \$110 million from the ministry as an expenditure reduction process. Can you tell me if that is still expected to continue under the Conservatives?

**Mr. Michel Dorais:** I have no instruction to the contrary. The first two years of expenditure reduction have been taken out of the base of the agency and we fully expect that the next year's base will be affected similarly, unless the government decides otherwise.

**Mr. David Christopherson:** Right. So Liberal plan and Conservative plan, it's the same thing.

Moving forward, it's my understanding, and please correct me if I'm wrong, that from some moment in time forward, and you can tell me whether that's in effect now or sometime soon, it's actually going to be the policy of the government—and please correct me if I'm wrong, because I find this astounding, so I'm sure I'm wrong—that at Revenue Canada offices, Canadians will no longer be able to go in and use Canadian currency to pay for anything at all that they either owe the government, owe the ministry, or are purchasing. For any kind of cash transaction, the Ministry of Revenue, for the Government of Canada, will no longer allow or accept Canadian currency presented by Canadians to pay any kind of bill or debt with their own government. Please tell me I'm wrong.

• (1550)

**Mr. Michel Dorais:** The policy that has been put in place—in fact it is not a policy, it's a management decision that has been put in place in order to reduce expenditures—is to transform what we refer to as our cash counters. The decision that has been taken is that all revenue cash counters will be able to accept payments in various forms, but not in the cash form. We will be inviting taxpayers to use the banking institutions across the country to pay their taxes in cash.

This simple measure allows some very significant reductions of expenditures, because the handling of cash is very difficult. We made the decision on the basis that fewer and fewer people every year actually carry cash to pay at our counters and the use was going down quite dramatically. So we are now directing people to banking institutions when they have to pay in cash, but we will accept payment in other forms.

**Mr. David Christopherson:** Thank you.

Are you still calling it the cash counter?

**Mr. Michel Dorais:** Payment counters.

**Mr. David Christopherson:** I see.

Now, you said handling cash is very difficult. That's really strikes me as kind of funny, quite frankly, coming from the revenue ministry. I still find it hard to believe that you can't go into a revenue ministry outlet anywhere and pay with Canadian currency. It boggles the mind.

Let me move on, though, because one of the things I want to ask is this, Chair. On April 21, this committee was seized of this same issue, and at that time Ms. Wasylycia-Leis asked a question in two parts, when she had the floor, to government representatives—Mr. Dorais, I think. She said, “Could you tell us how many sites across the country are affected, what the 7% of revenues translates into in terms of dollars”—and this is my question—“and what kind of impact analysis you did?”

Mr. Dorais answered, “I don't have all the figures at my fingertips, but we'll undertake to provide you with the exact figure.”

Then Ms. Wasylycia-Leis went on before she relinquished the floor and said, “Mr. Chairperson, I would just like you to make sure that we request and get a full impact analysis of this decision, as well as a gender impact analysis.”

Chair, can you please advise whether that report was indeed tabled?

**The Chair:** I'll have to consult, as of course I wasn't the chair at that point in time, so I can't recall. We'll have to take it under advisement, Mr. Christopherson, and get back to you with the information. Unfortunately, I don't have an answer for you right now.

**Mr. David Christopherson:** Okay. I'm sure it's there, because it was requested and it's just a matter of getting it to us.

Moving on, then, to the counter closings, this is for the public. Right now, as I understand it, the public can walk into any Revenue Canada government building and there will be a counter they can walk up to, there will be a person there, and they can immediately ask any questions they have, get any clarification, or get anything they need. It's my understanding that again sometime, either already or soon, that will no longer be allowed. Is that the case, through you, Chair?

**Mr. Michel Dorais:** That's absolutely the case, and in fact, if I may, Mr. Chair, this measure, depending on how one presents it, has a very different meaning. We see this measure as an improvement in the service to taxpayers.

In other words, at this point in time, the member is right, anybody can walk into any office and sit down for half an hour or more, waiting for an agent to be available. What will happen in the future is that anybody will be able to phone and get an exact appointment, and they will be assured they will not be waiting. Their special needs, if they have special needs, will be met, and the experts in their field of business or their requirement will be available for them to meet. The cost of maintaining an office open just in case someone walks in is just unbearable at this stage. So we'll organize differently.

This does not have a huge impact locally. If we have not provided the report, we will, but I think we did provide the report in the previous committee. But we did provide the impact analysis to the unions, and we will provide it to the committee again, if necessary. The impact will be, in the end, an improved level of service.

Also, we'll be using the outlets of Service Canada across the country for simple requests. So people will be able to walk into those offices and get answers to their simple requests, and get the appropriate expert when they have a complicated question.

• (1555)

**The Chair:** Thank you, Mr. Dorais and Mr. Christopherson.

Sir, your time is up. It's Madame Ablonczy's turn.

**Mr. David Christopherson:** That's a shame, because I wanted to pick up on where I've heard that from Mike Harris before.

But thank you very much for your answers.

**The Chair:** Mr. Christopher, you'll have another opportunity.

Madame Ablonczy.

**Ms. Diane Ablonczy (Calgary—Nose Hill, CPC):** Thank you, Mr. Dorais and officials. We appreciate the information you're giving us today.

As I think all of us are aware, today we are talking about the estimates based on the 2005 Liberal budget. Of course there has been a new budget tabled by the new government just last week, and we will have you again, I am sure, to talk about estimates based on that budget.

But as I was looking at the estimates based on the Liberal's 2005 budget, at the briefing note at page 5, a number jumped out at me that I'm hoping you can explain. It refers to the spending of revenues received through the conduct of operations pursuant to section 60 of the Canada Revenue Agency Act. You have that reference.

On the figures before us, what happened is that there was a more than fourfold increase for this category of expenditure between 2005-06 and 2006-07, and that was of course quite an increase. I wonder if you could let us know what that's all about.

**Mr. Michel Dorais:** This is a good question, Mr. Chairman. The member is very observant.

The agency has the ability to receive payments for service. This relates very specifically to the Canada Border Services Agency. As you know, they left the Canada Customs and Revenue Agency at that time. The first year after they left, the services were left on our estimates, and then in the second year we charged them for that, because we provide all the computer services for the border agency. So this is the cost of maintaining their computers, which is transferred from them to us. That's what appears in that line.

**Ms. Diane Ablonczy:** That's a new operation for you?

**Mr. Michel Dorais:** It's not a new operation, except that it was on our base before and now it's being paid to us. So it's an accounting change.

**Ms. Diane Ablonczy:** You mentioned to us in your remarks that you process more than 24 million individual and trust tax returns. I'm just kind of curious. How many individual taxpayers are there in Canada right now? Real people instead of trusts.

**Mr. Michel Dorais:** Barbara, do you know?

**Ms. Barbara Slater (Assistant Commissioner, Assessment and Benefit Services Branch, Canada Revenue Agency):** The vast majority of those are individuals. In fact, this year we're predicting about 25 million such returns. I don't have the exact figure, but the big number is the individuals in there.

**Ms. Diane Ablonczy:** Why is there an increase in the number of individuals paying tax?

**Ms. Barbara Slater:** Well, the population grows every year, and therefore the number of people who become eligible to pay taxes increases with the population growth, largely.

