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Mr. Brian Pallister

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● (1100)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): I call the meeting to order.

Thank you; we appreciate your being here this morning as we continue our study on income trusts pursuant to Standing Order 108 (2).

We have enjoyed our first session and look forward to your presentations today.

I'll ask the media now if they would reduce their participation to zero. Thank you.

On behalf of the finance committee, thank you again for your presence here today. We've asked you to confine your presentations to a brief five minutes. I will give you an indication when you have a minute remaining in order to give you a chance to wind up your presentations. At the five-minute point I will be forced to cut you off to allow time for exchange with the committee members after your presentations.

Hon. John McCallum (Markham—Unionville, Lib.): I have a point of order, Mr. Chairman.

The Chair: Go ahead, Mr. McCallum, on a point of order.

Hon. John McCallum: I'd like to propose, in view of the extreme shortage of time and the large number of witnesses, that we extend our sitting to end at 1:30, which would give an extra 15 minutes to each session.

The Chair: We'll see how it goes, Mr. McCallum.

We'll commence now with a presentation from Mr. Fortin.

Hon. John McCallum: Mr. Chair, I would like to have a ruling on that, please.

The Chair: You will not get a ruling.

Mr. Yves Fortin, you will begin now with a five-minute presentation. You may commence.

Hon. John McCallum: We challenge the chair.

The Chair: The chair has been challenged.

I'm asking for a vote now of the committee members. I have been instructed previously that we would be 11 o'clock to 12 noon with the first panel and 12 noon to one o'clock with the second. I'm going to try to follow the previous instructions committee members gave me, and I'd ask you to support the chair at this point. If you do not, so indicate.

(Ruling of the chair overturned)

The Chair: The chair's ruling has not been upheld.

Mr. McCallum, what do you propose?

Hon. John McCallum: I propose that we have an extra 15 minutes for each session. We would go from 11 o'clock to 12:15 and then from 12:15 to 1:30.

The Chair: All in favour of Mr. McCallum's proposal?

Some hon. members: Agreed.

The Chair: Then let's go.

Mr. Fortin, over to you for five minutes.

Mr. Yves Fortin (As an Individual): Thank you, Mr. Chairman.

I would ask the committee members to refer to the written statement and papers that I have tabled, to better understand the very telegraphic points I will make.

My thesis is that it is the implementation of the legislative proposals, and not the existence of the trusts, that will lead to a loss of tax revenue. The attempts to quantify the alleged tax leakage go back to the 2005 consultation paper. That study suffered from fundamental flaws. Because of its many incorrect assumptions, the study overestimated the taxes collected from corporations and underestimated the taxes paid on trust distributions. The updated numbers released by the minister, and earlier by Mintz, are based on the same faulty methodology used in the consultation paper.

The worst source of leakage, according to the minister, is the RRSPs and the pension funds, because he treats them as tax-exempt rather than tax-deferred entities as they are under the law. In a medium- and long-term context, there could only be tax leakage if the present value of taxes paid in the future were inferior to the taxes forgone at the present time. This cannot be, since the yield on trust units is 8% or 10%, while the rate of inflation is about 2%.

The minister says he has to look at the issue from the point of view of the annual budget. This cash accounting method cannot be used to pretend that taxes are not paid and that this causes him a problem. In 2004, Canadians contributed $38 billion to their tax deferred accounts but withdrew $52.5 billion of income fully taxed at their highest marginal rate. There is clearly no leakage even on the basis of the current fiscal year.

The measures contained in the draft legislation will lead to a substantial loss of tax revenue for the following reasons.

The non-tax-deferred investors pay more taxes on trust distribution than they would if the trusts were corporations. This is because their taxes are calculated at the higher tax base and paid at higher-taxed personal rates. If most or all trusts reconvert to corporations, as is clearly the intention of the minister, the taxes collected will be reduced substantially.

Because of heavy double taxation of distributions, RRSPs, RRIF-holders, and pension funds will have to shift their investment to assets with lower yield. This will lead to lower retirement income, year after year, on top of the heavy capital losses they suffered. Less retirement income will lead to lower tax revenue and more pressure on the social welfare system.

In view of this, there is clearly a need to adopt a package of measures to truly compensate people who lost a chunk of their retirement savings. The increase in the age tax credit, worth $150 a year, is pretty useless for a person who has lost $15,000.

Pension income splitting is welcome, but it is highly discriminatory and its linkage with the trust issue is purely artificial. Due to much higher taxation, non-residents will divest away from their trust units and the government will lose the quasi-totality of the withholding taxes presently collected. The minister thinks these investors don't pay enough taxes, so his solution is to make sure that they will pay none.

Most provinces will be affected negatively, not only due to a global lower tax base but also by the fact that trust distributions will be taxed by the province where the trust resides and not by the provinces where the investors reside as is now the case. Provinces such as Quebec, B.C., and Manitoba, which have an active investment community but host few or no trusts, will be losers.

My overall conclusion is that the legislative proposals should be put on hold until, one, a credible study, based on sound methodology, made by a neutral party, is made to determine their impact on tax revenue; two, a set of measures is put forward to truly compensate the losses suffered by persons saving for their retirement —the attitude of the minister is callous; and three, a set of criteria and regulations is proposed to determine which types of enterprises should be allowed to convert and those that should not.

It is the absence of such criteria and regulations that has led to the destructive overkill and the damage that we are witnessing. The minister did not have to destroy the trust sector in order to prevent the undesirable proliferation of conversions such as EnCana, Hibernia, Bell, and Telus.

Thank you, Mr. Chairman.

● (1105)

The Chair: Merci, Monsieur Fortin.

We will continue now with Gordon Tait, from BMO Capital Markets. Mr. Tait, five minutes is yours.

