House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 007 • 1st SESSION • 39th PARLIAMENT

EVIDENCE

Tuesday, May 30, 2006

Chair

Mr. Brian Pallister

Also available on the Parliament of Canada Web Site at the following address:

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● (1530)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): Welcome, committee members. Welcome to our guests today.

Pursuant to the order of reference of Friday, May 19, 2006, Bill C-13, an act to implement certain provisions of the budget, tabled in Parliament on May 2, 2006, I'll call clause 1.

I'll invite our guest, the Minister of Finance, to make a few opening comments.

Take it away.

Hon. Jim Flaherty (Minister of Finance): Thank you, Mr. Chair.

Before I begin, I want to thank the committee on behalf of my oldest son, who has just turned 15 years of age. He'll be thrilled to know that he is now the Minister of Finance for Canada—John Flaherty, right in front of me here. I hope I can take the sign with me when I leave. I'm sure he'd love to have it at home. He would be thrilled with that.

I have a few opening remarks, as you said. I'll try not to go on for too long, Mr. Chair.

[*Translation*]

Thank you, Mr. Chairman, for the opportunity to appear before this committee to discuss Bill C-13, which implements certain measures in Budget 2006.

[*English*]

This government's first budget delivers on the commitments we made to Canadians during the election campaign. This plan delivers real results for Canadians and will contribute to stronger families, safer communities, and a better Canada.

I would like to focus my remarks today on two areas at the core of the bill before the committee today. Indeed, they represent what the government stands for; I'm speaking about tax relief and child care.

First, on tax reductions, it became clear during pre-budget consultations, Mr. Chair, what Canadians were up against: government was taking too big a bite out of their paycheques.

[*Translation*]

Middle-class Canadians and their families told me that they were working harder and harder, but getting less and less in return.

[*English*]

I kept telling them to wait until the budget day. Now that day is over and we have kept our promise to Canadians. Budget 2006 proposals will leave significantly more money in the pockets of Canadians, and the budget delivers greater benefits, especially for middle-income families, than were anticipated under the tax measures proposed in 2005.

With these measures, the government is not only keeping its word to Canadians on cutting the GST, but it is also going much farther in delivering immediate, real, and continuing results for people across the country. In fact, the budget provides almost $20 billion in tax relief for individuals over the next two years. Mr. Chair, this is more than the last four federal budgets combined. The tax measures in this budget will remove some 655,000 people completely from the federal income tax rolls.

The tax reduction measures start with a key commitment of the new government, the reduction of the GST to 6% from 7%. As I said, this measure delivers on a commitment this government made to Canadians. This key measure of our tax reduction plan will put money in the pockets of Canadians every time they buy something for themselves, their families, or their homes. This is a real tax cut for all Canadians. Effective July 1—Canada Day—and assuming the bill passes, Canadians will see this tax cut in action every time they buy something. This tax cut will benefit all Canadians by $8.7 billion over two years—even those lower-income Canadians who don't pay income tax, who make up about a third of Canadians.

Let's look at some concrete examples. A person spending $30,000 on a new car will save $300 in GST. For young families buying a new $200,000 home, the GST savings are $1,280, after taking into account the GST rebate on new housing. These are substantial savings, Mr. Chair.

The date of July 1, 2006, has been the subject of some comment. I can tell you it was chosen to ease the administrative transition for Canadian businesses. It will provide all businesses—large, medium, and small—with sufficient advance notice to modify their cash registers, computers, and other systems. The date also coincides with GST filing periods—not only for monthly filers, but also for smaller businesses that file quarterly. Finally, as you know, there are three provinces that have a harmonized sales tax/consumption tax system, and the agreements with those provinces require the federal government to give at least two months' notice, which I did shortly before the budget.

It is also important to remind the committee members that the GST will be reduced by a further percentage point in a future budget, providing Canadians with more money in their pockets.

The GST cut is an important step in the right direction, but it's only one part of our tax relief plan. In every way the government takes money from Canadians, the government will take less of it. We made a promise to reduce the GST, and we have kept that promise. Budget 2006 goes beyond that promise by proposing additional tax relief for Canadians.

The bill proposes to increase the basic personal amount—the amount that an individual can earn without paying federal income tax—so that it grows each year and remains above currently legislated levels for 2005, 2006, and 2007. This includes preserving the $500 increase scheduled for 2005. The basic personal amount will continue to grow with indexation; in addition, there will be a permanent $100 increase in 2007.

In total, this budget will provide more than $26 billion in tax relief over the period from 2005-06 to 2007-08. Of this sum of approximately $26 billion, more than 90% will go to individuals and families in Canada. That's not the end of the story, either.

● (1535)

[*Translation*]

The Harper Government recognizes that lower taxes for businesses are essential if Canada is to remain competitive. They will encourage the investment necessary to create jobs and ultimately improve the living standards of Canadians.

[*English*]

The Canadian Chamber of Commerce was clear in its support of the government's action on this front. Following the introduction of this year's budget, the CEO of the Canadian Chamber of Commerce said this:

> The government has heard our call and acknowledged the need to reduce the tax burden of Canadian taxpayers and businesses alike, in order to make Canada more competitive.

To make Canada's tax system more competitive for businesses, Bill C-13 proposes to set out a significant business tax relief plan that will reduce the general corporate income tax rate from 21% to 19% by January 1, 2010. It proposes to eliminate the corporate surtax for all corporations in 2008. And it proposes to eliminate the federal capital tax as of January 1, 2006, two years ahead of schedule.

To further encourage small business growth in Canada, Bill C-13 proposes to increase the amount of small business income eligible for the reduced federal tax rate to $400,000 from the current limit of $300,000 as of January 1, 2007. This bill also proposes to reduce the current 12% income tax rate applying to qualifying small business income to 11.5% in 2008 and 11% in 2009.

Tax measures in this bill go even beyond what I've already outlined. For example, this government recognizes the invaluable role played by charities in assisting Canadians and in contributing to our sense of community. It also recognizes important projects in the cultural, educational, and social sectors. So to encourage charitable living, this bill proposes to eliminate capital gains tax on certain donations to charities. It also increases support for the Canada Council for the Arts.

I must say, Mr. Chairman, I am just thrilled by hearing in the last almost a month now from across Canada about the substantial amount of charitable contributions that are proposed to be made assuming this bill passes. There are millions and millions of dollars in publicly traded securities that are going to be given to important institutions in Canada as a result of this budget, assuming Bill C-13 passes.

As Karen Kain, the chair of the Canada Council for the Arts, said:

> This government has recognized the value and importance of the arts to the quality of the lives of Canadians and their communities;

At the risk of sounding something like a broken record, this government has done even more. Time doesn't permit me to outline every measure proposed in the budget, but I would just quickly mention the children's fitness tax credit and the pension income credit. These initiatives will help improve the quality of life for all Canadians, both young and old.

I mentioned at the outset the child care credit. This government has kept its promise to cut taxes for Canadians. It is a priority for this government. We also recognize that each family has its own challenges and that no two families are alike. And it's individuals, not the government, who are in the best position to make the right choices for themselves and their families.

● (1540)

[*Translation*]

That is why Budget 2006 announced the kind of investments that will make a real difference to parents, by providing more choice in childcare for families with young children.

[*English*]

As a result of the budget measures proposed in Bill C-13, total direct federal support to families will be approximately $11.7 billion for the 2006-07 benefit year, with the vast majority of benefits directed to low- and middle-income families in Canada.

At the heart of this support is the proposed new universal child care benefit, $100 per month for each child under age 6 effective July 1, 2006, assuming the bill passes. This proposed measure will help give parents the flexibility to choose the child care option that best suits their family's needs.

An important part of this initiative—and there was some anticipatory criticism pre-budget about this—is that the universal child care benefit will not have other federal benefits clawed back. In other words, benefits paid under the Canada child tax benefit and the goods and services tax credit will not be reduced on account of the new benefit. The benefit will also not be considered income for the purposes of federal income-tested programs delivered outside of the income tax system, such as the guaranteed income supplement, the Canada education savings grant, the Canada learning bond, and employment insurance.

The government also recognizes that the availability of quality child care is a challenge for many working parents. To support the creation of child care spaces, this bill proposes to set aside $250 million per year beginning in 2007-08. The government will consult with provinces and territories, employers, and community non-profit organizations to ensure that assistance is effective in creating additional child care spaces. It must also be responsive to the needs of parents and administered in an efficient and accountable manner.

So summing up, Mr. Chair, this government has kept its commitments to Canadians. With this bill we are reducing taxes; with this bill we are providing choice in child care; with this bill we are delivering results.

[*Translation*]

And we are doing all of this in a way that is fiscally responsible, that will pay down debt, contain government expenses and deliver the greatest value for taxpayer dollars.

[*English*]

I would now be pleased to answer any questions from the committee, Mr. Chair. Officials from the Department of Finance have also joined me to assist in answering questions.

Thank you.

The Chair: Thank you very much, Minister.

We'll lead off with Mr. McCallum. You have seven minutes, sir.

Mr. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair. I'll probably be sharing some of my time with my colleague, Mr. McKay.

My first question to the minister is whether he would agree, as stated very clearly on page 218 of the budget plan, that the lowest personal income tax rate that Canadians actually pay will rise on July 1, assuming the bill passes, from 15% to 15.5%.

Hon. Jim Flaherty: All taxpayers will, on average, pay less income tax in Canada as a result of Bill C-13. In fact, it is only because of Bill C-13, assuming it passes, that Canadians will not be called upon to pay the level of taxes set out in the 2005 budget.

Hon. John McCallum: But do you agree with the very simple point I just made, that effective July 1, the tax rate will go up from 15% to 15.5%? It's stated in this book. Is that not correct?

Hon. Jim Flaherty: That's correct; it's in the book. But I say to you, Mr. McCallum, all Canadians will pay less income tax on average as a result of Bill C-13.

Hon. John McCallum: Good. Thank you.

That's the first time we have had you acknowledge that basic truth. When we go from that basic truth to the consequences of that truth, we have a recent report by Dale Orr, a well-known economist—not traditionally very friendly to Liberals when we were in power—who makes a number of points that follow from that very point you have just acknowledged.

He makes the following three points: one, the personal income tax cuts are really only 5% of what was stated in the budget and the speech, as a simple consequence of your admission just now that the tax rate went up and not down; two, the total tax cuts were only half of what was advertised; and three, far from 655,000 people coming off the tax rolls as a consequence of your budget, 200,000 Canadians were in fact put back on the tax rolls.

Those three points follow from the admission you just made that the tax rate went up. I'd like to ask you to acknowledge those three corollaries of the point you just acknowledged.

● (1545)

Hon. Jim Flaherty: I didn't admit that the tax rate went up, Mr. McCallum. What I said was that there was a ways and means motion last fall that had 15.5%, and it didn't pass. Your government was defeated.

When I compare Budget 2005 with the 2006 budget, in every tax category—

Hon. John McCallum: But that's not the question.