**Ms. Diane Ablonczy:** You mentioned that you received 22 million public inquiries over the phone. I'm not targeting your agency, because I don't know, but I do know as an MP that I get lots of complaints where constituents phone government numbers, not your agency necessarily, and then they either get this long instruction—press 16 if you want this and 22 if you want something else—or else they're put on hold for a long time. Can you tell me honestly just what kind of response people get if they phone your agency on that line?

**Mr. Michel Dorais:** We're pretty proud, frankly, Mr. Chairman, of our record on this.

On general inquiries, the average in the year is an 83% response rate, which is above private sector standards, and for business inquiries it's 91%. Hopefully people don't have to wait. In the peak period, in the weeks that just preceded today, there are times during the day when the waiting time can be longer, obviously, because we're peaking sometimes at 35 calls per second, as I said. We cannot answer 35 calls per second, so during those peak times people could be waiting. But generally speaking, the standard wait is two minutes in our call centres.

● (1600)

**Ms. Diane Ablonczy:** I had better tell my local cable company how you do that.

You mentioned that as of May 4 you'd received almost 21 million tax returns, and that it was up about half a million from this time last year—actually, above half a million. I wonder to what you attribute the more timely submission of tax returns. Why is it up? Does it go up and down, or is it moving up steadily, or is this a one-time increase? What's happening here?

**Ms. Barbara Slater:** I think again it's just a reflection of the total increase. Our year-over-year increase is in about the 2% to 3% range due to increased population and increased tax-age filers. So that just reflects that we're tracking so far this year in about the same measure as we would expect to finish the year. It's not necessarily that people filed particularly earlier, because most people do file by the due date. That represents over 80% of the people we expect to ever file. And you may be aware that self-employed people and their spouses have a due date of June 15. So the gap of some of the people having not yet filed would be people who are eligible to have that deadline instead.

**Ms. Diane Ablonczy:** That helps. Thank you.

**The Chair:** Thanks, Madam Ablonczy.

Just as a point of clarification, you alluded to 25 millions Canadians who file tax returns, or 25 million taxpaying Canadians? I'd like to be clear on that.

**Ms. Barbara Slater:** We're forecasting 25.1 million tax filers this year. Again, the vast majority of Canadians voluntarily comply with their tax filing. About 75% are getting refunds, so they have some encouragement to file as well.

**The Chair:** Mr. McKay, second round for five minutes.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** Can you tell me what the gross revenues of the Government of Canada are on the GST file?

**Mr. Michel Dorais:** We have that number somewhere; I just don't want to quote it by heart.

**The Chair:** Do you have another question while they're digging it up?

**Hon. John McKay:** No, everything flows from that, so let's find out what the number is.

**The Chair:** We've paused his clock at this point.

**Hon. John McKay:** If you're going to do that as a general proposition, I could come back over and over again.

**Mr. Brian McCauley:** For 2004-05, we have gross GST revenues of \$67.6 billion on our records.

**Hon. John McKay:** So \$68 billion for easy figuring.

What are the costs and credits of running the system?

**Mr. Brian McCauley:** Unless Jim has it, I don't have the ITC number, but of the \$67 billion, the net revenue to the government is around \$29.7 billion. That year it cost CRA administration about \$635 million, which I think is a cost ratio of about 2.32%, if I work it out properly.

**Hon. John McKay:** So roughly \$660 million is the cost to the system, and the rest would presumably be credits. Would that be right?

**Mr. James Ralston (Chief Financial Officer and Assistant Commissioner, Finance and Administration Branch, Canada Revenue Agency):** No.

As you may be aware, there's a gross payment and input tax credits are credited against that. So the net amount of revenue to the government after the input tax credit is \$12.3 billion. I'm reading the numbers for 2005. Then there's a further reduction representing \$3.3 billion of the quarterly tax credits. So the absolute net revenue to the federal government is \$9 billion.

•(1605)

**Hon. John McKay:** Nine billion...I find that astounding. It doesn't sound right if you've got gross revenues—

**Hon. John McCallum:** That's not right. That's totally out.

**Mr. Brian McCauley:** Sorry, it's around \$29 billion, which accommodates the ITCs and the other things being out.

**Hon. John McKay:** For the purposes of this discussion, I can assume that the government effectively receives \$30 billion net. Is that a fair comment?

**Mr. Brian McCauley:** For 2004-05.

**Hon. John McKay:** For 2004-05, that's right. So each point generates about \$4.5 billion—\$4 billion to \$5 billion.

If you work your reduction of one point through the system, is it equal to effectively one-seventh? I see how gross would be reduced by one-seventh, but are the credits and the costs also reduced by one-seventh?

**Mr. Brian McCauley:** At this point in time, certainly the administration costs wouldn't be reduced by one-seventh, because arguably, when we've looked at them over the last 15 years, we haven't increased them, for example, in terms of the revenue growth of the economy. In other words, our numbers are fairly constant, in terms of steady dollars, in terms of the cost to administer the GST, so that one is probably a wash. In other words, whether it's seven, eight, or five, our administration costs are probably going to stay about the same.

As for the ITCs, I honestly don't know. I'd have to get back to you through the chair.

**Hon. John McKay:** It's a fairly significant question, and I would like an answer on this.

I think you actually start to make the system slightly less efficient, because your costs will essentially remain fixed. Now the costs aren't a huge number, but the costs will remain fixed and possibly even go up, because you're going to have to change from seven to six and then six to five.

Having said that, I would be interested to know what impact the credits will have by virtue of reducing your gross revenues by effectively one-seventh. At one level you're possibly turning a relatively efficient tax, which generates in the order of \$30 billion, into a far less efficient tax.

I'd be interested in knowing what the answer is.

**Mr. Michel Dorais:** There are a lot of numbers. They are very important numbers for the members, and I can see there is some confusion here. With your permission, Mr. Chair, I would like to table the numbers with the committee so they are the right ones.

**The Chair:** I will ask that you undertake that, and if you could forward them to our clerk we'll distribute them for the edification of all members.

**Hon. John McKay:** I'd like to make that subject to the reservation that if the numbers produce some startling results, we carry on this conversation. It may be a straight-line reduction, but on the other hand there may be a curve in there that could possibly be quite significant.

**The Chair:** We can carry on that discussion as we receive the numbers.

I'll turn to Mr. Turner now for five minutes, please.

**Hon. Garth Turner (Halton, CPC):** Thank you very much for appearing before our committee.

Like Mr. McCallum, I have some experience with Canada Revenue Agency, only much less brief than my esteemed colleague. However, the agency ran flawlessly during my period of time, as with Mr. McCallum.

I actually have three brief questions. One is on the issue of compliance costs for the GST. You kind of didn't answer the question, when it was asked previously by my colleague across the way, on the compliance costs for small business, or business in general, for the GST reduction of a point. Has the revenue agency done an analysis at all of the compliance costs that businesses in general would face? If you haven't, why not, because it seems to me to be a pretty salient point.

Have you given any thought to assistance that CCRA can provide to Canadian businesses to help them comply? In other words, if I have a small business and I have three cash registers that aren't electronic, can I call up and ask if there's some way you can assist me in that?

I've heard it estimated by my friends across the way, or a lobby group speaking for them, that compliance costs of reducing the GST would be in excess of \$1 billion across Canada. I'm wondering if you have an opinion on that, whether there's any basis to that, or whether you believe this is just Liberal scaremongering.

My second question has to do with the amnesty program. I might make the point that this is an excellent program brought in by a far-thinking Conservative government in the past to allow Canadians who actually feel that they are offside with CCRA to step forward and make good on their past payments.