Mr. Gordon Tait (Managing Director and Research Analyst, BMO Capital Markets): Thank you for the opportunity to address the committee. I've been a royalty and income trust analyst for over ten years, and as an independent analyst, the views I express are my own.

There are a couple of areas I want to highlight that I think are quite relevant to the discussion. First, as you know, it's impossible to talk about income trusts and not talk about tax. I've done quite a bit of work in this area and I've submitted the results of our study for you to see.

I've seen the analysis produced by the Department of Finance, and although it shows more numbers than I had received a couple of weeks ago, it still doesn't show enough detail to really see where their results differ from ours, so I think we need to see more company-specific details in the same way that we have disclosed them in our study.

In the study we did, we used exactly the same assumptions as the Department of Finance, even though I believe some of those are flawed. For instance, we estimate that approximately one-third of the trusts that are held in retirement accounts are in what you would call tax-paying retirement accounts, things like RIFs and pensions. There are annual withdrawals, and they are being taxed regularly. Nonetheless, we did it in the same way that they had done theirs.

We looked at 126 businesses that actually converted to income trusts between 2001 and 2005. We compared the actual amount of tax that had been collected from those businesses as corporations prior to their conversion with the amount of tax that was collected from the trust in the first year by taxing the distributions under the DOF methodology.

What we found was that on average the government collected about 1.5 times as much in cash tax revenue from the trusts as they had collected over the average of the previous three years by taxing the same businesses—the same assets—as corporations.

For the royalty trusts, the difference was even greater. We found that the government collected, on average, over four times as much tax from the trust distributions as had been previously collected from the corporations, so when we look at the empirical evidence, not just a theoretical model, what we see is that generally much more hard cash tax is is collected from them as trust entities than as corporations.

There are really three primary reasons for this. First of all, trust payout ratios are typically much higher than dividend payouts, so more of the cashflow is actually being subjected to tax at individual marginal rates. As well, of course, individuals pay tax at higher effective average rates and higher tax rates than do corporations. Lastly, and this is the most important thing, corporations have many more ways to avoid or minimize paying taxes than do individuals, so in an actual cash tax comparison, we find that the government collects more taxes from the trusts than from the corporations.

The rapid expansion in the trust market has always been driven, in my view, by the demand for yield, and not because of taxes, and that's not going to change. The demographic investment needs of this country are changing. A 70-year-old's investment objectives are just not the same as a 30-year-old's, and we all have to recognize that, so we have to be very careful before we dismantle the only high-yield market that Canada has.

I think the tax fairness plan makes a good start at levelling the playing field between corporations and income trusts. I think much of the disparity, though, centres on the double taxation of income and dividends; that's where the problem lies. I think that lowering the level of tax on corporate income and dividends is the way to eliminate the tax incentive to convert to a trust.

But the tax fairness plan also introduces one unfortunate consequence: it creates a two-tiered investing landscape in Canada. It's one that favours large institutional investors, private equity players, and large pension funds over ordinary Canadians. That's all because of three words: “publicly traded trust”. The plan taxes only the distributions from publicly traded trusts and FTEs, and not the same structures when they are used outside the public markets.

So first you have to understand that what we call an “income trust” is really a very generic structure; there's no special tax loophole. It's basically a mutual fund that owns the debt and equity of a company. These debt and equity instruments are widely used in both private and public funds. Income is typically shifted from the corporation to the trust unitholders via the interest on the debt.

Now trusts, in a sense, pay their distributions through the debt side of a company's capital structure, whereas corporate income and dividends are typically taxed at the equity side. The advantage is they are only taxed once, so one of the problems of the tax fairness plan is that it levies that 31.5% tax only on the distributions of publicly traded trusts and flowthrough, leaving all these other capital market players to use exactly the same structure over exactly the same assets—and they avoid having to pay the tax.

I'm not advocating another system of double taxation to level the playing field, but there are other solutions. Once again I would urge you to consider some modifications to the current proposal so that once again it's not just the average, ordinary Canadian who gets hit with yet another tax.

Thank you.

● (1110)

The Chair: Thank you.

We continue with the president and CEO of Manulife Financial, Mr. Dominic D'Alessandro. It's a pleasure to have you, sir. Five minutes is yours.

Mr. Dominic D'Alessandro (President and Chief Executive Officer, Manulife Financial): Thank you, Mr. Chairman.

Honourable members, thank you for the opportunity to appear on this important issue. I will be very brief.

It's my opinion that the income trust sector in Canada is increasingly populated by businesses other than those whose principal activity is the operation of real estate or royalty-producing assets. It is worth remembering that it was for such businesses that the current tax regime was originally designed.

In June of last year, CI Financial converted to trust status. Subsequently, Telus and BCE announced plans to convert. We at Manulife Financial engage in a number of businesses in Canada. Some of these businesses could quite conceivably be structured to qualify for income trust treatment. I think this is true for many if not all of the other financial institutions in Canada. We would all, in time, have faced intense pressures to break up our companies.

I also have reservations with the appropriateness of some of the businesses that have been sold as income trusts. It is the tax treatment of the distributions that is driving the public's appetite for investment in the sector, and I don't think this is the best way to allocate capital within an economy. After all, capital is important for all companies. Capital provides confidence to employees, suppliers, and customers; capital allows businesses to cope with downturns in activity; and capital provides the means with which to take advantage of growth opportunities that may present themselves in the marketplace.

I don't know why we would want a tax regime that would discourage the accumulation of an appropriate level of retained earnings by the corporate sector.

In time, if left unchecked, the income trust sector would spread to encompass the core of our economy, and I don't think that would be a good thing for Canada.

I leave it to the tax and other specialists to opine on whether the specific approach taken was the most ideal solution; however, I do applaud the government for dealing with an important issue.

I'd be pleased to answer any questions.

Thank you very much.

The Chair: Thank you, sir.