Hon. Jim Flaherty: —Canadians will pay less income tax than they would have paid under the budget that was passed—I'm sorry, under the NDP budget that was ultimately passed, one of the budgets that you passed in 2005.

Hon. John McCallum: Well, the record will show what you said. What you did say was, yes, because it's in the book, the rate that Canadians actually pay.... Canadians don't actually care whether their rate is legislated or passed by ways and means; Canadians only care what they actually pay. As you just acknowledged—as the book says—that rate will go from 15% to 15.5% as of July 1. I'm pleased you acknowledged it. Those three other points follow from that acknowledgement.

Now I will ask my second and final question, which is on fiscal imbalance: how are you going to pay for this? Whether you do a 10-province standard, with or without resource revenues, the cost is in the billions of dollars per year. I think a billion dollars is just small change when it comes to giving additional funds to provinces, whether through equalization or transfers. You have budget surpluses in the next two years of $0.6 billion and $1.4 billion, and you have no more prudence. You seem to have spent all the money. You've promised to fix the fiscal imbalance, but the monetary cupboard is bare.

We don't have the figures for years three, four, and five, but all the tax measures you have announced are ongoing. The experts I have consulted think there won't be all that much additional funding going forward.

When you make a big election commitment to fix the fiscal imbalance, you actually take money back from provinces through cancelled child care agreements, and the cupboard is bare. How are you going to honour that commitment?

Hon. Jim Flaherty: Not only are you wrong about the income tax issue—which you are, because all Canadians will pay less tax than they would have paid under the Liberal government—

● (1550)

Hon. John McCallum: That wasn't the point.

Hon. Jim Flaherty: —but you're also wrong about the spending issue. For every $3 we had, we used $2 for reducing taxes and $1 for spending.

You make the assumption, the traditional Liberal assumption, that the only way to resolve problems in Canada is to throw money at them. You also make the assumption, as Liberals always did when they budgeted here for 13 years, of creating these artificial numbers, at the end of the budget, of zero-zero and pretending it was balanced.

We didn't do that this year. We actually put in the correct numbers at the end of the budget, which you've just quoted, that actually there will be a $400 million surplus, and $1.4 billion next year, and so on. We didn't mislead the Canadian people, quite frankly, and then come up with huge surprise surpluses at the end of most fiscal years, which Liberal governments did year after year in Canada.

Hon. John McCallum: My question remains, where is the money for the provinces—

Hon. Jim Flaherty: Dealing with the fiscal balance issues and the equalization issues, there are three primary considerations here. One is the core responsibilities of the federal government and the provincial governments. The Liberal governments in Canada could not restrain themselves from using funds that quite rightly should be used for federal core responsibilities—like security, like our armed forces, like immigration—and meddling instead in provincial and territorial affairs in Canada. So we have to have that fundamental realignment, which our government is committed to doing.

Secondly, we already have a health care accord with the provinces and the territories—

Hon. John McCallum: Thanks to us.

Hon. Jim Flaherty: —with a fixed, built-in 6% escalator that goes into the base each year.

Thirdly, we have very substantial funding for infrastructure in Budget 2006, more than $16 billion over the next four years.

The remaining issue that is a challenge, no question about it, and that certain premiers have raised, is the issue of post-secondary education. That has to be dealt with.

As you see, the issues are becoming more narrow and more focused when we're dealing with transfers and equalization.

Hon. John McCallum: So it's only post-secondary education. I think many premiers would say it's also equalization, and I think it's billions for equalization. Are you saying there will be no more money for equalization?

I don't think you've answered my question. I've said that the monetary cupboard is bare. You have a surplus of $1.4 billion. That goes nowhere in terms of equalization, plus the post-secondary that you mentioned.

My time is up, I guess, but I don't think you've indicated to the satisfaction of any premiers who are counting on the government to meet its election commitment that there is money to fix the fiscal imbalance.

The Chair: Mr. McCallum, you're out of time.

[*Translation*]

Mr. Loubier, you have seven minutes.

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

I would like to welcome you, Minister. It is always a pleasure to see you.

It is, however, curious to hear my colleague from the Liberal Party, Mr. McCallum, speak so intensely about the fiscal imbalance when in fact the members of this party never believed in its existence at the outset. We find ourselves facing a fiscal imbalance now because, in Mr. Martin's 1995 budget, transfers for post-secondary education, health and social assistance were cut drastically. Mr. Martin never wanted to reform equalization either. So this is a mantle that you are assuming rather late in the game. This is unfortunate because you were in fact, given the tremendous surpluses that you accumulated every year, in a very good position to remedy the problem.

That being said, Minister, we supported your budget for one reason exclusively and that was that it contained a solid commitment and process to correct the fiscal imbalance. In French and in English, correcting means removing all of the problems related to the fiscal imbalance.

You mentioned, among other things, the problem of post-secondary education and the issue of health care, which has not been resolved yet. Even with the September 2004 agreement, if we are to achieve the federal contribution of only 25 per cent for health care, some $1.5 billion, and this on a recurring basis, every year, is still missing.

As far as post-secondary education is concerned, we need $4.9 billion per year to remedy the fiscal imbalance. If we use the rule of ten for equalization and if we correct the many parameters, including property tax, by taking into consideration all renewable and non-renewable resources, we still require a further correction in the amount of $4 billion. Basically, we need between 10 and $12 billion per year to remedy the fiscal imbalance.

As you know, the Bloc Québécois has often discussed this issue. We must take steps to ensure that this amount is transferred in a form of tax points or tax sectors to the provinces to ensure that they have some independence and financial predictability and also to ensure, as was the case in 1964, that these tax points appear in the provinces' financial statements so that they in turn can fulfill their constitutional obligations.

Over the past two weeks or so, you have concerned me, not you alone, but also your Prime Minister, Mr. Harper. He said, about two weeks ago, that this issue was nearly dealt with, that there was very little work to be done because, with the health agreements — those are your exact words —, a lot of the work had been done. You yourself said, yesterday, when talking about equalization, that you did not exclude at all the possibility of removing all non-renewable natural resources. By doing this, you will not correct the fiscal imbalance. Hence, in the case of Quebec, for example, instead of increasing equalization payments by $1.9 billion per year, you would be reducing equalization payments by $872 million.

How can you reconcile the fact that, in your budget and throughout your election campaign, you made a commitment to correct the fiscal imbalance with the fact that, over the past few days, you have been trying to soften this correction by proposing a very partial method of correcting the problem?

[*English*]

Hon. Jim Flaherty: A lot of ground was just covered, and I will try to be as focused and succinct as I can in my response.

The context of fiscal balance and fiscal imbalance is different now from what it was several years ago. One of the important facts is that of the 14 governments in Canada, most have balanced budgets and surpluses now. This is not true of two of the provinces, Prince Edward Island and Ontario. There are no longer extraordinary federal surprise surpluses, nor do we intend to have such surpluses. The existence of those surpluses led to a rather strong outcry about fiscal imbalance.

At the same time—and I can say this as a former minister of finance—in one of the provinces some five or six years ago, before the health accord...there was tremendous pressure on provincial governments to use whatever extra dollars they had or whatever dollars they could save in health care, because health care was growing at 6% or 7% or 8% per annum on average. Provincial governments were struggling to keep up with that degree of growth in health care, which was consuming something north of 40% of program budgets of the provinces and territories. In Ontario it was 45% to 46% of the operating budget.

So as I say, that intense pressure that was on the provinces with respect to health care spending is no longer there. It's not to say—and I agree with you, Mr. Loubier, I would not be presumptuous to say—there is no issue there, but I would say that the issue is much more modest than it was some five or six years ago.

● (1555)

[*Translation*]

Mr. Yvan Loubier: Minister, even with the September 2004 health accord, the additional $ 385 million equalization payment and other small agreements that have been entered into over the past year-and-a-half, there is still, as far as the fiscal imbalance is concerned, a shortfall of between 10 or $12 billion per year. Consequently, it cannot be said that the pressure has disappeared.

If you are telling me that the fiscal imbalance can be corrected simply by keeping the provinces better informed about the status of public funding, I must tell you that I do not agree. During the election campaign, you made a commitment to correct the fiscal imbalance. You repeated these words in the budget. Moreover, this is why we supported the budget. Given that there were no measures to reform employment insurance or the program for older worker assistance, we would not have hesitated to vote against your bill were it not for this.

Now you appear to be minimizing the problem. Indeed, how much money do you estimate it will take to correct the pan-Canadian fiscal imbalance? I would like you to give us an idea of the magnitude.

[*English*]

Hon. Jim Flaherty: Thank you.

The Chair: Mr. Flaherty, a quick response.

Hon. Jim Flaherty: To speak of the scope and magnitude of the issue is to say that we are working on it and it is getting more focused. I give the previous government credit for the health care accord that was reached. It has largely removed that issue from the table, not completely but largely. In our budget this year there's massive spending for infrastructure over the course of the next four years. It's not a complete answer, but it's a major step forward in terms of the fiscal balance issue. There's very substantial spending in Budget 2006 on capital for infrastructure for post-secondary education. But there's more to talk about there, definitely, as we go forward.

For the first time in Canada we have a federal government that says yes, there's a fiscal imbalance issue and we need to work together to move toward fiscal balance. I don't want you to think that we do not remain committed to moving toward fiscal balance; we do, and we consider it a work in progress. We're already making some strides.

The Chair: I'm sorry, sir, your time has elapsed.

Mr. Del Mastro, you may proceed.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Mr. Chair.

First, I would like to begin by congratulating the minister on this budget. I'd like to let him know that on the day following his tabling of the budget, a major newspaper in my riding featured the headline “Promises kept”. I think that's a very significant statement by the media with respect to this budget.

On a personal note, I would also like to thank him. As a person who lost his father to cancer, several uncles, an aunt, I appreciate his funding of the Canadian Cancer Society's cancer strategy, as well as the immense commitment demonstrated to the agricultural community, which will benefit people in my riding. The corporate securities transfer for charities is also something that has been receiving very positive play in my riding. A lot of charities have come to me and talked about its significance, including our new hospital project.

I was going to talk specifically about the GST and the reduction of the GST. There's been some suggestion that we have an economy with a lot of retail stimulus and so forth and it doesn't really need an additional retail stimulant. I'll tell you, as somebody who owns a retail establishment, specifically in the auto industry, we're not finding that at all.

Perhaps you could speak to the types of savings.... In fact, I did also talk to my local hospital and they indicated that every percentage cut in the GST will actually save them about $65,000 per point. That is enough to employ an additional nurse. There are benefits for each and every Canadian within that. Maybe you could speak to that a little bit.

● (1600)

Hon. Jim Flaherty: Thank you for the question. I guess the newspaper you are referring to must be the legendary *Peterborough Examiner*.

The GST cut is important. I think what is most remarkable about the GST cut is that there is actually a government in Canada that has reduced the sales tax, a consumption tax. It's difficult to remember when that last happened, and people quite rightly become a bit cynical about government. Taxes either stay the same or go up, but they don't go down, particularly consumption taxes. So finally there's a tax break for everybody in Canada, not just the two-thirds who pay income tax, but the one-third also who don't, but who buy things and will have the benefit of a tax reduction.