I'd like you to give us a little summary, if you could. I realize that a study was released just recently, and I'm wondering if you can refresh the committee's memory on what the response to the amnesty program has been. Secondly, have you given any thought to expanding that? It seems like a pretty cost-effective way of raking in a whole bunch of extra money.

My third quick question is, the Liberal tax cut from 16% to 15% for the lowest tax bracket in the 2005 budget was never passed by the House. What is the status of a tax cut that never gets legislative approval, and yet the Canadian population believes is de facto in place? Then we have a budget that comes along in 2006 and says we are in fact going to legislate that. It seems to me there is a bit of a grey area there, and I'm wondering if you can explain to us, and to Canadians in general, exactly what their status is in terms of that reduced level of tax.

•(1610)

**Mr. Michel Dorais:** There's a lot of meat in those three questions, obviously, and I think—

**The Chair:** We set a precedent earlier for five-part questions, I'm afraid.

**Mr. Michel Dorais:** It shows the member's experience with the agency or the department, if I'm not mistaken, at that time.

I will leave some time for my colleague, Mr. McCauley, to think about the compliance cost question, but let me briefly address the two others.

I think when the member mentioned the amnesty program he was referring to the voluntary disclosure program. That is a program that was put in place to encourage taxpayers, who somehow were in this irregular situation, to catch up and go back into the regular stream.

Voluntary disclosure is valid if we determine it is voluntary, complete, involves a penalty, and involves information that is at least one year old. That's to avoid people simply saying, "I'm not going to pay my tax, I'm going to do voluntary disclosure". So it doesn't work that way. There are some strict criteria, but it allows people to come, and in some cases the penalty is waived, so people can bring their account with us to zero and become regular taxpayers on a yearly basis.

The program has worked well. I don't have the figures, but I think there have been around 6,000 voluntary disclosures. Most of them were done by tax preparers, on behalf of taxpayers, who helped them regularize their situations with the fisc, and that has paid off over time. There is at this point no intention to expand it any further.

On the issue of the budget, this is a simple and complicated issue at the same time. When the government introduces a budget... I should say governments, because at the agency we face a lot more than one budget a year. We also face provincial budgets, because we also collect taxes on behalf of provinces. So we have about 13 different budgets per year that we have to adjust.

At the federal level, on the tabling of the ways and means motion that expresses the intent of government, usually the agency will take the measures to prepare to implement the budget. In normal situations, this is then carried by Parliament and voted on.

In the particular case the member raises, it was done in a minority government, and as the members know, it was not legislated. The agency has taken the decision, on the basis of ways and means, to reduce the marginal rate from 16% to 15%, on the understanding that the next government elected would confirm that decision or not. The government has confirmed the decision for one year and changed it in the last budget, so we are already taking measures, as a result of the tabling of the most recent budget, to make the correction for the next taxation year.

•(1615)

**The Chair:** Can I just make a point here?

Mr. Turner, your time is up. It's Mr. St-Cyr's opportunity to ask some questions, but we will continue as our time allows. Perhaps you'll have another chance.

**Hon. Garth Turner:** I have just a point of clarification, Mr. Chairman.

**The Chair:** No point of clarification.

Mr. St-Cyr, it's your question.

[Translation]

**Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ):** I'd like to get your opinion about something. In the past, several auditors general have expressed some concerns in their reports about the erosion of the federal tax base, particularly because of the existence of tax havens.

[English]

**Hon. Garth Turner:** Point of order, Mr. Chairman.

I didn't get an answer to my third question. Is there any particular reason for that?

**The Chair:** It may or may not be true, Mr. Turner, but your time is up, and I've been instructed by the committee to proceed with this order of questioning.

Mr. St-Cyr, I'll ask you to continue with your question, please.

[Translation]

**Mr. Thierry St-Cyr:** To your knowledge, does the government still encourage this type of direct investment in countries like Barbados that are generally known to be tax havens? Is this still happening? Are there measures in place to recover these tax revenues?

**Mr. Michel Dorais:** Thank you, Mr. Chairman. The member has asked a very important question. I've been concerned about this very subject since I started working at the CRA. I've begun to look into this matter and to initiate some changes.

Canadians invest substantially abroad. As a rule, the level of investment abroad is a positive indicator for a nation's economy. Moreover, it's wholly legitimate for different countries to put in place tax measures to encourage or attract investment. Here in Canada, as members well know, there are a number of tax measures in place to attract foreign investment to this country.

Where I have a problem is with aggressive tax planning. This issue is also of much concern to the CRA. Occasionally, aggressive tax planning involves the use of tax havens. There are not many of them left. As a result of pressures brought to bear by several OECD countries, the number of tax havens has declined.

A country is recognized as a tax haven when its banking laws are designed to preserve anonymity and when it refuses to share related information with other countries. Because of aggressive tax planning, occasionally funds are funnelled through some of these countries and that can pose a problem. The whole question of aggressive tax planning is a much broader issue.

Last year, we invested \$30 million to hire 250 people and to set up 11 centres of excellence with a view to dealing with the problem of aggressive tax planning. This year, our \$30 million investment will see a return of over \$60 million in the form of direct additional revenues.

Over the next few years, we hope to be able to increase the revenues generated. Already in year one we are recovering twice what it cost to put these measures in place. However, it's hard to tackle the problem of tax havens other than by resorting to international agreements and by exerting pressure at the international level. That's why we've opted to focus our attention on aggressive tax planning measures.

**Mr. Yvan Loubier:** I'd like to clarify something, Mr. Dorais. You stated that the number of tax havens is dwindling because countries have clamped down, loosened their bank secrecy policies and become more transparent. However, as recently as four years ago, Canada's ambassador to the OECD demanded that one of the worst offenders, Barbados, be taken off the list of delinquent countries. I think a word of caution is in order. The number is declining because countries like Canada - countries that may be pursuing different interests — have decided to put pressure on other OECD countries to amend the list.

The fact remains, however, that Barbados is, of all countries with questionable practices, the one that sees the highest volume of direct investments from Canadians. We'll have an opportunity in the months ahead to revisit the subject.

Mr. Dorais, with respect to the service cuts expected by next April 30, some discussions have taken place with your Agency's unionized employees. Concerns have been expressed that direct services to the public will be affected, for example, services such as answering questions about GST refunds and so forth.

Are their concerns well founded? If so, where do you stand on this matter?

● (1620)

**Mr. Michel Dorais:** I do not think their concerns are well founded. We have discussed cost-cutting measures at great length with the unions. In fact, we even made some changes further to suggestions received from the unions.

For example, our plans were to do away completely with the payments desk, but after hearing from the unions, we decided only to do away with the cash payment option. In my opinion, we're going to be in a position where we can offer taxpayers better targeted, quality service at a lower cost.

[English]

**The Chair:** Mr. Pacetti, it's your turn for five minutes.

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** Thank you, Mr. Chair.

[Translation]

Mr. Dorais, did I understand you correctly to say that there was no communication between the Finance Department and your Agency prior to the drafting of the budget?

**Mr. Michel Dorais:** That's not quite what I said. Some Department of Finance colleagues are in contact with CRA officials to ensure that the government's planned budgetary measures can in fact be implemented.

[English]

**Mr. Massimo Pacetti:** Mr. McCauley, on the 1% reduction, I think you answered that the cost is one dollar per \$1,000 of revenue savings. Or is there an additional cost for every \$1,000 of adjustment to a tax measure?