David Dodge is here from the Bank of Canada.

It's nice to see you again, sir. It's over to you.

[*Translation*]

Mr. David Dodge (Governor, Bank of Canada): Good morning, Mr. Chairman, and members of the committee.

I should start by making clear where the Bank of Canada's main interest in the income trust sector lies. Our interest in income trust relates to the efficient functioning and health of Canada's financial system. A safe and efficient financial system is essential to Canada's economic well-being. The Bank of Canada works with other government agencies, as well as market participants, to promote the safe and efficient functioning of the financial system. Capital markets are a key component of that system. And so we are naturally interested in developments in financial markets—such as the evolution of the income trust market—that has the potential to affect financial system efficiency.

● (1115)

[*English*]

With that introduction, Mr. Chairman, let me quickly summarize the highlights of the bank's work on the topic.

l refer committee members to our June 2006 *Financial System Review*. In that publication, we noted that limited evidence suggests that income trusts can enhance market completeness in a number of ways. Income trusts can provide diversification benefits to investors, because trusts can have different risk-return characteristics from those of either equities or bonds. Second, the income trust structure appears to allow some firms improved access to market financing.

Insofar as income trusts allow investors to achieve risk-return benefits they couldn't otherwise achieve and serve as a source of financing to firms that might not otherwise have access to markets, it can be said that income trusts enhance market completeness and therefore support efficiency.

But we note in the same article two areas where the standards for trusts really don't come up to those for corporations, and where improvement is clearly needed: in standards related to accounting and distribution of revenue and those related to governance.

These are the aspects, committee members, that we at the bank have specifically looked at. Of course, there are very important public policy questions related to income trusts that fall well outside the bank's mandate. The bank has done no specific research on how the income trust structure affects economic performance or would affect future productivity in Canada.

Based on general economic principles and our understanding of the structure of the Canadian economy, I can say that while the income trust structure may be very appropriate where firms need only to manage existing assets efficiently, it is definitely not appropriate in cases where innovation and new investment are key. To the extent that the system was favouring the use of the income trust structure, in these cases the incentives for innovation and investment were reduced and potential future productivity growth was reduced.

Finally, members of the committee should realize that different risk-return characteristics of trusts may not enhance market completeness, if they arise from differences in tax treatment. Clearly, there has been a very significant tax incentive to use the income trust form of organization in cases where this would not have been an appropriate form of organization from a business efficiency point of view.

By giving incentives that led to inappropriate use of the income trust form of organization, the tax system was actually creating inefficiencies in capital markets—inefficiencies that, over time, would lead to lower levels of investment, output, and productivity.

We at the bank have not done any research on how the rules of the tax system could or should be designed so that they do not give inappropriate incentives. The changes proposed by the government last October would appear to at least substantially level the playing field. For the income trust sector to deliver the efficiency benefits through its enhancement of market completeness, it is absolutely critical that the tax system provide a level playing field.

Thank you, Mr. Chairman.

The Chair: Thank you, sir.

We'll continue now with Kevin Hibbert, who is chief accountant for Standard & Poor's.

Welcome to you, sir. It's your turn.

Mr. Kevin Hibbert (Chief Accountant, Standard and Poor's): First, I'd like to thank you all on behalf of Standard & Poor's Canada for inviting me here to participate in today's proceedings.

I want to use my opening remarks to give you some insight into how Standard & Poor's is structured and what my role is at Standard & Poor's, in order to give you a sense of the perspective we take in looking at the Canadian income trust sector.

Standard & Poor's is a division of McGraw-Hill companies, and in Canada Standard & Poor's consists of two main operating segments that are separate and distinct from one another, the first being the index services group, which focuses on managing our various market indices, such as the S&P/TSX composite index. The second operating segment is the rating services group, which focuses primarily on assessing the creditworthiness of rated issuers, income trusts included, and the stability of income trust distributable cash.

The ratings group provides the capital markets with objective analysis and ratings opinions but does not comment on the relative value or market price of a security or the suitability of a security for an individual investor. As director and Canadian chief accountant for Standard & Poor's ratings group, my role is to contribute to the analytic process by analyzing the various risks inherent in the financial reporting practices of rated issuers.

At Standard & Poor's, we clearly have a keen interest in any event that is consequential to our rated universe. This would include changes to tax policy. However, our view of tax policy is focused on the impact it may have on a company's specific credit or stability rating.

To appreciate the effects of tax policy on an income trust, we pay particular attention to the business risk and financial risk profiles of the company, in addition to the specifics of the tax policy. This type of analysis is central to what we do as an organization. It provides us with insight into the risk profiles of different income trusts but does not position us to offer opinions on the merits of any particular tax policy.

Since last year, I've been engaged in a continuing study of the consistency and adequacy of financial reporting by income trusts. A two-part report that I co-authored entitled “Canadian Income Trusts and the Perceptions of Distributable Cash” found substantial inconsistencies in the reporting practices of income trusts, in some cases leading to significant over-statements of distribution capabilities.

In recent months, market participants have taken steps to improve the quality and consistency of income trust reporting and disclosure, in part driven by disclosure standards put forward by the Canadian securities administrators and the Canadian Institute of Chartered Accountants.

It should be noted that our observations did not speak to the legitimacy of the income trust structure as a whole and were not intended to single out income trusts as poor reporters; rather, our intent was to underscore to investors the fact that financial reporting risks evident in the earnings figures of corporations are just as prevalent in the cash-generation figures of income trusts. Consequently, investors were encouraged through our reports to maintain the same level of vigilance in assessing reported numbers of income trusts as they do for the reported numbers of corporations.

Finally, I'd like to provide two observations for the committee's consideration this morning.

First, the impact of the proposed tax fairness plan on our rated universe of trusts is by no means homogeneous. Several factors related to an individual income trust's business risk and financial risk profiles will determine the plan's impact, and consequently our response within the analytic process.