I was happy that it was met with approval by the Canadian Federation of Independent Business and others. I don't mind saying there was some initial concern by some about how it might affect house sales, or car sales, or sales of boats and mobile homes and things like that, but I see already from newspaper advertisements that the entrepreneurial Canadian spirit seems to be triumphing and people are moving forward. The market seems to be dealing with that issue, as it had to deal with it when the GST was introduced some years ago. There's a period of adjustment.

On real estate transactions, I have written to the law associations across Canada to ensure that the lawyers who do real estate work are aware of the transition provisions and how to deal with real estate transactions to make sure consumers who are transferring houses—buying and selling houses, buying new houses, or whatever—in Canada, get the full benefit of the GST provisions in Budget 2006.

Mr. Dean Del Mastro: Can you just confirm for me that the expenses incurred by businesses for implementing the GST rate change will be deductible for income tax purposes?

Hon. Jim Flaherty: Yes. That's with the revenuers, of course, but I'm assured that legitimate business expenses incurred for the purpose of doing business are deductible.

The Chair: Madam Wasylycia-Leis, it's your question.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you very much.

On the GST, for clarification on the question of the burden some small businesses feel they are dealing with as a result of making the transition, is there a plan at all to give some assistance to small businesses who feel they either have to hire extra help or need some extra time to make this a reality?

Hon. Jim Flaherty: There is no plan for any type of assistance for small business. We consulted with small business, medium-sized business, and large business in preparation for the budget. As I say, the Canadian Federation of Independent Business felt business owners had suitable time to adjust to the new rate, given that there was approximately two months' notice of the new rate, and that to the extent there are legitimate business expenses relating to the change, those are deductible in the normal way for business as business expenses.

Ms. Judy Wasylycia-Leis: The CFIB also recommended some kind of compensation. Have you ruled that entirely out of the question?

Hon. Jim Flaherty: Yes. There is no intention of having any sort of compensation program. We're interested in growing the economy, and so is business in Canada. I think to reduce a fixed consumption tax such as the GST will help all businesses in selling their products and making more money and creating more jobs in Canada, which is good for our country.

Ms. Judy Wasylycia-Leis: If we hear of small businesses in trouble because they can't accommodate this change, would you be open to hearing those cases in any individual situations?

Hon. Jim Flaherty: Of course I'd be open to listening. I would worry about the solvency of a business with respect to which that kind of change would imperil the business.

Ms. Judy Wasylycia-Leis: Those that are really small mom-and-pop shops might have that trouble.

I'd like to ask a couple of questions on the whole issue of white collar crime, given the Enron decision in the last few days.

Do you think it's time for a Canadian version of Sarbanes-Oxley?

● (1605)

Hon. Jim Flaherty: I think we have to do more than we have been doing; I agree with that. I'm certainly open to your suggestions and those of the other opposition finance critics as to what we should be doing.

As you know, we're taking over the presidency of FATF in July, which deals with financing of terrorists, with counterfeiting, and with other issues. Canada intends to exercise that leadership role beginning in July.

There are significant concerns about the degree to which Canada effectively polices white collar crime and prosecutes it. I'm your ally when it comes to trying to do better.

Ms. Judy Wasylycia-Leis: Thanks.

Specifically on income trusts—I've been delving into this a fair amount, as you may imagine—there is a growing body of evidence to suggest that a good number of income trusts are not following general accounting principles and are overvaluing their trusts to a significant amount. Many are collapsing, and some seniors who invested pensions are losing their life savings.

Are you prepared to entertain any amendments to existing legislation to deal with this particular problem of white collar crime?

Hon. Jim Flaherty: Certainly. I'm very open to whatever suggestions or recommendations you have on the subject. There is no monopoly on knowledge or good ideas in that area, and I'm happy to listen and learn.

Ms. Judy Wasylycia-Leis: One other suggestion in this area is the idea of a single regulator or a national securities commission. I know some of the provinces are of other minds, but it seems that it would be a logical idea to pursue in trying to deal with some of the issues around white collar crime. Are you prepared to consider moving on this issue of a single regulator?

Hon. Jim Flaherty: Yes. I must say that this issue comes up frequently across Canada, and outside of Canada, with respect to private equity investment in Canada. We're trying to attract more and more private equity investment in Canada. It's good for our country; it's good for economic growth.

It also comes up in the context of law enforcement, of the enforcement of securities laws, and of waste–the plain and simple waste of running more than a dozen securities operations in a country of 34 million people. We're the only country in the western world that has multiple securities regulators, instead of a common regulator.

This doesn't mean that the federal government should seek to take over securities regulation in Canada. I think it means we have a role to play—in the interests of creating a better-functioning economic union—in encouraging the provinces to create a common securities regulator. If there's a role for the government of Canada in doing this, that's good too.

I've had discussions with some of the provincial ministers. Some of the ministers are getting together in a couple of weeks. They've done a great deal of work on this issue; it's important for Canadians. Our view is that to make the economic union function better, we should move toward a common securities regulator.

Ms. Judy Wasylycia-Leis: I have three more questions and only one minute.

The first question has to do with payday lenders and the request from Manitoba, B.C., and I think a growing number of provinces for the federal government to put the Criminal Code rate of interest aside, so that provincial regulator schemes could be put in place to deal with a growing and serious problem. Are you prepared to act quickly on that and make this a reality? Manitoba has already introduced its legislation.

Secondly, with respect to the issue of mortgage insurance, which we dealt with yesterday at great length, I'm wondering if you would be prepared to consider putting some safeguards in place to ensure that all communities are addressed and no one is left out—that high-risk clients are still able to access the system and that the fundamental principles regarding mortgage insurance under CMHC are not lost.

Thirdly, what is your thinking right now on bank mergers? Is there any shift at all? I know you've said in the past it's not on your agenda. I'm wondering where it's at.

Finally, have I got time for one more?

The Chair: No.

Ms. Judy Wasylycia-Leis: Okay, I'll stop there and wait for the answers.

● (1610)

Hon. Jim Flaherty: Thanks, Mr. Chair.

I'll answer quickly. Number one, on payday lenders, the Minister of Justice has done a fair amount on that issue. We've had discussions, and I look forward to his moving forward on that. I've also discussed it with the Minister of Finance in Manitoba. I agree with you with respect to the need to address the issue.

On mortgage insurance, we believe in competition. We think that the provisions in Bill C-13 will increase competition in this area, that it is adequately regulated, and that more competition is good for this part of our economy.

Thirdly, bank mergers are not a priority for our government.

The Chair: We'll proceed.

Mr. McKay, five minutes, sir.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Mr. Chair, and thank you, Mr. Minister, for appearing.

I have in my hand a letter from the then leader of the opposition, Stephen Harper, to Premier McGuinty, dated January 18. On January 18, during the course of an election, he confirms that he is prepared to support the Canada-Ontario agreement. Just to read a couple of sentences from this letter, he says:

> However, given your strong commitment to the terms of the current agreement, I have no difficulty in accommodating your request. This means we will be fully funding this agreement through the 2009-10 and 2010-11 fiscal years, a commitment which is clearly within the fiscal flexibility of our plans.

He then finishes his letter by saying: "I have attached the spreadsheet which sets out the details of the funding of that agreement in order to avoid any confusion." And what he attaches is table 1.2, "Initiatives Proposed Before the November 2005 Economic and Fiscal Update".

I'd like to know, Mr. Minister, just what part of this agreement is still on the table? Are you still committed to Ontario to provide over the period of time set out in this chart $2.3 billion for higher energy costs?

Hon. Jim Flaherty: I can save you the time of going through it, Mr. McKay. We are honouring the agreement in full. It is fully funded in Budget 2006. The Prime Minister's commitment will be fulfilled in full, and I've told the Minister of Finance in Ontario that.

His concern is going to change there, but the previous minister's concern was in some of the details of when funding would flow. He and I were to get together, I think it was last Monday, to discuss that, but there's been a change in minister there, so that meeting has been temporarily delayed. But we still intend to have the meeting to work on the details.

Hon. John McKay: But the previous minister had some concern that in fact you were not going to honour the agreement, that in fact you were only going to commit to a period of two years rather than the five years. Is that correct or incorrect?

Hon. Jim Flaherty: I don't know. He didn't express that concern to me. I can tell you we are fully funding the agreement for the full six years of the agreement.

Hon. John McKay: He also had a concern that you were going to count tax credits as credits toward this agreement. Is that correct or incorrect?

Hon. Jim Flaherty: It may depend on the specific issue. We're committed to the flow of funds. We'll have to talk about some of the details if there is some concern that way. Some people say to me, too, are you funding a subway in Toronto? That's up to the Government of Ontario about what they choose to fund or not with the dollars that are provided to them—for example, for infrastructure.

But in this agreement, in the Canada-Ontario agreement, there's an extra $300 million for infrastructure that only the Province of Ontario gets, and that's a substantial extra contribution—

Hon. John McKay: But you will agree with me that even the proposal, even a hint, even a scintilla of a hint, of a tax credit to a citizen is a far different beast from an actual direct transfer to a government. Would that be correct?

Hon. Jim Flaherty: I can't deal hypothetically with it. I'd have to look at specific issues. I haven't had that—

Hon. John McKay: So you're not proposing at all under any circumstances that tax credits be considered as part of the funding for the Canada-Ontario agreement?

Hon. Jim Flaherty: My job as Minister of Finance was to fully finance the Canada-Ontario agreement. We fully financed, fully funded, the agreement. There may be some details with respect to which the province would have to have discussions, and that wouldn't surprise me. Our officials have met and they've had some concerns about this item or that item. But the people of Ontario don't need to be concerned that the agreement is fully funded, and fully funded over six years.

● (1615)

Hon. John McKay: But I want you to confirm for the purposes of this meeting that you will not propose that tax credits form any part of the obligations that the Government of Canada has to the Province of Ontario.

Hon. Jim Flaherty: I'm not going to deal with hypotheticals. I'm going to just say to you—

Hon. John McKay: That's not a hypothetical. It's a very simple question, and it has to do with the point that this agreement contemplate cash transfers to a government, not tax credits to taxpaying citizens.

So it's relatively simple, are the obligations that your leader undertook during the election going to be fully funded by way of cash to the Province of Ontario over the course of the spreadsheet attached to his letter?

Hon. Jim Flaherty: We will fully fund the agreement. We already have. We will fully implement the agreement over the course of the six years of the agreement.

The Chair: Thank you, MInister.

The next questioner is Monsieur St-Cyr.

[*Translation*]

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): Thank you.

In your budget and during the election campaign, you talked about correcting the fiscal imbalance. This was why the Bloc Québécois supported the budget and why certain Quebeckers voted for you. Everyone is now expecting the fiscal imbalance to be completely eliminated once and for all. We are not talking about starting to look for solutions or doing things on a gradual basis. Everyone in Quebec is expecting the matter to be settled in the next budget.