**Mr. Brian McCauley:** What I said is that to effect the 1% rate reduction, we have put in cost estimates for the CRA of approximately \$10 million. That covers two years where the revenue that would have been collected... In other words, the savings back to the taxpayers is about \$10 billion. So that's the \$10 million over the \$10 billion, which gives you the one dollar for the \$1,000 in savings.

**Mr. Massimo Pacetti:** But we're talking about \$29 billion net. Where do we get the \$10 billion from? Wouldn't the cost be based on the \$29 billion?

**Mr. Brian McCauley:** You can do it that way too, if you want. It's not much of a difference; it's \$10 million to effect the changes over two years.

**Mr. Massimo Pacetti:** Are we talking \$10 million or \$30 million?

**Mr. Brian McCauley:** It would be \$10 million over two years.

**Mr. Massimo Pacetti:** Or \$30 million. Which one is it? If it's one dollar per \$1,000, is it \$1,000 on \$10 billion or on \$30 billion?

**Mr. Brian McCauley:** It's \$10 million to put in place all of the changes required because of the GST rate reduction. Those expenditures are in this fiscal year, the year just finished and the one coming up.

**Mr. Massimo Pacetti:** Then what happens? Do the costs come down or do they remain neutral? How does that work?

**Mr. Brian McCauley:** At the current time, for that \$10 million we will get the funding over those two years, and then we will not be seeking funding, for example, in the third year. We fall back to a steady state.

**Mr. Massimo Pacetti:** Okay.

For the other tax measures that are passed, we're working on the 2006-07 estimates, so that would have to include some of the tax measures that were in the budget. Where is all the extra money going to come from?

I see you nodding your head, Mr. Ralston.

**Mr. James Ralston:** The amounts in the main estimates that we're considering today include implementation costs related to the 2004 and 2005 budgets. For the 2006 budget, those measures will be determined, and for the costs related to those we'll obtain authorities through the supplementary estimates. But today we're talking about the main estimates, so they're not in there. They will be part of a supplementary estimate.

• (1625)

**Mr. Massimo Pacetti:** So all the extra costs incurred for the child tax or the famous day care are going to be in the supplementary estimates. The Liberal tax incentives will only cost an extra, if I look at the difference, \$200 million, and most of that is going to go for labour costs? That was in agreement? Because I'm looking at just the total numbers, \$3.2 billion versus \$3 billion.

Is that the gist?

**Mr. James Ralston:** May I continue?

**Mr. Massimo Pacetti:** Yes.

**Mr. James Ralston:** In terms of the net increase you're referring to, the main estimates between the two years, the portion of that relating to the budget measures of 2004-05 is \$56 million. A number of other factors account for the remainder of the increase, but strictly related to the budget measures it's \$56 million.

**Mr. Massimo Pacetti:** And we haven't made any projections as to what the new budget, the 2006 budget, is going to cost the agency?

**Mr. James Ralston:** We'll be doing those very shortly and submitting them for supplementary estimates.

**Mr. Massimo Pacetti:** In terms of follow-up, what is happening with the statutory review of the CRA? Is that automatically renewed or is that something that has to get done?

**Mr. Michel Dorais:** The committee will decide on that. As you know, there is a statutory review in our act. We tabled a report of the first five years of existence of the agency. I don't know if, according to the rules, we need to re-table it. We would do that voluntarily, but the debate has not taken place.

**Mr. Massimo Pacetti:** We never did finish the review, and there were some questions.

**Mr. Michel Dorais:** It never started.

**Mr. Massimo Pacetti:** Okay.

Just to get back to what Mr. Turner was saying, you're saying that now.... The tax rates went from 16% down to 15%, based on the Liberal...and that's okay, that's legislated. What happens now that it's going to go back up to—

**Hon. John McCallum:** The question is whether the budget raised the tax from 15%.

**Mr. Massimo Pacetti:** Is the budget officially going to raise it back to 15.5%, or is it a reduction from 16%?

**Mr. Michel Dorais:** If Parliament approves it.

**Mr. Massimo Pacetti:** So we're looking at a tax increase. That's official, that it is an increase from 15% to 15.5%?

**Mr. Michel Dorais:** I understand that in the budget proposal—you could confirm this with the Department of Finance on Wednesday—there's a change in the marginal tax rate.

**The Chair:** That will be your opportunity to ask some questions, sir.

**Mr. Massimo Pacetti:** Thank you.

**Mr. Michel Dorais:** Mr. Chairman, if I may, the last thing I would want to do is induce any errors here, so I would like the opportunity to review the numbers on the GST costs. The problem is that the CBSA, the border agency, collects some and we collect some. I'd like to consult the Department of Finance and come back to the committee with the exact figures. The numbers I have now are also different in here.

So I'd like the opportunity to spend a few days to make sure that the committee has the exact figures.

**The Chair:** I'm sure the committee will appreciate those numbers, sir.

**Mr. Michel Dorais:** Thank you, Mr. Chair, and I'm sorry about that.

**The Chair:** Mr. Dykstra.

**Mr. Rick Dykstra (St. Catharines, CPC):** Thank you, Mr. Chairman.

Just by way of follow-up, I want to be clear on this issue of the 15% or 16%. Was it or was it not legislated previously?

**Mr. Michel Dorais:** It was not.

**Mr. Rick Dykstra:** It was not legislated. How would it be enacted, then, for it to happen in the past year?

**Mr. Michel Dorais:** The agency acts on the basis of the ways and means motion to change the marginal tax rate. My understanding is that part of the budget bill would establish it at 15% for the past year, and I think at 15.5% for the years to come. That would be in the budget bill.

**Mr. Rick Dykstra:** So the reduction would actually be based on the legislation passed this year.

**Mr. Michel Dorais:** Yes. It's not uncommon. There is a reference to it in Beauchesne's. When a government tables a set of budget measures, we don't have any choice; we have to start getting ready.

**Mr. Rick Dykstra:** If one were to, say, vote against this year's budget, one would actually be voting against the tax decrease of the previous year.

• (1630)

**Mr. Michel Dorais:** If the budget bill does not pass, we would have to reassess.

**Mr. Rick Dykstra:** Interesting; I'm learning a lot here today.

In terms of adjustments to reconcile this, what is included in all of that? Is that just things that are missed throughout the year? I'm looking at page 4, table II, under "Adjustments to reconcile to the 2005 Budget".

**Mr. Michel Dorais:** I'm not sure which document that is.

**Mr. Rick Dykstra:** In terms of the adjustments to reconcile to the 2005 budget, I think the main estimates indicated that it was going to be about \$9 billion.

You know what? I'll leave that. I asked the question only because it's my understanding that for the previous year's tax returns, there was actually a mistake made in the returns. A whole new set of returns had to be produced and sent out. Is that the case?

**Mr. Michel Dorais:** No, there was no mistake made in the returns. I think the member might be referring to the five million returns that were already printed, wrapped, and on pallets at Canada Post when the budget was tabled. We had to issue a correction to those. It was cheaper to issue a correction than to recall the five million forms. But it was not a mistake, it was simply the timing of the budget and the timing of the mailing.