Second, it's very difficult to generalize about the extent to which income trusts engage in sufficient, appropriate reinvestment within their businesses. That issue requires a fundamental, case-specific examination of the specifics of each income trust, business risk, and financial risk characteristics. In this regard, income trusts are not unlike conventional corporations.

That said, I welcome any questions you may have and hope that our specific insights can prove valuable to the committee.

Thank you.

● (1120)

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

We'll continue with Jeffrey Olin from Desjardins Securities Inc. Welcome to you, sir.

Mr. Jeffrey Olin (Managing Director, Ontario, Head of Investment Banking, Desjardins Securities Inc.): Good morning. Thank you for the opportunity to present to you and your committee today.

At the outset let me emphasize that I am a strong supporter of lower taxation policies in both the corporate and personal sectors and generally believe in free markets with less government intervention. At the same time, I'm generally supportive of the government's pursuit of policies that level the playing field from a tax perspective between trusts and corporations.

A key reason for this view is that I believe that fundamentally important decisions such as corporate or ownership structures should not be exclusively or primarily driven by tax factors. This perspective is not dissimilar to the notion that investment decisions should not be exclusively or primarily driven by tax factors.

To underscore this point, one might recall quotes in the financial press over the past two years from CEOs of major Canadian public corporations considering the transformation from a corporation to a trust, along the lines of "I have some reluctance to move to a trust, but the tax savings are just too significant and compelling." My concern, and the reason CEOs have made comments like this, is that a corporate structure provides much greater flexibility for boards of directors and their management teams to manage the business affairs of the entity than do trusts.

This is particularly the case with respect to the rules governing trusts that require the payout of 100% of their taxable income in order to avoid the payment of tax at the trust level. Of course, many trusts pay out distributions that exceed their taxable income in order to be "competitive" from a yield perspective.

Accordingly, many business models may not be best suited to a trust structure, but they may be drawn to this structure simply because of the tax savings. As a result, trusts may have less internal capital available to pursue growth initiatives or reinvestment in capital expenditures. This could be quite detrimental to the long-term interests of the entity or the economy in general. At the same time, the substantial payout of a trust's cashflow positions it to be much more reliant on investment dealers, and in turn, institutional and retail investors to fund these growth and other capital initiatives.

Some stakeholders in this debate have argued this as being a good thing. I do not agree. These comments reflect an overplayed cynicism regarding the role and responsibility of corporate directors versus the influence of shareholders more directly. For example, if a trust needs to raise capital to pursue growth or reinvestment initiatives at a time when investor interest may have temporarily rotated to a different industry sector that is more in favour, or if the institutional unitholder base of that trust is experiencing redemptions from its own fund, the trust may be stymied from tapping capital markets at a critical time, and relative to a corporation, would not have the same availability of internal funds to pursue these initiatives. This undue reliance on and influence of capital markets on the management of a business is another key reason that CEOs and their boards have been reluctant travellers on their path to transform to trusts.

To move forward, what capital markets need, perhaps more than any other dynamic, is certainty. The rules upon which the government's proposals will be put in place need to be clarified and implemented. As one example, the government stated its intention to provide exemptions for REITs, real estate investment trusts, which would enable Canadian REITs to operate in a similar fashion to REITs in other jurisdictions, notably the United States. I strongly agree with this proposal, yet much uncertainty and confusion exists with potential divergence between the stated goals and proposed details of implementation.

To highlight this, I have brought and tabled the publicly available prospectus of a very recent public offering of a Canadian REIT. In it is some language, which I've highlighted for ease of reference, that may be unnecessarily alarming to investors. My recommendation in this regard is that if the public policy intent is to provide an important exemption for REITs, then let's get on with it and do so. Let's stop worrying about refrigerators, parking lots, and fences, rather than the bigger picture factor of property ownership and management.

Finally, it is folly to believe that there are not alternatives for investors, including seniors, to receive predictable yield-driven returns from investments that provide cashflow in excess of GICs or bonds. One example is convertible debentures, which not only provide a regular distribution of interest income, together with upside potential, but compared to income trusts would generally be a less risky investment, since debenture holders have an entitlement to a corporation's cashflow in preference to equity holders.

● (1125)

With respect to the most basic question of tax leakage, while I personally would place more faith in the work done by individuals such as Jack Mintz, as well as the finance department's analyses, than other analyses proferred—some of which have even suggested a net increase in overall taxes paid—I believe this question should be considered on a more fundamental and perhaps intuitive basis.

The responsibility that a board of directors holds is to consider the interests of the corporation not in isolation of its shareholders, but rather to serve the interests of its shareholders.

The Chair: Mr. Olin, I'm sorry, I'll have to cut you off there. There will be time for questions, of course.

Mr. Jeffrey Olin: Thank you very much.

The Chair: Thank you, sir, for your presentation.

Kevin Dancey is with us, on behalf of the Canadian Institute of Chartered Accountants. He is no stranger to this committee.

Welcome to you, sir. Over to you.

Mr. Kevin Dancey (President and Chief Executive Officer, Canadian Institute of Chartered Accountants): Thank you.

Mr. Chair and members of the committee, on behalf of Canada's 71,000 chartered accountants, thank you for the opportunity to speak to you today on the issue of income trusts.

One of the goals of Canada's chartered accountants is to enhance the quality of financial information that is used in the private and public sectors to measure and enhance organizational performance. We do this through our support of the setting of both accounting and auditing standards, as well as providing guidance on a range of financial reporting issues.

In this context, last fall we issued guidance for income trusts that recommended standardized reporting for the term “distributable cash”. This guidance calls for enhanced disclosure of the strategies used by management to determine what percentage of a trust's cash is distributable to investors. The focus is on two specific questions: where did the cash come from, and is the cashflow sustainable? The guidance addresses the concerns of regulators, analysts, and rating agencies that there was no consistency in this reporting and is important for the millions of Canadians who own or acquire trust units.