Is this a firm promise that you intend to keep? Could you give us an idea of how much it will take, in financial terms, to correct the fiscal imbalance?

[*English*]

Hon. Jim Flaherty: Thank you for the question.

If I may speak specifically to the issue of equalization, I know the Government of Quebec has certain views about what should be included and what should not be included in the formula, as do some other governments in Canada. They are not in agreement, and that's a reality.

At the end of the day, equalization is a federal program. It is not a provincially funded program. It is a federal program in Canada; it is a constitutionally mandated federal program. There is no discretion in the Government of Canada about whether or not to have equalization. The Constitution says one must have equalization. At the end of the day, it's the obligation of the federal government to move ahead with some kind of equalization payments. We did that in the budget this year, as you know.

We hope the discussions will be useful and fruitful this year, but we intend to move ahead. We must have an equalization program, and at the end of the day we will have a federal equalization program.

[*Translation*]

Mr. Thierry St-Cyr: I am not talking specifically about equalization but rather the fiscal imbalance in general and how it will be completely resolved, through transfers, tax points and so on. Do you intend to keep the commitment you made to resolve this issue in the next budget? Without going into detail, I would like you to give us an idea of what this amount will be.

[*English*]

Hon. Jim Flaherty: Yes, we will keep our commitment. Yes, we acknowledge the fiscal imbalance. Yes, we intend to move to a position of fiscal balance with the provinces and territories.

It would be a wonderful country if we could have a unanimity of opinion about what that means. I rather doubt that's likely, but one can always hope for a unanimity of opinion. But at the end of the day, we have to move forward.

As you know, some people would say that it's better to have transfers than it is to transfer tax points, and there are different views by different governments in Canada on that issue. But yes, we will keep our commitment to move toward fiscal balance and to deal with the funding issues in Budget 2007, assuming we're still the government at that time.

[*Translation*]

Mr. Thierry St-Cyr: As for the program for older worker assistance, we voted on a sub-amendment pertaining to the Speech from the Throne and you adopted it. It was the Bloc Québécois that presented the amendment. You said at that time that you would do a feasibility study on the matter.

Since this program has already existed, before it was cut by the Liberals in 1997, we know that it costs about $100 million.

When will we see this program reinstated?

● (1620)

[*English*]

Hon. Jim Flaherty: We said that in the budget—and this was strongly influenced by the views of your party and by Mr. Loubier in our discussions pre-budget—we would do a feasibility study with respect to older workers and to provide some funding. If there's a program to be implemented, there is funding in the budget so that we can do it, but we need to get on.

I know your party is of the view that we perhaps don't need to study it any more, but we would like to take a little time and study it in a feasibility study. We can then move forward with action.

[*Translation*]

Mr. Thierry St-Cyr: What is the timeline?

[*English*]

The Chair: *Malheureusement*, you're out of time.

Madam Ablonczy, five minutes.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): Thank you, Mr. Chairman.

Thank you, Minister.

You mentioned in your earlier answers that in this budget there are tax reductions to Canadians of about $26 billion, almost $20 billion of which go to individuals. A number of people question that decision. They believe the money should have been kept in the hands of the federal government and spent on various programs, depending on the priority of the people talking.

I believe Canadians would be interested in the principles that guided you in making your decisions on this budget. Obviously, you put more emphasis on reductions and tax relief than you did on increased spending. I'd like to give you an opportunity to explain why you did that and what benefit you believe that will bring to Canadians.

Hon. Jim Flaherty: Thank you.

The purpose of tax reductions is not simply to have people pay less tax and have more money in their pockets. The purpose is to create more economic activity, to create more investment, because people have more resources in their own hands to reinvest in their businesses, to start new businesses. We know that the small and medium-sized business sector is where job creation happens in Canada for the most part. So as a matter of principle, we believe in reducing the burden on Canadians and on Canadian families.

We also acknowledge that at the end of the day there is only one taxpayer, that there aren't three different people paying taxes to municipal, provincial, and federal governments, that there is one taxpayer who has one large burden in Canadian society. So we have reduced that burden substantially.

The other thing we're trying to do is to be clear, particularly with respect to how we budget, which is why most—not all but most—of the budgeting in the budget is on a two-year horizon, so that we're not doing what the previous government was wont to do, which was this kind of hockey-stick financing where they would say, “Oh, we'll have a 10-year program, or an 8-year program", and the funding is in the blade of the stick for the first couple of years. It's not very much, and then the funding goes up like this, like the handle of a hockey stick.

What we're trying to do is to be realistic and clear with Canadians about our budgeting and to avoid the kinds of so-called surprise surpluses the previous government was fond of creating. Those surprise surpluses are bad for several reasons. One, they distort funding, but also they put government in the position of avoiding Parliament with respect to substantial spending decisions at year-end with these surprise surpluses. So they're a good thing not to do for several reasons, and we're moving away from that.

We've also made a suggestion on the surplus issue in the fiscal balance paper that was issued with the budget about one alternative for distributing a surplus: in addition to paying down $3 billion of debt each year, perhaps taking the additional surplus or part of it and allocating it to CPP and QPP.

Ms. Diane Ablonczy: In your budget, you're clear about what you think the surplus will be and that you don't expect that surplus to be exceeded, but it's a pretty small amount. There have been some concerns, I guess, in some quarters that our government may not, and that you may not, be careful enough not to fall into deficit. There are also questions about paying down Canada's rather large debt and your commitment to doing that.

I wonder if you could just inform the committee and Canadians about your attitude about slipping into deficit and about your attitude toward paying down the debt.

● (1625)

Hon. Jim Flaherty: Certainly we feel that we have been sufficiently cautious in terms of budget planning to allow for a balanced budget. We did budget for a $3 billion surplus, of course, to pay down public debt. There are some additional items in the budget that are there by way of surplus.

What we're not doing is the old game of pretending that there isn't going to be some kind of large surplus, and then at the end of the year the people of Canada are told, “Oh, there is an extra $10 billion or $12 billion, and guess what, the government of the day has spent it on this project, or that idea, or whatever, that didn't go through Parliament." We're not going to do that, but we are committed. We have a firm commitment to balancing the budget. We think we've been quite prudent in accepting a reasonable range for likely economic growth, based on private sector forecasters with whom I met, of course, in preparation for the budget. But we are not budgeting with the kind of largesse that our predecessors budgeted.

The Chair: Thank you, Madam Ablonczy.

You've assured us that you can remain till 4:30. Would you be willing to take perhaps a couple more questions prior to your departure?

Hon. Jim Flaherty: Yes, Mr. Chair.

The Chair: Thank you, sir.

Mr. Savage, would you continue?

Mr. Michael Savage (Dartmouth—Cole Harbour, Lib.): Thank you, Mr. Chair.

Thank you, Minister, for taking the time to be with us today and for agreeing to extend your visit by a few minutes.

I'd like to ask a little bit about the Atlantic accord. A month or so after the election—actually, on March 10—a report indicated that you said the equalization situation today is a mess and doesn't make a lot of sense. Then the article went on to suggest that you were saying the Atlantic accord has upset the equalization formula.

Now there have been some denials and things like that, so people in Nova Scotia and Newfoundland and Labrador were somewhat mollified by that, but they were concerned to see it appear in the budget documents, in this book—the reference to the 2005 agreements to provide Nova Scotia and Newfoundland the Atlantic accords that suggested they were “widely criticized as undermining the principles on which the Equalization program is based”.

I'm not asking if the Atlantic accord is going to be scrapped, because I know the political price on that would be too high, but I want to get a sense from you, as a key person in the government, of how you see Atlantic Canadian issues. Do you believe that Prime Minister Paul Martin did the right thing in committing to, and fulfilling his commitment to, Nova Scotia and Newfoundland and Labrador by signing the Atlantic accords?

Hon. Jim Flaherty: I stand by the statement in the fiscal balance book to which you made reference.

The substance of the accords is one thing, just like the substance of the Canada-Ontario agreement is one thing. The concern is more the process; in a federation like this, to make our economic federation make sense, it's less desirable to have one-off agreements than it is to have everyone in the room and to work together toward a common agreement with respect to equalization.

As I say, it's more of a process concern than it is a substantive concern. You're fully aware of the differing views among provinces about what should or should not be included in the equalization formula.

Mr. Michael Savage: I had these discussions with Paul Martin and Ralph Goodale before the Atlantic accord. They had the concerns you had. At the end of the day they decided that the needs of Nova Scotia and Newfoundland and Labrador were significant enough to make a strong enough case for them to sign the Atlantic accords. Would you have signed the Atlantic accords?

Hon. Jim Flaherty: I don't speculate about what could have been or what might have been. I don't have an answer for you on that.

Mr. Michael Savage: Okay.

Let me go to Bill C-48. Where is the Bill C-48 money right now? What happened to the money from Bill C-48? I don't mean specifically—I don't expect you have it with you—but what happened to the money from Bill C-48?

Hon. Jim Flaherty: The Bill C-48 money is, as you know, contingent on the government's having a surplus for the past fiscal year of at least $2 billion, and that won't be confirmed until August or September. After that is confirmed—not that there's any significant doubt about it—then the money would flow.

● (1630)

Mr. Michael Savage: In Bill C-48 there were only 22 words that addressed post-secondary education, and they were, “for supporting training programs and enhancing access to post-secondary education, to benefit, among others, aboriginal Canadians, an amount not exceeding $1.5 billion”.

This is specific to student access; it's not to post-secondary infrastructure, the universities, or transfers to provinces to trickle down to students. Will there be $1.5 billion for student access coming out of Bill C-48?

Hon. Jim Flaherty: I'm told the number was $1 billion. I don't know it off the top of my head.

Mr. Michael Savage: No, it was $1.5 billion. We went through this the last time.

Mr. Paul-Henri Lapointe (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance): Bill C-48 gave the government authority to provide up to $1.5 billion. The government has now provided $1 billion.

Mr. Michael Savage: So Bill C-48 was up to $1.5 billion, but that $1 billion is for direct student assistance, not for post-secondary infrastructure?

Mr. Paul-Henri Lapointe: It is for post-secondary education infrastructure, yes.

Mr. Michael Savage: Infrastructure, not...but infrastructure is not in this; this is access. We've already got lots of money...well, we need it. I'm not saying we shouldn't; we should have money for post-secondary infrastructure. We are leading the G-7, as you point out in your lovely books, with all the great investments the Liberal government made.

The issue is access. My question is, was Bill C-48 a sham?

I'm not blaming the government. The New Democrats, as well, could have passed over $2 billion in direct student assistance in the economic update. I am asking if Bill C-48 is actually going to make its way to students.

Hon. Jim Flaherty: I don't want to quibble about words, but access.... Clearly, by creating more infrastructure, one creates more access for students to post-secondary education across Canada.

Mr. Michael Savage: I don't think that's the case.