**Mr. Rick Dykstra:** What was the actual mistake?

**Mr. Michel Dorais:** There was no mistake.

**Mr. Rick Dykstra:** Then what was the issue?

**Mr. Michel Dorais:** The budget was tabled and our forms were already printed and stocked at Canada Post.

**Mr. Rick Dykstra:** What was wrong with the forms?

**Mr. Michel Dorais:** The two budget measures; one was the change in the marginal tax rate and the other was the basic personal exemption.

**Mr. Rick Dykstra:** What did that cost the taxpayers?

**Mr. Michel Dorais:** To issue the correction? We have that number. I think we've made it public, but I can't remember it offhand. We can provide it to the committee for the member.

**The Chair:** I would ask you to add that to the list of the other information you're providing to the committee.

**Mr. Michel Dorais:** We will do that.

**Mr. Rick Dykstra:** Just on that, would that be the type of expense that would be added to the adjustments to reconcile?

**Mr. Michel Dorais:** No, I think we swallowed within our base the extra expense to make that correction.

Am I correct, Barbara?

**Ms. Barbara Slater:** I think we did ask for a small amount from the department.

Would that be part of the \$56 million that we were talking earlier about, Jim?

**Mr. James Ralston:** If it's related to 2004-05, yes.

**The Chair:** Pertinent to Mr. Dykstra's question is just the cost, which you're going to provide the committee with regardless of what envelope it came from. I think that's what he was asking.

**Mr. Michel Dorais:** Yes.

**The Chair:** There's just time for a short question, Mr. Dykstra.

**Mr. Rick Dykstra:** Just on this point, when issues and additional costs arise that weren't budgeted for, how much room is there within the budget to be able to deal with them in terms of a percentage? Does that amount to a dollar total, or is whatever you can work with from a percentage perspective?

**Mr. Michel Dorais:** I'm not sure I understand the question.

**Mr. Rick Dykstra:** There was a mistake made; an issue arose and an additional cost was incurred. You said that within the department you were able to find some of the money to cover that cost. How much flexibility does the department have in terms of additional...?

**Mr. Michel Dorais:** Actually, I was corrected by the chief financial officer that we did ask for the money to make that correction, and it's included in the \$56 million, yes.

**Mr. Rick Dykstra:** Okay. Thank you.

**The Chair:** Thank you.

We will proceed now to Mr. Savage.

**Mr. Michael Savage (Dartmouth—Cole Harbour, Lib.):** Thank you very much.

Thanks for coming. It's been very informative.

I have a couple of quick questions, then I have a little bit more of a detailed one.

How many Canadians' personal income taxes are e-filed these days or filed on line?

**A voice:** It's increasing.

**Mr. Michael Savage:** Yes, I'm interested in the trend. The reason I'm asking is whether it is better for us. Is there a saving of any kind to the department?

**Mr. Michel Dorais:** The savings, I can tell you, are not huge. The savings are about two dollars per return, I think.

**Mr. Michael Savage:** Two dollars per return?

**Mr. Michel Dorais:** Yes, it's about two dollars per return.

**Mr. Michael Savage:** So that would be \$30 million, maybe? What number would that be?

**Ms. Barbara Slater:** Right now a little more than half of our returns are filed electronically, including the ones filed through tax preparers and the ones filed directly by taxpayers themselves.

**Mr. Michael Savage:** And that's going up.

**Mr. Michel Dorais:** It's going up by a few percentage points every year.

**Mr. Michael Savage:** Can you tell me how many taxpayers we have who file? How many Canadians do not file their taxes, and what is the cost of pursuing them?

**Mr. Michel Dorais:** Do not file? That's a hard one to answer.

**Mr. Michael Savage:** As a guess.

**Mr. Michel Dorais:** I don't know.

**Mr. Michael Savage:** What do you allocate in terms of your budget to pursue them?

**Mr. Michel Dorais:** We do allocate a significant effort to that. I don't want to quote the committee a figure that is not right, but we do reassess or assess quite a number of non-filers every year.

Do you have the number, James?

•(1635)

**Mr. James Ralston:** Regarding the efforts you're talking about, we have two programs within the agency. One is what we call "filing and remittance compliance", which refers to collecting accounts receivable, but it also refers to getting people to file returns that have not filed returns. That activity altogether represents about 19% of our program activity, or about \$615 million in total.

We also have a program that we refer to as "reporting compliance". That's where people have filed returns but we're auditing the returns to ensure that the returns are correct and that all income is reported. As I say, we call that program "reporting compliance", which represents about 34% of our total or approximately \$1.1 billion.

**Mr. Michael Savage:** Okay. Thank you.

My last point is to follow up on the points made by Mr. McCallum and Mr. Turner. In terms of the cost to business, particularly smaller business, you indicated that you don't have a sense of that. I think the question was, have you done any studies around that or have you considered doing studies in terms of the cost to Canadian business? I'd just be interested in your view on that.

**Mr. Michel Dorais:** Brian, do you want to answer? I think the studies are mainly in the Department of Finance.

**Mr. Brian McCauley:** We have not. The sector analysis before the implementation of a tax policy change like that would typically happen at the finance department and other departments; we don't prepare that type of analysis.

I would just remind members that of course any costs incurred by business would be deductible as a business expense if there were costs incurred with the changes. So that certainly would be something. Of the money we have, about two-thirds of that is going to outreach and information and to working with associations to try to make sure small business is ready for the change.

**The Chair:** Over to you, Mr. Turner.

**Hon. Garth Turner:** Thank you.

Mr. Savage wanted to go back to that question, which hadn't really been answered, but you have provided part of that. In fact, we don't have an answer, at least on that.

It is an issue that has come up; it is an issue of concern to us that a lot of small-business operators have been somewhat startled by what they have been led to believe are large compliance costs.

Again, who should we talk to, in your estimation, to try to nail down what the compliance costs are? Would there be any recommendation there?

**Mr. Brian McCauley:** I think there are some gentlemen from the Department of Finance coming on Wednesday who might be able to talk to you about that.

**Hon. Garth Turner:** Okay, but they're sort of the esoteric guys; you're the practical guys.

**Mr. Brian McCauley:** All I can say is certainly we would be working with CFIB and others to do whatever we can to minimize whatever burden it would be on the private sector.

**Hon. Garth Turner:** Do we have a clear message from you today, though, that the costs are deductible?

**Mr. Brian McCauley:** Yes, it's a legitimate business expense to accommodate this change.

**Hon. Garth Turner:** I want to see if we can send a message out to our small-business community here.

So all costs would be deductible. If I have to replace my cash registers because my cash registers are not programmable, is the cost of my new equipment going to be 100% tax-deductible?

**Mr. Brian McCauley:** You could probably make that decision with or without the GST. If you felt you needed to buy a cash register in order to run your business, then you could do that now, but certainly you would be able to do it as part of the GST conversion as well. There are no special provisions because of the GST change, so if it's allowable now, it will be allowable on July 1.

**Hon. Garth Turner:** So if I'm running a Future Shop and I have to reprint flyers, or if I'm Mattamy Homes and I have to reprint my sales brochures because of the change, all of this is a legitimate business expense. So in essence, compliance costs should be zero.

**Mr. Brian McCauley:** I think most small businesses would argue that there are certainly costs in terms of their time and effort—diverted time and so on. That is a cost to them. It may not be a financial cost, but it's certainly a cost, and there's no dollar compensation for that, of course.

**Hon. Garth Turner:** That's very interesting. I think that's a great message to send, that the compliance costs for the GST are basically zero.