While our focus in the income trust area has been on financial reporting, I will focus today on the tax issue. In my brief remarks, I will set up my perspective on the key points in this debate. So let me begin.

First, some key principles are that the tax system should promote the growth and competitiveness of our economy, generally through the broadest base possible and lowest possible rates; second, the tax system should be neutral; and third, the tax system should be fair.

The tax system, as it related to income trusts before October 31, did not meet these criteria. Why? There are two reasons. First, the tax system was not neutral, as there was a significant incentive to use a trust, rather than a corporation, for tax purposes, and business structure should be created and selected for good business reasons, not for tax reasons. Second, there was tax leakage with respect to both the units held by tax-exempts and non-residents, and this leakage was growing.

The most important of these two points is that the tax system was not neutral. There was a strong incentive—i.e., a tax saving—for businesses to convert into trusts. This tax saving was not available to corporations. This was neither a stable nor neutral tax system. Accordingly, action had to be taken, and the government should be commended for taking action. The status quo was not an option.

The next issue is whether the solution proposed on October 31 was the right one. In my view, it was an important step in the right direction that had to be done now. Why? First, it levelled the playing field between corporations and trusts; and second, it addressed the tax leakage issue.

That said, I believe there's one additional change that could be considered and should be studied by the Department of Finance in the future to make the system even more neutral and more fair, because improving the tax system is always a journey.

Let me explain. I believe trusts have a role to play in rounding out Canada's capital markets. Trusts are appropriate for some businesses. Trusts offer a source of financing that might not otherwise be available, especially for smaller and mid-sized companies.

I also believe it is important to put the growth of income trusts into context. They were arrangements to avoid the double taxation that still exists in Canada's tax system.

By double tax, I mean the fact that corporate and personal taxes are not fully integrated in Canada. The ultimate tax burden is different, depending on which business structure is chosen. Our tax system is partially integrated, for example, for individual Canadian investors in higher tax brackets, but not for all Canadian investors and certainly not for tax exempts like pension plans and RRSPs.

A solution that would make our system fully integrated so there's no discrimination among different Canadian investors would be to make the government's proposed tax on trust distributions, as well as the dividend tax credit, fully refundable to all Canadian investors, including RRSPs and pension plans.

There are a number of issues the Department of Finance would have to consider in studying this issue. These include the fiscal and interprovincial implications; whether there would be the same need for sector-specific exemptions like REITs; and ensuring mid-sized and small businesses that want to go public still have adequate sources of financing.

We believe this option should be considered in the future, along with other options, to make our tax system even more effective in supporting the growth of Canadian businesses.

In conclusion, the government needed to take action on the income trust file. Secondly, the government's proposal is a significant step in the right direction. These changes need to be implemented now. These proposals level the playing field between trusts and corporations and address the tax leakage issue.

Finally, to make Canada's tax system even more competitive, the Department of Finance should study in the future the option of making the proposed tax on distributions, as well as the dividend tax credit, fully refundable to all Canadian investors, including RRSPs and pension plans.

● (1130)

Thank you.

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

Thank you all for your fine presentations; we appreciate them.

We move now to questions, beginning with Mr. McCallum. You have five minutes, sir.

Hon. John McCallum: Thank you, Mr. Chair.

Thank you to all of the witnesses.

I would like to focus on the issue of the manner in which the government acted, and I direct my question first to Mr. Tait.

Let us take as a working hypothesis, as Monsieur Fortin said, that it was appropriate to take some action in view of the conversions of Telus, BCE, etc. The actions that the government actually took undoubtedly destroyed $25 billion of Canadians' savings—an average of perhaps $25,000 per Canadian holder of income trusts. It's arguable that the actions will also destroy the income trust sector in the longer term, thereby depriving the Canadian economy of some of the diversification benefits and improved access to financing that were mentioned by the Governor of the Bank of Canada.

Mr. Tait, given the premise that it was appropriate for some action to be taken, what other options could the government have taken, and would have been aware of, that did not have these two very negative effects I just mentioned?

● (1135)

Mr. Gordon Tait: To be honest, I don't think there was an easy way to do it.

Hon. John McCallum: I'm sorry. First of all, do you agree with my suggestion that in the longer term the actions taken by the government will effectively eliminate, or destroy, or...?

Mr. Gordon Tait: I think they would, and as I say, it only eliminates it in the public markets. Non-public players can use this, in fact, and that's going to be a problem, which we can touch on later.

To be honest, I don't think there was an easy way to do it, because even a hint that you're going to change tax rules has an impact. But partly there was no guidance; people had no clear direction on this.

Maybe going forward, what they could look at doing—and what they might have thought about—is clearly saying what sectors they think would be inappropriate for trust structures. Maybe there would be a certain size of corporation that they think would have to be reviewed before they could convert.

There are a lot of things you could do to make sure that if you're going to use this structure, it isn't in key sectors of the economy—the way they handle foreign investment—or somehow limit it. But the point is that probably it should have been studied, and probably there should have been some guidelines before.

Hon. John McCallum: What about the possibility of a longer transition period or a greater degree of grandfathering that might have substantially mitigated the losses that people suffered?

Mr. Gordon Tait: It certainly would. By simply extending the time period, the present value of that tax would be minimized. I think what it would do is buy more time. It would mitigate the impact of the current proposal that still has some problems in it. Also, it would provide more time for people to study this and maybe come up with a solution that would work better and wouldn't discriminate against small, ordinary Canadians, versus big institutions.

So I think that would at least minimize the impact, while this issue was being discussed further.