The Chair: Sorry to cut you off, but with the cooperation of my colleagues on the committee, I have three others who wish to ask questions.

If I could give you two minutes each, we could accommodate my colleagues today.

I'll ask Mr. Dykstra to proceed.

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

Mr. McCallum and I have been trading shots on how the budget should actually be interpreted, and I was wondering if you could give some clarification—I know Finance officials did—on the reduction from 16% to 15% that didn't actually take place in legislation. I know Mr. McCallum claims that Canadians don't care; I happen to think they may care if the reduction was never actually passed into legislation. Would it or would it not have to be rescinded?

Hon. Jim Flaherty: Well, yes, as we're still a parliamentary democracy, thank goodness, Parliament does have to pass bills, as I hope Parliament decides to pass Bill C-13. But the ways and means motion from last fall was not followed through legislatively, so at the end of the day that proposed change would not have occurred. The legislation in Bill C-13 will reduce the rate from 16% to 15.5%.

Mr. Rick Dykstra: Thanks.

The other positive aspect that I know was tied into the reduction in tax was the employee tax credit. I wonder if you wouldn't mind just taking us through the process of how that will be implemented.

Hon. Jim Flaherty: The employee tax credit will start at $500 on July 1 of this year and move to $1,000 January 1 next year, or 2007. Part of the rationale for that is what we've all heard as elected folks over the years, how people who are employed, or at least some who are employed, feel they are hard done by vis-à-vis people who are self-employed in terms of what they can deduct. So this was one way of giving some standard deductions to persons who are employed, rather than self-employed.

The Chair: Thanks, Mr. Dykstra, for your cooperation.

Madam Wasylycia-Leis, for just a couple of minutes, please.

Ms. Judy Wasylycia-Leis: Sure.

I have two questions. First, I just want to go back on mortgage insurance for a moment, and this may come as a surprise to you, Jim, but in fact I do also support competition in the area of banking generally, and our problem today is that we don't have much competition. Banks have left communities high and dry. So I'm asking you, as you pursue this new initiative under Bill C-13, whether or not you would put in place some guidelines to ensure that competition allows for mortgage insurance to be delivered irrespective of region or income strata.

● (1635)

Hon. Jim Flaherty: On the mortgage insurance issue?

Ms. Judy Wasylycia-Leis: Yes, just some guidelines to protect the fundamentals here.

Hon. Jim Flaherty: We may not agree on this. CMHC will continue to serve the market comprehensively, as you know, and there will be more competition. We've even had one potential new participant demonstrate an interest and we think that's the fundamental safeguard.

Ms. Judy Wasylycia-Leis: All right. I think I've exhausted everything on that one.

Let me end on the GST for a moment. I know people can change their minds, but back in 2001 you actually said you agreed with Paul Martin with respect to reducing the GST. You said that:

> All you get is a short-term hit, quite frankly. You accelerate spending. You pull it ahead by a month or two. It has no long-term positive gain for the economy.

What has caused you to change your mind?

Hon. Jim Flaherty: Nothing actually, because what I was talking about there was a proposed temporary reduction in the Ontario sales tax to try to sell some more cars at a time when the car companies weren't doing too well, and it would have been a temporary reduction in PST. I'm against that because all it does is pull forward sales, and then you don't get the sales later on.

This is a permanent reduction in GST. I'm all for permanent tax reductions, not temporary ones.

The Chair: To conclude, Mr. Loubier, two minutes, please.

[*Translation*]

Mr. Yvan Loubier: Thank you, Mr. Chairman. You are very kind to give me an opportunity to ask one final question.

Minister, I think that it is futile to ask you to provide us with the ball-park figure that it will take to resolve the fiscal imbalance in a comprehensive fashion. We have our own order of magnitude. If you would like, we would be happy to provide you with some advice on the matter.

My question pertains to the program for older worker adjustment. We discussed the matter before the budget was tabled. Right up until the time that the budget went to press, I was telling you about an analysis that we were doing — and we are not the only one to have done so — showing that workers aged 55 and older, and in particular those in the manufacturing sector are not eligible for retraining programs. As for the softwood lumber sector, everyone is aware of the difficulties it is going through. These people often live in a region where there is only one industry or where there are but a few. However, even when they exist, employers do not rehire people who have hit the age of 55 or 60 for a few years of employment. They prefer to invest in people who are a bit younger and who will remain with the company longer.

Since the end of POWA the Program for Older Worker Adjustment, tragedies have occurred because when companies do poorly and massive layoffs occur, often husbands and wives both lose their jobs.

You made a commitment to undertake a feasibility study, that is all well and good. You want to know what you are getting into. Nevertheless, I would like to point out two things to you. We have estimated that it may cost $100 million per year...

[*English*]

The Chair: *Oui*. Move to a question, please.

[*Translation*]

Mr. Yvan Loubier: It cost $17 million when the program was abolished, in 1997, and this was for all of Canada. Accordingly, I do not think that the feasibility study will be difficult or time consuming.

When will you implement such a program? It is urgent. Primarily because of the industrial restructuring caused by globalization, many couples of older workers are suffering now.

[*English*]

Hon. Jim Flaherty: As soon as we can do a feasibility review, the funding will be available and we can go ahead with that project. So I think it's probably important now to get the relevant minister to move forward with the feasibility review quickly.

Dealing with the federal-provincial issues just for a moment, sometimes there's an assumption that this is a one-way street, that the federal government just transfers moneys to provinces. I'd remind you also of our commitment to our core responsibilities federally, and our commitment that goes along with that to not meddle in provincial affairs, so that there will be, I would expect, some reallocation of federal resources to core federal responsibilities.

The Chair: Mr. Minister, I thank you, on behalf of the committee, for your time today.

Given the fact that you have, I understand, triplet boys, and we've acknowledged John so much today, on behalf of the committee I will say belated birthday greetings to Galen and Quinn as well.

Would you like to make a brief concluding comment, Minister?

● (1640)

Hon. Jim Flaherty: No, other than to thank you, Mr. Chair and all members of the committee, for your courtesy here today and for your hard work on finance issues. I know there are a lot of issues that we'll be dealing with in the next while, and I thank you for your advice in that work.

Thank you.

The Chair: That's much appreciated.

I understand the officials will be remaining. I would invite Monsieur Lalonde to make some brief comments to begin our second round of questioning.

I'll invite the second panel to come forward now, please. Would the second panel please make their way to the table?

Committee members, the Finance officials who will be joining us are: Jim Daman, director of the sales tax division; Gérard Lalonde, senior chief from the tax policy branch; Carlos Achadinha, who is the chief of the alcohol, tobacco, and excise legislation tax policy branch; and Pierre Mercille, who is the chief of the sales tax division of the tax policy branch. Doug Murphy's name is on this sheet as well. I understand Mr. Murphy will be joining us also.

Monsieur Lalonde, whenever you are ready, sir, I welcome your comments. The committee will be interested in what you and your fellow panellists have to offer today.

Mr. Gérard Lalonde (Senior Chief, Tax Legislation, Department of Finance): Thank you very much. It's a pleasure to be back here at the committee. I looked forward to a chance to come up to the table because I'm dying for a glass of water, so this is a great opportunity for me. Thank you.

I and my colleagues who are joining me here at the table have been working very closely in the preparation of this budget, either in my case with the text of the bill, or in the case of some of my colleagues in developing the policy. As a result, we hope to be in some position to answer your questions. I can't promise we'll have all the information at our fingertips, it being impossible to anticipate every question that will come up, but why don't we just open it to the floor and see what comes up.

The Chair: Thank you, Monsieur Lalonde.

We'll commence with Monsieur Pacetti, *pour sept minutes, monsieur*.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): Okay. I was hoping to hear a presentation, but we can start.

The first question is, we keep hearing about the $20 billion in tax relief. Does anybody have a breakdown of it? I've been trying to crunch numbers, but is it anywhere in the budget? Did I miss it?

Mr. Serge Nadeau (General Director, Tax Policy Branch, Department of Finance): Could you repeat your question, please?

Mr. Massimo Pacetti: The $20 billion in tax relief we keep hearing about from the minister....

Mr. Serge Nadeau: I believe you have a list of them on page 202 of the English version. You also have on page 65 a breakdown between the GST and the personal tax.

● (1645)

Mr. Massimo Pacetti: So if I add up all the items in columns 206 and 207, I'll get $20 billion?

Mr. Serge Nadeau: That's right; it's $19 billion-and-something, or something like that.

Mr. Massimo Pacetti: And what do I see on page 65?

Mr. Serge Nadeau: On page 65 it's basically the breakdown between the GST and the personal tax.

Mr. Massimo Pacetti: Okay.

Mr. Serge Nadeau: So there are two ways. Basically here I'm giving you two types of breakdowns between a billion. One is between the GST and the personal tax and the other one, on page 202, is a much finer breakdown between the GST and all the personal tax measures.

Mr. Massimo Pacetti: Okay, another question.... The minister just stated that 655,000 people are going to be removed from the tax rolls, but I think with the Liberal reduction there were more than 800,000, or just a little under a million. Is that correct, or are we just making up numbers as we go along?

Mr. Serge Nadeau: No, actually the budget plan removed an additional 200,000 people from the tax rolls, compared to the plan presented in the fiscal economic update.

Mr. Massimo Pacetti: That's 200,000 more. Why is that?

Mr. Serge Nadeau: A big part is because of the new Canadian employment credit, which removes many people from the tax rolls, and also the doubling of the pension income credits.

Mr. Massimo Pacetti: But when we say we're removing somebody from the tax roll, that doesn't mean they stop filing their tax returns, because you still have to file—

Mr. Serge Nadeau: That's right. They will file their tax returns, but they won't pay any income tax.

Mr. Massimo Pacetti: Okay, because they still have to file their tax return to get the employment tax credit and the pension tax credit.

Mr. Serge Nadeau: That's right, yes, but they won't pay any income tax.

Mr. Massimo Pacetti: I asked this the last time the Finance officials were here. What is it going to cost to implement this type of budget? Because with the new measures regarding the book fee credit, or whatever you want to call it, the employment tax credit, the implementation of the GST, the $80-a-month transit.... How are we going to manage all this? Normally we just look at reducing tax rates. It's easy; it's a change on a tax form and that's it. Now we're going to be implementing all these fancy new tax measures that add up to practically nothing. But it has to cost money somewhere, whether it be to the consumer, to businesses, to the department. There have to be more costs involved with implementing a budget like this than....

Mr. Serge Nadeau: In terms of implementing the GST rate reduction?

Mr. Massimo Pacetti: Yes, the GST reduction. And how are we going to track these student book tax credits? Revenue Canada is going to ask for receipts to be sent. There are the transit passes. We're trying to move taxpayers to e-file, but now we're asking them to submit tax receipts, bus passes, book receipts, sporting tax credits, ballet receipts, hockey camp receipts. I'm not sure where we're going with this. This has to cost money for somebody somewhere down the line.