Thank you very much.

**The Chair:** Mr. Christopherson, did you have a question, sir?

**Mr. David Christopherson:** Thank you very much, Chair.

Thank you all, again.

I neglected this the first time, but since this is my first public interaction with the agency as the critic for the New Democratic caucus, the first thing I want to say is that I and the caucus have great respect for the amount of work you do and the kind of work and the need for precision. When you compare our collection system to those around the world, many would give their right arm to have the problems we have. So I want to acknowledge that, and I look forward to working with you.

Having said that, going back to my role as the critic, I do want to take on this notion again that less is more, because I spent a lot of years in the Ontario legislature listening to that very argument and watching the quality of life and services and programs in Ontario fall further and further and further. We're cutting services here; there's no other way to describe it.

I do have to say I may need a bit of clarification. Did I understand, Mr. Dorais, that you suggested that maybe this wasn't being fully implemented? You said something about the cash policy, about no longer accepting cash, then you said something else about the rest of the service cuts. But I have to confess I didn't hear it all. Are the inquiry counters being closed down as originally planned, or are there any changes to that?

• (1640)

**Mr. Michel Dorais:** In our view, they're not cuts in services. We modified the way we give service to the public. We're redirecting some taxpayers—the taxpayer who wants to pay cash is being redirected to banking institutions. When taxpayers have simple questions—for example, they want a copy of a certain form—they will be able to download the form at any of the Service Canada agencies or any of our offices through the use of a terminal.

What we are doing is increasing the level of service to people who have to speak to someone because they have a complex issue or they have special needs, and we're providing the facilities for that.

**Mr. David Christopherson:** Thank you.

I don't want to be rude, but my time is tight.

The answer to my question is no, the change is going through as proposed. Herein lies my difficulty, because in my estimation and certainly in that of my constituents in downtown Hamilton, this is still a cut in service. They now have that opportunity. It's a right they have to go in and ask something and get an answer, and that's not going to be there in the future.

It's easy to say, well, go online. That's not so easy for an awful lot of people who aren't familiar.... There are still an awful lot of people living in poverty who don't have the technology in their homes that many people take for granted. For seniors, it's not necessarily their first choice to do something as important as their personal taxes, but I'm also thinking about new immigrants. Every government, every party, talks about the importance of assisting new immigrants to settle into our communities and to become integrated, and information is one of the most important things they need. So it seems to me that this is counterproductive to that. We ought to be making government services as user friendly as possible, particularly for people who don't understand the lingo, who maybe don't understand the technology, or who have various other disabilities.

It is not only that. While I have a moment, I want to get on the record that it is clear that in a system like this the more you can get things right at the front end, in terms of the input end, the less money it's going to cost the agency to process, to make changes or revisions. It seems to me that this is all counterproductive and is an exercise in meeting an artificially declared, bottom-line cut.

In your estimation or the agency's estimation, this may be the lesser of all evils. That doesn't make it any less evil in terms of it being a service cut. It is something that Canadians had, and the

government is taking it away. I see this as a huge problem, particularly for the segments of our society that I've outlined.

I'll give you a chance to respond to that, sir.

**Mr. Michel Dorais:** Mr. Chair, in fact the member and the agency—

**Ms. Diane Ablonczy:** On a point of order, Mr. Chairman, I think it's not fair to ask the officials to comment on the nature of evil, because they would have had no experience of it personally.

**The Chair:** Okay. Thank you for that.

It is not a point of order, though, so we'll go back to Mr. Dorais.

Your response, sir.

**Mr. Michel Dorais:** I was about to say, Mr. Chair, that the agency and the member do not disagree at all, and the example of new immigrants is a good one. Today, as we speak, a new immigrant who, let's say, has an issue of language, because it's difficult to understand, walks into an office and nobody speaks the language. If he can make an appointment, maybe we can do something to accommodate the new immigrant and have someone who speaks the language, and we'll be able to give better service. That's the whole point of the exercise.

**The Chair:** I'll just use my prerogative here and add a couple of quick questions for you.

Just for clarification, is it correct, as you said earlier, that \$650 million goes to assessment of non-filers each year?

• (1645)

**Mr. James Ralston:** What I said was, out of the total agency expenditures, we allocate those expenditures across our operating programs, and that would include an attribution of a certain amount of "overhead costs". So the percentage of that grand total that goes to a program that we've referred to as filing and remittance compliance is \$615 million. That represents 19% of—

**The Chair:** Is that \$615 million or \$651 million?

**Mr. James Ralston:** It is \$615 million.

**The Chair:** Just for clarification, the reporting compliance section is \$1.1 billion, you said?

**Mr. James Ralston:** Yes. It is \$1.097 billion, to be exact.

**The Chair:** So it is fair to point out that you spend half as much assessing non-filers as you do assessing those who file. You spend twice as much money evaluating the compliance of those who file as you do those who did not. Is that correct?

**Mr. James Ralston:** Perhaps just to complete the picture, if I may, in addition to the two programs I mentioned, we have a program called assessment of returns and payments processing. The cost allocated to that program is \$758 million, 23% of the total. We have a program that addresses client assistance, and there's a total of \$310 million attributed to that, 10% of the total. We have a total of \$319 million that goes to our benefit programs, for 10% of the total. Finally, we have \$129 million that goes to our appeals program, and that represents 4% of the total.

Again, just to repeat, these figures have overhead costs allocated to the front-end programs, if you will.

**The Chair:** Thank you.

My final question was for you, Mr. Dorais. In your introductory remarks, you referenced that the agency collected over \$300 billion in revenue at a cost of slightly more than one cent for every dollar of revenue. What assurance could you give the committee that this price is competitive for a tax collection agency in the world today?

**Mr. Michel Dorais:** Mr. President, it's extremely hard to do international comparisons because the systems and the nature of the collection actions taken by other countries are very different from what we have here. We can provide the committee with some data on other countries, but I would discourage any direct comparison.

Let's put it this way: Canada is constantly invited to other jurisdictions to showcase the systems we have in place, and we've been chosen to chair the Leeds Castle Group, a new group of tax administrators involving ten countries, for the first year of its existence. So we're well out there.

**The Chair:** How does the one cent cost for every dollar collected compare to ten or twenty years ago? Do you have any idea?

**Mr. Michel Dorais:** I do not have this answer, but we can look to see if we can provide it.

**The Chair:** Please do.

Mr. McCallum, over to you.

**Hon. John McCallum:** I think this was implicit in one of your answers, but I would like to make it explicit. I understand you're saying that the effect of the budget was to take the lowest income tax rate from 15% to 15.5%. Is that correct?

**Mr. Michel Dorais:** The effect of the 2004 budget, which was not voted by Parliament but will be included in the next budget, was to reduce it from 16% to 15%, then put it back from 15% to 15.5%, I think.

Brian, do you want to correct that?

**Mr. Brian McCauley:** The rate reduction that was introduced in the November economic statement saw the rate go to 15% for the 2005 tax year, and it was reintroduced as part of the recent budget. Also, the recent budget essentially established an end rate of 15.5% for the 2006 tax year.

**Hon. John McCallum:** So I think you're saying yes, the effect of the budget was to go from 15% to 15.5%. Is that right?