[*Translation*]

Hon. John McCallum: Mr. Fortin did you have anything to add with respect to policies the government could have adopted which would have been less costly for Canada?

Mr. Yves Fortin: Yes, I think I do. The governor referred to inefficiency issues, however he also said that benefits could be derived from trusts. A series of criteria and regulations should of been developed, in my opinion, to prevent what I referred to as undesirable conversions. This would have averted the complete demise of the sector, and at the same time forestalled the damage and ramifications which result from such conversions.

Should the government decide to go ahead despite everything that has been heard, especially when it comes to the eligible lost of tax revenue, it should at least have the decency to somehow clean up the mess. Mr. Dancey referred a couple of times to the importance of stopping double taxation, should the bill go ahead. As things currently stand, if trusts were taxed in addition to taxing RRSP withdrawals, we would end up with incredibly high tax rates in the realm of 57 to 63%.

The Chair: Thank you very much, sir.

Mr. Paquette now has the floor. You have five minutes.

Mr. Pierre Paquette (Joliette, BQ): Thank you, Mr. Chair.

Thank you very much for your presentations. It has become clear from the testimonies that this subject is not as straight forward as the rather simplistic presentation made on October 31 would have led us to believe.

Mr. Fortin et Mr. Tait, you argued that converting income trusts into publically traded companies may have an adverse effect on the government's tax revenue.

Does the $500 million amount quoted by the minister last Tuesday seem exaggerated or inflated in your opinion? Is the current income trust structure resulting in tax revenue losses? If you were indeed right—and I have no doubt about the legitimacy of your arguments —, why would the government and the department have chosen to go down this path knowing full well that, at the end of the day, they would collect less revenue than they currently collect under the existing income trust structure?

● (1140)

Mr. Yves Fortin: The $500 million amount is continuously changing. It is based on a terribly flawed methodology and a number of slightly far-fetched hypothesis. It is also based on the premise that cooperations pay the normal tax rate of 35%. Reference was also made to RRSPs, RRIFs, and pension funds. Quite frankly, this whole business of lost tax revenue is a great political tactics which goes over well with the print media and the public. It is not an easy argument to resist because the public... One of my neighbours told me that it was incredible that trusts generated losses and that you had to pay taxes because of that. So I then ask him if he knew what a trust was, and he admitted that he did not know.

Mr. Pierre Paquette: But why did the government chose to go down this path if it is so obvious that...?

Mr. Yves Fortin: I think that the underline reasons are quite different. The lost of tax revenue is not an issue here. The document I prepared, “or how to generate loss of tax revenue ”, gives you an idea of how tax rates will change under such legislation.

Why is the government doing this? Perhaps we can ask the gentleman who represents the interests of business which feel threatened by the presence of trusts. Business does not like that sort of competition. How do you expect to sell an annuity at 4% when people can get 8 to 10% on trusts under their RRIFs?

There is competition, and investors opt for the highest return as Mr. Tait pointed out. Don't kid yourself by thinking that people buy units in a trust because it is cheaper or more beneficial tax wise. That is not why they invest in them. They do so because income trusts give them the kind of return they need for their retirement. Most people out there buying income trusts don't give a dam about all this tax stuff we are being told.

Mr. Pierre Paquette: Thank you, Mr. Fortin.

My next question is directed to Mr. Dodge. He said that the income trust structure may be economically disadvantageous for developing sectors seeking investors. Mr. Fortin has suggested criteria be established so that only certain sectors can convert into income trusts.

Is that a possible action in your opinion? Which sectors could take advantage of such an income trust structure, in your opinion, beside from the real estate sector, which is already excluded?

[*English*]

The Chair: Mr. Dodge, you have about 45 seconds to undertake an answer.

[*Translation*]

Mr. David Dodge: It is hard to give you an answer which would apply to businesses in each and every sector, because circumstances differ from one industry to another. A decision may benefit one given sector or company, and, yet hurt another. The problem to date is being that inappropriate business decisions have been made in an effort to save on taxes.

[*English*]

The Chair: Merci, monsieur.

We continue with my Manitoba colleague, Madam Wasylycia-Leis.

● (1145)

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairperson, and thanks to all of you for your time today.

Let me start with Mr. Dodge.

Thank you for your presentation today. It helps clear up some of the headlines that happened around November of last year, with things like “Income trusts a good thing, Dodge says”, and “Dodge touts trusts' benefits”. I think, as you've pointed out today, you were taken out of context.

So I would like you to take a minute to further clear up the record and give your feelings about the government's decision on this file, given the attack that has been made against closing the loophole, given the questionings around the tax leakage, which we're hearing from in terms of finance officials, provincial governments, reputable folks out in the field, yet all of that is being questioned by some lobbyists today. I need you to address that for the record.

Mr. David Dodge: Thank you.

I tried to clear up that misleading headline after the hearing in front of the Senate. I did issue a press release, and I'll just very quickly read the critical line:

> We've looked at it from the point of view of the efficiency of capital markets. The work we have done in terms of capital markets per se is that probably, on balance, income trusts make markets somewhat more complete and hence somewhat more efficient, but that has nothing to do with the tax treatment and that it is appropriate that businesses face a level playing field in choosing the form of corporate organization that allows capital to be allocated to its most efficient use.

I have repeated that today.

Going beyond that, we're not in the tax game, as you will well imagine, but we do look at capital markets, and what has happened since the October 31 announcement is that we've seen something like a $20-billion or $25-billion reduction in the market value of these trusts. It has not been even, of course, across all trusts.

So what does that represent? Well, it represents two things. It can only represent two things: number one, the present value of all the future taxes that the government would have lost; and number two, the inefficiencies that were there by organizing some businesses in the form of trusts that should have been organized in the form of corporate businesses.

I can't separate between the two, but I do have faith, reasonable faith, that market evaluation of what has gone on is right and a big chunk of that $20 billion or $25 billion has to be the present value of tax losses to governments, federal and provincial.