How do you know there's going to be a registered hockey camp that's going to be eligible as opposed to a hockey school that's not going to be? Is ballet going to be okay? Are your student books going to be deductible that you purchase at a bookstore, versus books bought at a student bookstore or a library bookstore that is not affiliated with the university, or that is subsidized or not subsidized? Are books purchased part of a curriculum or are they not? Is it adult education, or just full-time students, part-time students...? This has to cost money.

● (1650)

Mr. Serge Nadeau: In terms of the physical fitness credit, the budget announced that a small group of experts would be mandated to design the parameters of what activities would be eligible, what types of organizations would be eligible, what the objectives of the programs would be that would qualify for the credit. So in terms of the textbook—you were using the textbook credits as an example—that's another instance of the administrative details being worked out at this time.

In terms of your more fundamental question, there will be additional administrative costs. All new tax measures have administrative costs attached to them. That was taken into account at the time the budget was put in place, and the view was that the benefits were greater than the cost, of course.

Mr. Massimo Pacetti: We don't have any actual costs.

Mr. Serge Nadeau: I don't have them with me. But CRA at one point—

Mr. Massimo Pacetti: CRA has nothing. When they were here they had nothing. They didn't have a clue as to what was going on. But that's my opinion.

Since we're on that, we had a discussion on the excise tax, and I think somebody here, one of the panellists.... When we were looking at the issue for the excise tax, we were trying to look at reducing the excise tax from I think it was 10% down to zero. One of the issues, or one of the remarks the finance department indicated, was administratively it made sense to keep it at 8% and then to reduce it, and that was the logic. Now we're reversing the logic. We're going from 10% to zero. I'm not sure exactly what the rate is. What's the logic there? What happened?

Mr. Serge Nadeau: You're talking about the jewellery tax?

The Chair: Just a brief answer, *s'il vous plaît*.

Mr. Massimo Pacetti: Just the excise tax on the jewellery.

Mr. Serge Nadeau: One of my colleagues, Mr. Carlos Achadinha, will be able to answer your question.

Mr. Carlos Achadinha (Chief, Alcohol, Tobacco and Excise Legislation, Department of Finance): Your question is regarding the excise tax on jewellery. The decision last year was that it would be gradually phased out over a five-year period; there was a cost involved so it would be phased out. The decision this year was to eliminate it—the decision to advance the repeal.

Mr. Massimo Pacetti: We had a battle over this. You guys were so adamant that we shouldn't repeal it all at once, and now all of a sudden you have a change of heart. There were cost issues and all kinds of issues, and now all of a sudden they've disappeared.

The Chair: Mr. Loubier, it's your turn.

[*Translation*]

Mr. Yvan Loubier: Mr. Chairman, I would like to ask our witnesses a question. Regarding the $1,200 payment for each child under the age of six, we had suggested to the Minister of Finance, before the budget was drawn up, that this $1,200 amount be transformed into a refundable tax credit. At that time, we pointed out that this measure would resolve three things. First of all, it would resolve any overlap between jurisdictions, since family policy is a provincial matter and an issue that comes under the jurisdiction of the Government of Quebec. Secondly, it would prevent provincial governments from using part of the money paid to families. Thirdly, we would really be able to target low and middle-income families, and even high-income families, who would benefit from a refundable tax credit higher than the $1,200 amount. By the way, this $1,200 amount also applies to families with very high incomes. If one of the two parents does not work, the money will still be paid, even for families with a family income greater than $250,000. Generally speaking, this measure would not be anymore costly than the $1,200 tax credit for children under the age of six.

So why choose cash payments rather than refundable tax credits which, in many respects, are more beneficial to the parents?

Mr. Serge Nadeau: I remember seeing the approach you were suggesting. It was different from the approach the government decided to take. However, several provinces made a commitment not to reduce benefits based on...

Mr. Yvan Loubier: Yes, but with a tax credit, Mr. Nadeau, no province would be able to take anything whatsoever.

Mr. Serge Nadeau: There would have to be some agreement between all the provinces. Or the provinces would have been tied to the Canadian Child Tax Benefit, and in this case, we would have had to add numerous parameters so that they could have been part of the program, or else a benefit would have been paid to the provinces and we would have had to, at any rate, reach agreements with each of them in order for them not to include this income in their—

Mr. Yvan Loubier: In the case of a refundable federal tax credit, are arrangements with the provinces required?

Mr. Serge Nadeau: That would not have been a refundable tax credit, but a benefit such as the benefit for children.

Mr. Yvan Loubier: No, unless I have been harbouring a misconception for the past 13 years. When you are talking about a tax credit, be it refundable or not, or some type of exemption or reduction, according to the federal Income Tax Act, an agreement with the provinces is not required. There is some harmonization, for example, between the provinces and the federal government when measures are implemented in an effort to facilitate fiscal management. However, in the case of a refundable tax credit decreed by the federal government, no arrangement is necessary.

● (1655)

Mr. Serge Nadeau: It is considered income in the case of social assistance. You may call that a refundable tax credit, but, in the final analysis, it is a benefit. For example, the Canadian Revenue Agency views the Canada Child Tax Benefit as a refundable tax credit, but it is a benefit. The provinces made a commitment not to use it, for example, in the case of social assistance, etc. So we would still have had to... Even if we had changed the name, if it were in principle a benefit, we would have had the same difficulties.

Ultimately, one of the advantages of the approach that was retained is that the income, as we say in English,

[*English*]

add to the ability of the taxpayers to pay and therefore should be taxed.

[*Translation*]

That complies with the approach that the government decided to follow.

Mr. Yvan Loubier: You have not convinced me as far as the refundable tax credit is concerned, because such a measure comes under federal jurisdiction. According to the Income Tax Act, the refundable tax credit is a federal measure. I do not see how the provinces could have picked up any benefits whatsoever if a refundable tax credit had been offered. Currently, it is clear that the provinces have not made any commitment to not tax or not reduce the benefits of a program such as social assistance, for example. The provinces will go and pick the money out of the pockets of the people.

Mr. Serge Nadeau: No province has said that it will do so, and many provinces have made a commitment not to do so.

Mr. Yvan Loubier: At any rate, the parents will have to put this money aside, because they will have a bad surprise next April when they fill out their income tax forms. They will have to pay tax on this amount.

Mr. Serge Nadeau: It will be taxed.

Mr. Yvan Loubier: Yes, but they think that this is a gift from the federal government. They won't imagine that, in the end, they will have to pay both federal and provincial tax. You are not giving them any gift. With a refundable tax credit, they would not have been taxed on this amount.

Mr. Serge Nadeau: The provinces always have a choice as to whether to tax or not tax this benefit. New Brunswick decided that it would not be taxing it. It is up to the provinces to decide.

Mr. Yvan Loubier: In the end, parents are going to be victimized by the discretionary power of provincial governments. They're the ones who will be paying. If we want to adopt a federal measure targeting those families that really need it, and not those with a family income of $300,000, but who may all the same benefit from receiving a payment of $100 per month, it seems to me that we can offer some protection by choosing a refundable tax credit. That would have been quite logical, especially when one considers that it will cost the same. A refundable tax credit costs no more than any other measure and results in far fewer problems. I still do not see where it says that an agreement with the provinces is required, but you will have to explain that to me, because this is the first time that I have heard that.

It seems to me that this would have been more logical, but I can see that sending a cheque is a political decision. This could have been done with a refundable tax credit. We could have sent a monthly cheque to the parents, exactly as we do for GST refunds.

[*English*]

The Chair: Your time has elapsed.

Mr. Turner, over to you.

Hon. Garth Turner (Halton, CPC): Thank you.

I have a question regarding GST on new homes. I've had correspondence from a lot of Canadians who simply don't believe the GST reduction from 7% to 6% will be passed on to home buyers; they believe the GST cut will somehow be absorbed by the home builders and the industry. I'm wondering what assurances you can send to new home buyers that they will actually see a 1% reduction in the price. Of course, with the average price of a new home in the Toronto area running around $500,000, there should be a reduction somewhere in the neighbourhood of $5,000 on the price of a new home.

What assurance can you give these folks that that's going to happen?

Mr. Pierre Mercille (Chief, Sales Tax Division / Tax Policy Branch / Legislation Policy, Department of Finance): The budget implementation act includes transitional rules for the sale of new homes, and the main rule is that if ownership and possession of the new house occur on or after July 1, 2006, the rate of 6% will apply.

● (1700)

Hon. Garth Turner: Yes, I understand that, but people don't believe it's going to happen. Actually, it's in effect now, right? If you go and buy a new home today, you're not going to move in by July 1; you're going to move in by October, if you're lucky. So right now when people are going into the sales trailer to buy a house, can they demand that the sales tax be visible and that the reduction be shown?

Mr. Pierre Mercille: Well, usually the sale of a house is made on a written agreement. It's a very long agreement usually, but the tax will be written in there, so if they know that the house is not even built, or something like that, and they know that ownership and possession will be after July 1, the rate should be 6%.

Hon. Garth Turner: All right. What advice can you give to home buyers? There are a lot of home buyers I'm hearing from who are saying, “My lawyer tells me that when I buy the home, the builder is just going to absorb that extra 1%? How do I, as a purchaser, know that it's going to happen?”

Do you have any advice for new home buyers?

Mr. Pierre Mercille: Well, they should look at their agreement to see that the tax rate is actually 6%.

I'm not sure if you're referring to people who may have signed an agreement before—

Hon. Garth Turner: No.

Mr. Pierre Mercille: Okay. Well, the best advice we can give is to look at your agreement to see if the rate of tax is 6% and not 7%.

Hon. Garth Turner: Right, but there's the rebate that comes into this. So it's not as simple as that. You never see 6% written in the agreement—right?—because of the new home rebate.

Mr. Pierre Mercille: A lot of time the new housing rebate is taken into account in the price of the home. It's a fixed price for a home that takes into account the fact that if the ownership and possession is on or after July 1, the agreement may take into account the fact that the tax is at 6% and that the purchaser is entitled to a rebate, which will be based on a 6% tax.

Hon. Garth Turner: Okay. You're not answering my question.

Mr. Pierre Mercille: It's because besides following the price of houses and seeing that the price of a certain development drops before and after July 1, I'm not sure how to answer your question. People should ensure that they can see that the tax is actually at 6%.

Usually you buy a house through a lawyer, and your lawyer should check that the rate is actually 6% and not 7%, if ownership and possession is transferred on or after July 1.

Hon. Garth Turner: Okay, but the price of a new home fluctuates. It's not like buying something for $9.95 that was $9.95 six months ago, right? There are a lot of adjustments going on here.

Do buyers, who are suspicious that they're not getting the full sales tax rebate passed on, have any recourse? Is there anything they can do if they suspect that the builder absorbed the 1% drop?

Mr. Pierre Mercille: First, if a builder decides to increase the price of his house because his costs go up, that's what we call a consideration for the supply. But if by mistake a rate of 7% has been charged on a new house, where ownership and possession is transferred on or after July 1, there's always a rebate for tax paid in error. But now they have to prove that the tax was at 7% instead of at 6%.