**Mr. Michel Dorais:** From 2005 to 2006, you're right.

**Hon. John McCallum:** So you're agreeing that the effect was to go from 15% in 2005 to 15.5% in 2006. Is that right?

• (1650)

**Mr. Brian McCauley:** As part of a broader package of tax measures, yes.

**Hon. John McCallum:** So would you agree that when you go from 15% to 15.5%, most Canadians would understand clearly that in common parlance, it's an increase?

**The Chair:** I'm glad we have this level of expertise here today to comment on that.

**Mr. Michel Dorais:** Mr. Chair, I'll let the member choose the words to express it.

**The Chair:** Very good.

Are there any further questions, Mr. McCallum?

[*Translation*]

**Mr. Massimo Pacetti:** Monsieur Loubier.

Mr. Dorais, I also intend to put the next question to Department of Finance officials. However, right now I'd like to briefly review for our enlightenment your Agency's practices.

You will recall that when Mr. Desautels was the Auditor General, he uncovered within the space of a few days two contradictory advanced rulings. These rulings authorized the sole owner of two family trusts totalling in excess of \$2 billion to transfer these two trusts to the United States and eventually, to another country. We've now lost track of these two trusts.

I won't review all of the details, but the fact remains that this situation came to light and was carefully scrutinized by the committee over a period of two months. Both the Deputy Minister of Revenue and the Finance Minister appeared before the committee. They both had had a hand in these advance rulings, the second of which, if memory serves me well, was made on December 24 at 10:40 p.m.

How could an ordinary taxpayer have possibly attended a meeting about an advanced ruling on Christmas Eve?

The committee discovered that companies working in the field of tax planning, Revenue Canada and the Finance Department would all share their expertise with one another. Tax planning firms would loan an expert for one or two years to Revenue Canada or to the Department of Finance. Among other things, these individuals would be involved in the making of advanced rulings. Therefore, they were aware of specific rulings that had been made. Consequently, as we saw with the two advanced rulings, these individuals could, when they returned to their firm, help their clients benefit from certain tax breaks. They found themselves in a privileged position compared to others. They were familiar with tax rulings and interpretations, since they had spent time working in both departments.

First, I'd like to know if these types of exchanges are still taking place. Second, I'd like to know what kind of safeguards are in place to ensure the confidentiality of the rulings made, whether they are made in advance or not. What steps do you take to ensure that these rulings do not become known to tax planning firms that could use the information to help certain privileged clients, at the expense of taxpayers?

**Mr. Michel Dorais:** That's a very pointed question. It shows the member has a sound grasp of the fiscal challenges confronting the CRA. I don't have the information to answer your question at this very minute. Unless one of my colleagues can help me out, if you have no objections, I will jot down your question and forward a response to the committee.

**Mr. Yvan Loubier:** By all means, take all the time you need to answer the question, Mr. Dorais. In my opinion, we need to follow up on this issue. This is the era of accountability and I know the current government is intent on dealing with this type of privileged transaction, which in some respects amounts to insider trading. Fundamental issues like this can have a significant impact on the tax base. I look forward to your response to my question. Next time, I'll likely continue with my analysis and no doubt, your answers will be more analytical as well.

[English]

**The Chair:** Time is going too quickly. We'll just have time for perhaps two more questions.

I'll go to Mr. Pacetti first.

[Translation]

**Mr. Massimo Pacetti:** Thank you, Mr. Chairman.

I don't know if anyone has already asked this question, but in the table on page 4-4, under the heading "Items not required", we see that contributions to the province of Quebec in respect of administration costs have increased from \$115 million to \$156 million. Is there a reason for this increase?

[English]

**Mr. James Ralston:** I believe the amounts that are being referred to are the payments made to the Province of Quebec for the administration of the GST in that province. Something has gone on that is basically a classification. The amounts were formerly shown as a contribution and that was consistent with the definition of a contribution provided by Treasury Board at that time.

Subsequently, there has been a redefinition of what constitutes a contribution. Although nothing has changed about the reality of what the Province of Quebec does and what we are funding, it is just that the accounting treatment no longer considers it a contribution; it's now considered part of our operating budget.

•(1655)

**Mr. Massimo Pacetti:** It's comparable, and we're going from \$115 million to \$156 million. Even if you answer that, the next question is going to be how do we relate that to other provinces when the Canada Revenue Agency is administering this? Is this a good deal, or how is it in comparison to other provinces?

We don't have much time, sir.

**Mr. James Ralston:** There is a formula that determines the amount of the payment. To address your concern, there is a capping element to the formula such that the intention is that the amounts paid to Quebec will keep the payments comparable to costs that would be incurred by the agency.

**Mr. Massimo Pacetti:** Is it worth encouraging the same relationship with other provinces?

**Mr. Michel Dorais:** Quebec is the only province that has a full department of revenue, and I think that's the answer. Another province would have to equip itself with a full department of revenue to do the same thing.

**Mr. Massimo Pacetti:** Wouldn't Ontario collect its own taxes as well?

**Mr. James Ralston:** With respect to the GST, which we're talking about in this case, it's a value-added tax. The three Atlantic provinces have a harmonized tax with the GST. A different arrangement has been chosen whereby the federal government collects that tax on behalf of the provinces. So different arrangements are clearly out there today.

**Mr. Massimo Pacetti:** Is the breakdown you provided the chair anywhere in the annual report? Or is it from your notes?

**Mr. James Ralston:** It's from my notes. It could be derived, as I say, because of the cost attribution of the overheads. I'm not sure I could point to it in a public document at this point in time.

**Mr. Massimo Pacetti:** Okay, thank you.

**The Chair:** Thank you.

We'll conclude with you. Ask a quick question, if you would.

**Mr. Rick Dykstra:** Sure, it's just a clarification. A colleague across the floor asked the question about the 16% to 15%. I know there are numerous tax reductions in this year's budget, but from a legislative perspective, two adjustments that are going to be in this budget are the confirmation of the 16% to 15%, and then the 15% to 15.5%. Those two adjustments are going to be included in this piece of legislation.

**Mr. Brian McCauley:** I think the two the member is referring to are the marginal rate reduction and the basic personal allowance adjustments that were announced in the November 2005 changes. These are the two that have to be grandfathered into this budget.

**Mr. Rick Dykstra:** Okay, thank you.

**The Chair:** That's it.

Thank you very much to our guests today. We appreciate your being here. We'll allow you to make your way, and we wish you the best.

Committee members, we'll reconvene for some housekeeping in a couple of minutes, after we allow our witnesses to leave.

•(1700)

**The Chair:** For the information of committee members, on Wednesday we will have finance officials here at 3:30. I appreciate everyone being here on time today, and we'll try to keep it efficient on Wednesday as well.

Next Monday representatives from FINTRAC and from the International Trade Tribunal will be here. Tentatively, on Wednesday the Superintendent of Financial Institutions will be here as well. These are upcoming events.

We'll endeavour to get to you at the earliest opportunity the information that we were promised by the officials. There were some good questions asked there.

We have the report to adopt here, and we can be under way. It is the first report of the subcommittee on agenda and procedure of the Standing Committee on Finance, from our steering committee meeting the other day. Is there any discussion on that? Everybody has a copy?

Yes, Mr. Christopherson.

**Mr. David Christopherson:** Regarding the second round, I'm assuming there's a misprint, because there's no notation of the NDP having any second-round questions, no time at all. That has to be a mistake, right?

**The Chair:** No, that's not a mistake. That was actually in the last session.... I'll ask Mr. Pacetti quite frequently to verify things for me, as he chaired the committee the last session.