Ms. Judy Wasylycia-Leis: Thank you. I think clarification is important, since in fact a lot of people hang on to every one of your words, and it needs to be considered in this debate. I think we need to consider also what many have said—that is, that income trusts exist for one reason only. I'm not saying these are your words, but my perception of the experts' advice on this is that they offer a tax benefit to investors in trust that was not available to corporations, which I think has been stated clearly to try to refute what Mr. Tait and Mr. Fortin have tried to say to us.

I'd like to go to them, but just before I do, Mr. Hibbert, you have over the years made important assessments of existing trusts and concluded that there was significant overvaluing and that there are serious problems for people who hold trusts in terms of getting value for their investment. Could you elaborate just a bit on the problems that exist and what would happen in the absence of any government action putting a lid on trusts?

The Chair: Mr. Hibbert, you'll only be able to elaborate a little bit, because you'll have only 30 seconds for your response, unfortunately.

Mr. Kevin Hibbert: Okay, I'll give you the *Reader's Digest* version, then.

First off, I've never really spoken about valuations. That's certainly outside of my scope at Standard & Poor's, and outside of the scope of our ratings agency. Really what we were talking about was the fact that there are financial reporting risks that are evident within trusts that investors somehow didn't really think too much about. Our thinking around that was because there was a significant focus on cashflow, and many people consider cash to be this absolute figure that is somehow immune to reporting distortions. So when we highlighted that issue, we didn't really do it to isolate or single out the trusts, but rather to underscore the fact that the reporting distortions are there, they exist, they're very real among cashflow numbers of trusts, and as a result, the same vigilance they have in looking at earnings figures for corporates has to be extended to the trust environment.

The last part of your question, around government action—

● (1150)

The Chair: I'm afraid I must cut you off there. We've extended the time.

We move to Madam Ablonczy now for five minutes.

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

Thanks to all of you for being here. This is an important issue, and we appreciate the contribution you've made.

Mr. Dodge, there was no shortage, of course, of opinions expressed here on this issue today. But I'd like to start with you. When you've appeared before the committee previously, you've made it clear that you take very seriously your commitment to Canada's standard of living, our quality of life. As an important steward of Canada's economy, why do you believe that the move on October 31 was good for Canada's economy, that it levelled the playing field? Why was it good for the economy?

Mr. David Dodge: As I said in my opening remarks, we've done no highly specific work on this, and work on what affects productivity down the line is very difficult. So I must say that I'm speaking here on the basis of general principles and on our general knowledge of what affects productivity going forward.

Obviously, there are only two real sources. One is innovation—finding new technology and new ways of organizing to do business. Second is the investment in both physical and human capital, which augments the amount of capital that people have to work with. Those are the only two sources. The question is what impact the income trust form of organization, as opposed to the corporate form of organization, has on this?

In the case of a business that is essentially using an existing piece of physical capital and running it down or out—there are businesses like that, as Mr. Paquette said, but they're not all in any one sector—the trust form of organization may well be an appropriate form of organization for running that business so as to get maximum efficiency out of it.

In any other businesses, which will be the majority of Canadian businesses, where innovation in new investment is critical, the income trust form of organization is not an appropriate form of organization to maximize the contribution of that business. And over time, because of that, one would argue and it follows that if those businesses organize in that form, it has some long-term negative impact on output and performance.

So I think we're saying things in different words—the way Mr. Dancey put it, or the way Mr. D'Alessandro put it—but I think those are the general points we ought to be very clear on. Hence the conclusion: that there ought to be no bias in the tax system to incent a business to operate one form of corporate organization or another.

While not perfect, as Mr. Dancey pointed out, the changes proposed on October 31, which you will have to deal with as parliamentarians, at least make the system more neutral and more conducive to higher output and better performance in the future.

Ms. Diane Ablonczy: So you're telling the committee that you believe what Mr. Flaherty, the finance minister, did with this announcement was the right thing to do.

Mr. David Dodge: I think so. I guess from a strict point of view, as Mr. Dancey said, the right thing is to have a tax system with low rates and a broad base and that is as neutral as possible, and probably years ago we should have recognized that we had a bias here that could lead to problems. But better late than never.

● (1155)

Ms. Diane Ablonczy: Mr. Dodge, what do you think might be the risks of extending the transition period by another six years?

Mr. David Dodge: That I really can't answer. You'll have to ask somebody with more tax expertise than I have.

The Chair: Thank you, Madam Ablonczy.

We'll continue now with four-minute rounds.

Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Mr. Chair.

Thank you, witnesses.

Really the only issue here is tax leakage.

Professor Fortin, you've taken a rather hard look at whether in fact there is a tax leakage.

The allegation by the minister on Tuesday was that there was going to be a $500-million leakage, which is a curious juxtaposition to something in the order of about a $25-billion to $30-billion meltdown. This is an even a more curious juxtaposition to a $5-billion revenue reduction by GST. So you have a half billion versus five billion dollars, in terms of policy choices. One might say that's a curious set of policy choices.

The presumption is that trusts distort the market, that people make choices based upon the tax treatment.

The question I put it to you is that the trust entity is simply a download of tax liability from the corporation to the individual. If in fact we could eliminate the flow-through entities from the calculation, would the government generate more or less revenue from trusts, by virtue of downloading onto the person, as opposed to the taxation liability on the corporation, where a person generally pays a greater effective rate than does a corporation?

I'm asking you, is that a warranted presumption? If so, then the problem is with flow-through entities, rather than with the trusts themselves. Is that a reasonable question?

Mr. Yves Fortin: The point I have tried to make is that presently for the so-called fully taxable accounts, these people are paying more taxes than if they invested in corporations. That also includes the taxes paid by the corporations.