Hon. Garth Turner: Yes, but that's not what I'm talking about. I'm talking about the builder's mark-up: what normally should have been passed onto the consumer is now being absorbed into an increased mark-up.

Mr. Serge Nadeau: To make sure I understand your question, you're saying that because there's a GST rate reduction of 1%, the builder may decide to increase the price of the house by half a percentage point to benefit from a tax rebate. Is that what you're...?

There's no way of ensuring that—market forces and so on. This can happen for cars, clothes, and for all types of goods. One would expect that a big chunk of the tax reduction will end up in the pockets of consumers. It will also benefit the producers in some instances, but it's impossible to know in advance.

● (1705)

Hon. Garth Turner: Okay. Again my question is, do you have any advice? Is there any recourse for a buyer who suspects that the builder is profiting from the margin? Is there any recourse whatsoever—other than writing his or her member of Parliament, who's then going to ask you?

Mr. Serge Nadeau: No, there's no recourse at this time. If builders want to increase their prices.... I mean, who knows? They are not going to say we increased the price because there was a GST reduction. The market is hot; I'm increasing the price. There's no way for the government to go and check with them. Prices increase all the time. In Calgary, they increased by 23% last year.

Hon. Garth Turner: I'm not talking about price increase; I was talking about.... Okay, never mind.

Next question.

The Chair: You're out of time, Mr. Turner.

Judy Wasylycia-Leis, it's your turn.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson.

First, I would like to ask the department officials where the studies we requested on May 10 are.

Mr. Serge Nadeau: The study in the sense—

Ms. Judy Wasylycia-Leis: I made two requests on May 10, when you were present, and it's now 21 days since that time. One was for a specific breakdown of the GST, an analysis of the 1% reduction. The other was a specific request for a breakdown of the new child allowance by income group and family category.

Mr. Serge Nadeau: It must be in the pipeline because I personally signed that yesterday.

Ms. Judy Wasylycia-Leis: All right. Could I ask that you make sure that we get these studies before tomorrow?

Mr. Serge Nadeau: Sure. I'll make sure of that.

Ms. Judy Wasylycia-Leis: If not, Mr. Chairperson, I will move a motion or something, unless.... I don't know what it is, but I just hope we get...I know bureaucrats bide their time—

Mr. Serge Nadeau: Just to make absolutely sure, you said by tomorrow, not before tomorrow.

Ms. Judy Wasylycia-Leis: By tomorrow, before we start clause-by-clause on Bill C-13. We should have had them by now. Twenty-one days have passed. This material is stuff we should be looking at in terms of making our solid deliberations on the bill. I find it offensive that we have to wait and wait.

Mr. Serge Nadeau: The 21 days are not over yet.

Ms. Judy Wasylycia-Leis: Okay. Twenty-one days takes us to today.

Mr. Serge Nadeau: What I'm saying is that it's going to be available to you by tomorrow.

Ms. Judy Wasylycia-Leis: On the 22nd day it will be available. Today is the 31st, right?

Isn't today Wednesday?

Mr. Serge Nadeau: It's the 30th. Today is Tuesday.

Ms. Judy Wasylycia-Leis: I'm a day ahead of myself. I apologize. It's 20 days.

Mr. Serge Nadeau: The apology is accepted.

Ms. Judy Wasylycia-Leis: When we talked on May 10 we tried to get a sense of what research existed to suggest that the GST reduction was better than the income tax reduction. We had quite a little debate, and I think it was suggested—by you, Mr. Ménard—that it's just a fact that the GST is better than the income tax reduction. I tried to say at the time that was different from what many of the groups involved in this area were saying, and it certainly seems to be different from what Mr. Flaherty was saying back in 2001. I'm wondering if you have any studies that you can give us to make this point.

Mr. Serge Nadeau: Yes. In what I signed off yesterday, it shows that for low-income households, a GST reduction is better than an income tax reduction, because low-income households don't pay any income tax. This is mathematical. Low-income households don't pay any income tax, therefore they won't benefit from an income tax reduction. But they do buy stuff and pay GST, hence a GST reduction is better for low-income households.

For example, a one-earner family will generally not pay any income tax if its income is below $18,000. Therefore, for such a family, an income tax reduction is not worth anything. However, such a family will benefit from a GST reduction.

Ms. Judy Wasylycia-Leis: Overall, the GST is a regressive tax, and if you're looking at this in terms of a macro context and good public policy, it probably makes sense to consider the progressivity of an income tax cut.

● (1710)

Mr. Serge Nadeau: But you have it exactly. You exactly point to that. Sometimes it's called a regressive tax. Therefore, increasing the GST is regressive, but lowering the GST is progressive. It's exactly that.

Ms. Judy Wasylycia-Leis: That's not even economics 101. That's not even basic economics.

You tell that to a low-income person who might get a $40 benefit or a $99 benefit from this reduction, versus a wealthy family getting a $900 benefit.

Let me go on to the other issue. I think we'll get nowhere on this. I think it's a very simplistic analysis and does not reflect the reality of people's lives.

I would like to talk about mortgage insurance, because it would seem, based on all of our discussions, that this is something the department has wanted for a long time. I thought before maybe it was a Liberal agenda and then a Conservative agenda. My sense is that it's been a department agenda and it has been advanced regardless of the political situation. Now you have your day. Now you've won the way, and there does not seem to be a single piece of evidence or a study you've done—unless you can table that today or soon—that demonstrates how in fact this new approach of opening up wide the system for a number of competitors will actually help people who are looking for mortgage insurance.

I'd like to know if there's a study that shows there's a problem now. I'd like to know if there's a study that's been done on the possible impact. We received some very good presentations, and all suggested safeguards be put in place. Where's the information to show that you've taken into account those concerns and that this isn't just a simple case of advancing an agenda regardless of consequence?

The Chair: There's approximately a minute available for your answer, sir.

Mr. Serge Dupont (Acting Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): I would just say that it is not a departmental agenda; it is simply a policy that has been in the law for a long time that there will be competition with CMHC in the mortgage insurance market. To this day there has been only one provider coming forward, to whom has been provided a guarantee by the government in order for that provider to be able to compete meaningfully with the CMHC.

Others have now come forward and have issued publicly their intent to incorporate a subsidiary in Canada. The Government of Canada is simply saying it will provide to these providers the same guarantee it is providing to the current private sector provider in order to compete meaningfully in the mortgage insurance market.

The CMHC's mandate to provide comprehensive coverage is not affected. This is simply allowing other competitors to do what one firm has been able to do today.

The Chair: Madam, your time has elapsed. It's Mr. Savage's turn.

Mr. Savage, please proceed with your question.

Mr. Michael Savage: Thank you, Mr. Chair.

Ms. Wasylycia-Leis was right; we did request that information and were told we would get it. It's important to us to get the chart. I'm specifically looking at the minutes, one of which was about who reaps the benefit and how the 1% deduction in the GST affects families across the board. That's important, and it's the same with the income tax cut.

One of the big ways the GST cut has been touted, and has been touted here by Mr. Nadeau, is that low-income families don't pay income tax under a certain level, so the GST helps them.

It helps them very marginally, because many of the products they buy are necessities, a lot of which aren't covered by GST. My concern with the GST cut is that it disproportionately helps those who spend the most. It's pretty simple. It helps the people who spend the most, so it's pretty simple that it helps the rich more than the poor, but I think it's an important thing to factor in—in the simple way that on a more expensive car you save more than on a cheaper car. It's not complicated.

I'm going to ask you about the universal child care allowance benefit. Are you familiar with the Caledon report on that?

Mr. Serge Nadeau: Yes.

Mr. Michael Savage: Do you agree with it?

Mr. Serge Nadeau: The Caledon report—one of them, at least—assumed the benefit would be clawed back by the federal government when computing income-tested benefits. Actually that's not going to be the case. As Minister Flaherty mentioned earlier, the benefit won't reduce other income-tested benefits such as the Canadian child tax benefit, the GST credit, and so on.

● (1715)

Mr. Michael Savage: The minister clearly did say that it will not negate other direct benefits. Has the Canada child tax benefit's young child supplement not been eliminated?

Mr. Serge Nadeau: The supplement will be eliminated.

Mr. Michael Savage: That's the supplement that helps the lowest-income families.

Mr. Serge Nadeau: No, we're not talking here about the national child benefit; we're talking about the $200 supplement.

Mr. Michael Savage: I'm talking about the Canada child tax benefit's young child supplement of $249. Are you telling me that has not been eliminated?

Mr. Serge Nadeau: The national child benefit supplement is not being eliminated. What is being eliminated is the $247 CCTB supplement that is clawed back with child care expenses; it's that part. The maximum that is being eliminated is $247.

Mr. Michael Savage: So it is eliminated.

Mr. Serge Nadeau: That's right.

Mr. Michael Savage: So it wouldn't be correct, and it may have been an oversight—I'm not suggesting the minister lied—to suggest that things are not being replaced by this universal child care payment.

Mr. Serge Nadeau: What he meant here, just to make sure, is that —

Mr. Michael Savage: No, I don't need you to interpret what he meant; I heard what he said.

My question goes to the issue of fairness again. The Caledon report, and there have been several of them that have come back and forth, depending on what the government included in it, shows a very significant variance; for example, a $30,000 two-earner couple would get the net benefit of $199, while a $200,000 one-earner couple would keep over $1,000 of it.

Mr. Serge Nadeau: I don't have the figures they produced, so I—

Mr. Michael Savage: This is why it's important that as members we get a chart, get the information we requested on the GST and on the personal income tax cuts.

I'd like to see your numbers that compete with the Caledon numbers, in terms of who actually keeps the child care allowance.

Mr. Serge Nadeau: Do you mean how much they keep?

Mr. Michael Savage: Yes.

Mr. Serge Nadeau: Yes. I have in front of me what I signed yesterday that you will receive tomorrow. What you will have is, depending on family type, that is, single-parent, one-earner couple, or two-earner couple, the typical Ontario family, and different levels of income, how much will be left in their pockets. So you'll have that.

Mr. Michael Savage: I need to know. Okay.

The Chair: Thanks, Mr. Savage.

Mr. Michael Savage: Thanks, Chair.

[*Translation*]

The Chair: Mr. St-Cyr, please continue.

Mr. Thierry St-Cyr: I would like to go back to the issue of the $1,200 announced per child and the tax credit. I find it difficult to understand how Quebec and the provinces could tax the refundable tax credit, a formula that was suggested by the Bloc Québécois.

Every year, I make a contribution to the Bloc Québécois. Moreover, I would encourage everyone to do so, obviously. I therefore receive a tax refund at the end of the year, and this refund is not taxed by the government of Quebec. As far as I know, there has never been any agreement. The same thing applies to the GST credit: the people who receive it are not taxed, that is not being considered to be a benefit. If the government were to decide to cut taxes for all citizens or for some of them, how could this choice constitute a taxable benefit for a province?