May I ask him if he wants to comment on that?

**Mr. Massimo Pacetti:** We had the NDP informally, but not formally, because most of the time not all members attended. What we decided at the steering committee was that because all members will be present, you wouldn't be able to fit them in. If there were no members present, as we saw today, the NDP usually got a second round.

**Mr. David Christopherson:** Fair enough. I appreciate that, and I don't think anybody is trying to do anything untoward. I'm just making the case that given the fact that there are 29 members, to not have any berth at all, or any time at all guaranteed, seems to me to be a bit much.

**The Chair:** You're in the first round, Mr. Christopherson, just for clarification. Of course, you do get the seven minutes in the first round.

• (1705)

**Mr. David Christopherson:** I see that. I'm just pointing out that I think it's unfair.

**The Chair:** Mr. St-Cyr, go ahead, please.

[*Translation*]

**Mr. Thierry St-Cyr:** I think the rule is simpler. Each committee has the right to speak. That applies to Liberals, Conservatives, the Bloc Québécois and the New Democrats. That makes sense to me.

[*English*]

**Mr. David Christopherson:** Of course you think it's logical; you get a second turn. I'm talking about the NDP. No, we don't get a second turn. That's my point, my colleague.

**Mr. Massimo Pacetti:** The Bloc has two members on the committee.

**The Chair:** I'll try to prevail on the members to get the attention of the chair if we're going to have a discussion.

Who would like to speak? Seeing no response....

Yes, Mr. Christopherson.

**Mr. David Christopherson:** I'll make the case again.

I think my friend made the argument almost as if to say everybody's got the same, and it's fair all around, but it's not.

We have 29 members in the caucus. In the second round, as Mr. Turner showed today, oftentimes there's an important follow-up just

for a matter of clarification. To be denied completely, not even a reduced amount, no opportunity to do any follow-up, when all the other caucuses.... It's not only the fact that I get to share it with other members—and that's fine, because you have bigger caucuses—but that the caucus as a whole doesn't get one single guaranteed opportunity for a follow-up. Even if it were three minutes—something—to ensure that the NDP, in terms of reflecting 29 seats in a minority, is part of the play in the second round.... I don't think that's an unreasonable request.

**The Chair:** Thank you, Mr. Christopherson.

Mr. Loubier, go ahead, please.

[*Translation*]

**Mr. Yvan Loubier:** Mr. Chairman, even though it's not formally written down anywhere, as a rule there are a few minutes remaining after the questioning is completed. Mr. Pacetti can confirm that there is always some time left for an NDP member to ask a second question. However, as my colleague pointed out, if there are four members representing the same party, they will be able to ask four questions. That's why during the second round, the Liberals and the Conservative are allowed to ask a total of four questions. The Bloc members can ask two questions, and the NDP representatives, one question. We can't conjure up an extra committee member. A total of 29 party members were elected, not 50. However, as a rule, there is always time for an NDP member to get a second question in, and the member takes advantage of the opportunity.

[*English*]

**Mr. Massimo Pacetti:** What happened the last time is that we tried to insert it, and most members got taken advantage of. I agree with what Mr. Loubier said: if there is time, we will.... I don't think there is any problem. There was proof of it today, when the NDP did get a second chance. It's just that when the schedule is tight, there are a lot of arguments that go on, and I don't think this committee needs to be going through that. I think it's appropriate. This is the breakdown of the committee. I think it's fair for everybody. Everybody gets a first round of seven minutes, and five minutes following that. When the minister appears, if you'll notice, the Conservatives even drop off one of their members. It has worked in the past, and I don't see why it wouldn't work now.

**The Chair:** I wish to thank the members for their comments.

I would just observe that I noted on at least three occasions today where members of committee followed up on other members' questions. I think that's a good habit to get into.

That being said, your point has been well made and I've noted it. Certainly we'll endeavour to have fairness in the chair.

Any other questions on any other item on the agenda?

Mr. Pacetti, the former chairman.

**Mr. Massimo Pacetti:** On the main estimates, when you have FINTRAC and the Office of the Superintendent of Financial Institutions, I just want to make sure we are covering the annual report as well, because I think the information will be pretty dry for those two departments.

The other thing we spoke about was having the Minister of Finance here to discuss the independent parliamentary budget office. We'd like to have him sooner rather than later, before he's already decided what he's going to be doing.

You were also supposed to let us know whether the Governor of the Bank of Canada was going to be available sooner rather than later.

**The Chair:** On the Governor of the Bank of Canada, I think we've had a communiqué that it will be difficult to get him in the very near future. On the independent parliamentary budget office, that's in the works.

We're scheduled until a week this Wednesday, and we will follow the advice of the steering committee on the other items we've noted.

**Mr. Massimo Pacetti:** You don't think we can get the minister before our break for Victoria week?

**The Chair:** I'd be guessing and I don't want to guess. I know we're okay until a week Wednesday, and through our steering committee discussions the other day we outlined these priorities. You've just restated them, and that's what I'll be working on.

**Mr. Massimo Pacetti:** But just to repeat what we said, the estimates were only going to be fillers for this week so that the next week we could get the Minister of Finance and the Governor of the Bank of Canada. I think that's more important than doing the estimates, because these estimates are not due until the end of May.

• (1710)

**The Chair:** We've tried to get the minister for next week and he's not available.

Mr. Loubier, the floor is yours.

[*Translation*]

**Mr. Yvan Loubier:** I would prefer to invite the Minister of Finance to appear twice, three or even four times throughout the year. His appearances are always most enjoyable.

But seriously, Mr. Chairman, we should discuss this matter. The Finance Minister appears once a year before the Standing Committee on Finance, whereas in the case of provincial legislatures and Quebec's National Assembly, finance ministers put in appearances almost every week to answer questions about bills that have been tabled.

In Quebec, for example, I find it ludicrous that the Minister of Finance may be compelled to testify twice or even three times a

week for several hours. However, we could agree on a solution that falls somewhere between the two extremes. Since all legislative decisions flow from the Minister of Finance, we should hear from him more often. Besides which, we enjoy his company!

[*English*]

**The Chair:** We will endeavour to fulfill the wishes of the members of this committee.

Any other comments?

Mr. Pacetti, back to you.

[*Translation*]

**Mr. Massimo Pacetti:** I'd like to get back to a comment made by my colleague Mr. Loubier. We're asking that the Minister of Finance appear before us to discuss two completely different items, namely the Main Estimates and the creation of an independent parliamentary budget office. We want to know where he stands before the independent office is set up. Perhaps we can invite him here next Tuesday. I realize we're not scheduled to meet then, but we could convene a special meeting for that very purpose.

[*English*]

**The Chair:** We already know he's not available next week. The week following we could endeavour...

Thank you. Are there any other comments or questions? Do I have to get a formal acceptance?

I need a mover.

• (1715)

**Hon. John McCallum:** I so move.

**Mr. Rick Dykstra:** Can we have a recorded vote, please?

**The Chair:** We will have a recorded vote on the adoption of the first report of the subcommittee on agenda and procedure.

Just for clarification, we're adopting the steering report recommendations, and we're having a recorded vote at this time.

(Motion agreed to: yeas 8; nays 1) [See *Minutes of Proceedings*]

**The Chair:** The recommendations are adopted.

The meeting is adjourned.

Thank you.







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