Mr. Serge Nadeau: A province could decide to do so. First of all, let's take a look at welfare. It is the provinces that decide which income should be included to determine benefits. The provinces may decide whether or not they wish to include or exclude certain federal programs.

Mr. Thierry St-Cyr: For example, the government of Quebec could tax tax refunds for...

Mr. Serge Nadeau: I am not talking about taxation. First of all, let us look at how we determine what we used to call welfare when I was younger. If the federal government were to decide to give every Canadian family $5,000, the government of Quebec could decide that it would reduce the amount of welfare benefits.

● (1720)

Mr. Thierry St-Cyr: I agree with you on that. That is the case, if it is given as cash.

Mr. Serge Nadeau: With the Bloc Québécois proposal, a decision to that effect would have been required, because even if we were to call it a refundable tax credit, it is a benefit. It is money, it is not a tax credit, it does not reduce taxes. People who do not pay taxes will receive the benefit.

As for the way that provinces establish benefits based on income, the same type of agreement would have been required,as is required in the current situation. When it comes to taxes, that is different. Once again, provincial governments could have decided to tax these amounts.

Mr. Thierry St-Cyr: I would like to go back to that example. Let's use the GST tax credit as an example. Those people who receive welfare benefits generally get this credit. Was the government of Quebec or that the other provinces, obligated to implement regulations so that this amount was not considered in the calculation of welfare payments?

Mr. Serge Nadeau: Indeed. It was the agreement on the National Child Benefit signed by all provinces. Certain federal benefits would not be considered in calculating provincial benefits.

Mr. Thierry St-Cyr: Did provinces have to change their legislation so that the GST credit would be excluded from the calculation of welfare payments?

Mr. Yvan Loubier: No. There has been none.

Mr. Serge Nadeau: For the tax credit on the GST as such? Perhaps somebody can answer.

[*English*]

Mr. Doug Murphy (Acting Assistant Director, Economic Security Policy, Department of Finance): Yes, let me speak to that.

Provinces decide what they will exempt from social assistance or, as many people call it, welfare. That's within their discretion.

For the national child benefit, most provinces reduce their welfare and then reinvest the savings. But they treat the broader national child tax benefit as exempt. So there is certainly no guarantee.

I should point out, however, that now all the provinces have indicated that they will exempt the universal child care benefit from social assistance.

[*Translation*]

Mr. Thierry St-Cyr: We talked about that earlier. I would like to ask a second question very quickly, since I have little time left.

Why was it decided that the amount of the benefit would be added to the income of the person earning less? It should be added to the total family income, just like tax credits. We thought that would be the case. Currently, if a person with a family is earning $200,000, and the spouse has no income, no taxes will be collected by neither the provincial government nor federal government, because the benefit will be added to the income of the person earning less money. In fact, the calculation of tax credit that we had suggested is based on family income. As such, some people would be receiving a smaller amount, whereas those who are in serious need would receive the total amount. Currently, a couple or a single parent earning $28,000 will pay taxes on this benefit, whereas somebody earning $200,000...

[*English*]

The Chair: The time has elapsed, and I'm going to enforce this in particular because I have a question.

Who would I direct a question to regarding the capital gains tax changes on publicly listed security donations to charitable organizations?

Monsieur Nadeau, I'm curious, because I'm not sure of the definitions. Is a university foundation a public charity or charitable organization? I have a conflict here because I'm on a foundation board for my old university. I'm asking this question specifically because of that.

Mr. Gérard Lalonde: The answer is yes, public university foundations would be. What's not included are the private foundations.

The Chair: Okay. I note that the document says, "the federal government will consult with private foundations and others with a view to developing appropriate self-dealing rules", etc. When these rules are devised, the government will be prepared to extend the exemption to donations to private foundations, and there are a number of those. They seem to be coming up regularly lately, and that's good. At what stage are those discussions?

Mr. Serge Nadeau: We have not yet started the discussion. We are looking at developing a framework—

The Chair: Are you developing a framework for the discussion?

Mr. Serge Nadeau: Exactly. In fact, today I was talking with Hilary Pearson, president of Philanthropic Foundations Canada—

● (1725)

The Chair: Then you have started the dialogue.

Mr. Serge Nadeau: It was not a formal dialogue, but I was talking with her about how we might proceed. We are at this time more at the stage of discussing how we are going to proceed on it, because let's remember, the budget was only three weeks ago or so.

The Chair: Yes, that's quite true, but any time I hear about discussions leading to a framework for future discussions that may occur, I'm a little concerned that action is going to follow much later. Can you assure the committee that won't happen?

Mr. Serge Nadeau: I'm sure you agree we have to start somewhere. I'm sure that given the commitment in the budget, we will deliver, and something will come out of it.

The Chair: I'm sure many Canadians would urge you to proceed post-haste on that issue.

Mr. Dykstra, you had some questions, sir.

Mr. Rick Dykstra: Thank you, Mr. Chair.

I wanted to bring some clarification to one of the things we've talked a little bit about here that Ms. Wasylycia-Leis brought up and responded to, in terms of regression if the GST were to be increased.

The economic statement released by the previous government at the end of the year indicated a number of folks at the lower end of the income scale would be off the federal tax rolls. What was that figure? I thought you quoted it.

Mr. Serge Nadeau: I don't remember the figures exactly, but I can tell you that with this program—what has been proposed in the budget—200,000 more persons will fall off the tax rolls by the end of two fiscal years.

Mr. Massimo Pacetti: The minister stated that this morning.

Mr. Rick Dykstra: That comes out of the economic statement.

Mr. Serge Nadeau: What comes out of the economic statement.... What I'm saying is that the statistics we have show that with the tax relief plan proposed in the budget, there will be an additional 200,000 people off the tax rolls compared to the—

Mr. Rick Dykstra: To be clear, statistics at the ministry show clearly that 200,000 more people will benefit from this strategy than would have from the former strategy.

Just getting back to the whole issue that's been touched on with respect to the excise tax for small wineries, can you give a bit of an overview of exactly how that would benefit small wineries and what it consists of?

Mr. Carlos Achadinha:

The relief is not just for wineries in general. It's for 100% Canadian wine, so wine that is made from 100% Canadian-grown product, for example. The relief will mean that there will be no excise duty applicable on the products they produce from that particular good, so that should assist the industry and it should help them reinvest. These are presentations they've made to us.

Mr. Rick Dykstra: Sir, are there any financial predictions you made regarding what kind of number that would look like at the end of this fiscal year, 2006-07?

Mr. Carlos Achindha: A lot of it would depend on production because it's a production-based number. You could run off previous years and you'd have to get a sense of how much 100% Canadian wine was made before, and it would just be a matter of looking at the volume of 100% Canadian wine and multiplying it by the tax, the duty rate, and that would be what the relief would be. That will vary from year to year.

Mr. Rick Dykstra: Okay.

Mr. Pacetti was asking about the whole aspect of how the tax credit process would actually work its way through the system. Maybe you could just clarify how, for example, the child sports tax credit would work its way through for someone who is filing their tax returns at the end of the year.

Mr. Gérard Lalonde: Sure. As I indicated, in the budget some of the parameters of the child fitness tax credit are still open for discussion by an expert panel, so I can't give you an exact answer as to how it would play out. But in general terms, you would have a parent of a child pay fees for a physical activity, they'd get a receipt for those fees, and when it's time to file their taxes they can claim up to $500 per child who would be eligible for a tax credit at the lowest personal income tax rate for the year. So for 2007 and subsequent taxation years, 15.5%.

We talked a little bit earlier about e-filing, and of course there are a number of provisions in the Income Tax Act that ostensibly require receipts, and they're a little bit difficult to send through the e-filing process, so you keep your receipts in your file at home. When you file your return, you e-file it, and you are not required to truck down to the CRA with your receipts. If ever the CRA were to ask for proof of the amounts claimed, at that point you'd be required to show your receipts.

● (1730)

The Chair: Thank you, Mr. Dykstra.

Now, Mr. McKay to conclude.

Hon. John McKay: I'm batting cleanup. I was originally going to ask Mr. Turner's question, and then he asked the question and I decided not to ask the question. Then he got such an unsatisfactory answer that I decided to ask the question again.

If I signed a deal in January of this year—$400,000 for a piece of real estate—closing in September, I have signed away my GST rebate. The sale is calculated on a 7% net and the remittance is based upon a 6% net. What ability does the consumer have to retrieve that obvious savings on the part of the builder?

Mr. Pierre Mercille: In your scenario, the Budget Implementation Act provides a transitional rebate. If your deal has been signed before budget day and ownership and possession is transferred in September in your example, the builder has to remit based on the 7%.

Hon. John McKay: Excuse me, why at that point? The tax is not chargeable until the closing.

Mr. Pierre Mercille: Because this is the transitional rule we provided for residential complexes in the legislation. What is happening now is that the purchaser will be entitled to that special transitional rebate of 1% of the tax, and they have to file a rebate claim with the CRA. Taking into account the fact that he gets the new housing rebate, he will receive this rebate sent directly to himself. He has to file a rebate claim.

Hon. John McKay: You will be notifying the bar and any other real estate persons that on closings where the deal was struck prior to May 2 and the transaction closes subsequent to July 1, they will be able to apply. The builder will remit at the rate of 7% regardless, the government pockets the money, and if the consumer applies for it, they will get it back from the government. Have you worked out how that's going to happen? Are you publicizing that issue?

Mr. Pierre Mercille: Yes, CRA will put out a publication and the form to explain that. The tax change will be publicized in the way they usually are, mainly by CRA and by the fact that the budget bill received publicity and things like that.

Hon. John McKay: My second question has to do with banks and insurance companies. Banks and insurance companies don't charge GST, yet they have some expenses on which they pay 7%. Now they'll be paying 6%. I take it, therefore, that there is effectively a windfall on the expense side of the ledger to banks and insurance companies.

Mr. Pierre Mercille: Well, yes, they will benefit because they're taxed and they cannot.... Many of their supplies are exempt. When you have exempt supplies, you cannot recover the tax you paid on the purchase.

Hon. John McKay: I understand, but it is a substantial windfall for both banks and insurance companies.

Mr. Pierre Mercille: The 1% of the—

Hon. John McKay: Finally, the minister said none of the moneys that would be paid to Ontario would be by way of tax credits pursuant to the Canada-Ontario agreement. Can you confirm that?

Well, we don't need to all look around at each other.

Mr. Serge Nadeau: Unfortunately, the people who would be able to answer this question, the people who are involved in the negotiations with Ontario, are not here. Sorry about that.

● (1735)

Hon. John McKay: All right, thank you.

The Chair: Thank you very much to our panellists this afternoon.

Thank you, committee members, for your cooperation. I would remind committee members that we are hearing witnesses tomorrow on the bill and we'll move to clause-by-clause deliberation on Thursday at 10 in the morning. If committee members wish to bring forward amendments, I would strongly encourage members to have those in tomorrow by 6 o'clock to facilitate the preparation of our agenda for Thursday.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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