Hon. John McKay: So then it's fair to say that if you could eliminate flow-through entities from the equation, you would actually generate more revenue out of persons? Is that correct?

Mr. Yves Fortin: What I'm saying is that if all the trusts were to reconvert to corporations, the government would end up with much less revenue. That's what I am saying.

This is the point I make in tables 1A, 1B, and 1C of my document entitled “A Recipe for Tax Revenue Loss”. It is documented there with the tax rights.

Hon. John McKay: Your second point is that treating tax-deferred vehicles as tax-exempt is the serious flaw in the department's methodology.

Mr. Yves Fortin: It is, Mr. Chairman, in terms of both the medium and longer term, but also in terms of the present situation, the annual budget. I think I have emphasized that point.

In the longer term, the government will lose, only if the present value of the future taxes collected is less than the taxes forgone at the moment. With trust distributions at 8% and 10%, and the inflation rate at 2%, I wonder how the government can lose in the short run—as I mentioned, in 2004, because those are the only statistics we have to date.

What happened there is that—

[*Translation*]

The Chair: Sorry to interrupt you, Mr. Fortin.

We will continue with Mr. St-Cyr.

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

I am going to continue the dialogue with Mr. Fortin because I would like a clarification concerning a study he tabled. Page 5, Table 2A, tax on investments in income trusts and the impact on income trusts if they are placed in a RRSP and where taxes carried forward eight years.

A footnote under the table states: “Based on an average federal/provincial personal income tax rate of 38%”. The thing that bothers me is that every year when I meet with my financial planner and he gives me a basic RRSP refresher course, he tells me that one of the advantages of contributing to an RRSP is that your tax rate when you contribute is generally higher than it is once you retired, when your income is usually lower.

Have you taken this in consideration into your calculations and determine what the government would loose if an entire segment of the tax field was subject to a lower taxation rate?

● (1200)

Mr. Yves Fortin: I think that the 38% rate is the average rate the Department of Finance uses as a general rule. It is highly likely that retirees would be subject to a lower tax rate, but it is also highly likely—and I know a lot of retirees for whom this is the case—who would be taxed at 38% or higher.

The public paid $38 billion into RRSPs in 2004 in the form of deferred taxes and withdrew $52.5 billion. Even if the taxation rate was lower, I can guarantee you that the government would not lose out. This is not the future, as Mr. Flaherty pointed out. You have to look at the current obligations. Today, this week, $ 1 billion will be taken out from RRSPs and RRIFs.

Even if the tax rate was lower—

Mr. Thierry St-Cyr—it will still be a higher amount.

Mr. Yves Fortin: —it would still be a higher amount. Since RRSPs were created, people have piled away hundreds of billions of dollars. As the population gets older, this money is starting to be taken out. The aging population means that the pace at which people will withdraw their RRSP and RRIF money will speed up. And with an aging population, contributions will remain stagnant or drop.

Mr. Thierry St-Cyr: Thank you very much.

My question is directed to Mr. Tait. You said that some investments may be recovered if the transition period were extended. Have you put a dollar amount to the money investors would recover if the transition period were, for example, increase from 4 to 10 years?

[*English*]

Mr. Gordon Tait: Yes, we did put a number on that. It's just a fairly simple present value calculation.

We estimated that if you extended the time period when you would implement this proposed tax, it would probably bring back about $9 billion or $10 billion worth of value to the trust sector. That's because the impact of it doesn't happen as quickly; it happens further out in the future, so it doesn't have as big an impact on today's investor.

[*Translation*]

Mr. Thierry St-Cyr: Is that study available?

[*English*]

The Chair: *Merci beaucoup.*

We continue now with Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chairman.

I thank the panel for coming this morning.

I think it's interesting: we didn't call these meetings before the legislation got back to us as a committee, but the opposition parties did, and we've heard from Mr. Dodge, Mr. Dancey, Mr. Olin, Mr. Hibbert, and Mr. D'Alessandro—all with what I would consider to be independent opinions on these things—and all are supportive in general of what the finance minister has proposed and what we have in our ways and means motion.

My question is for Mr. D'Alessandro. There is some short-term pain, of course, but what, as a leading business person in this country, do you think is the long-term risk for our economy? And what do you think the issue is in terms of productivity for corporations in general?

Mr. Dominic D'Alessandro: Are you asking me that question with reference to the legislation?

● (1205)

Mr. Mike Wallace: That's correct.

Mr. Dominic D'Alessandro: As I remarked in my comments, I think that capital is important and the accumulation of capital in corporate entities is to be encouraged, not to be discouraged.

I believe the use of trust structures was extended to areas where it was inappropriate, and all of us in the corporate sector would eventually, if this were left unchecked, face pressures to look at our businesses to see whether they could seize some tax savings by restructuring themselves. And I think that would not be a good long-term thing, because income trusts exist largely to distribute their current earnings, and the retention of earnings, for the various reasons I mentioned, is not encouraged.

Underlying some of this is a theory that somehow corporate managements can't be trusted to properly employ the capital and therefore should distribute it out and then go back to shareholders or unitholders and ask for a reinjection whenever the need arises.

The reality is, that's not very practical. You need a stable and predictable capital base in order to conduct your affairs.

Mr. Mike Wallace: Some of the other panelists have had an opportunity to answer this question, and maybe you can, if you feel comfortable. I thought the reason for these meetings was not to do with tax leakage, but with an extension from four years to ten years, which some people are musing about.

Do you have any comments on whether the four-year tax holiday that now exists in the ways and means motion is appropriate, or do you have any comment about extending it?

Mr. Dominic D'Alessandro: As I said in my remarks, I'm not a tax specialist. I don't know exactly why that particular sector couldn't have been carved out; I don't know. I can only assume that those who do have the knowledge and the analytical tools available to them looked at it. I can't imagine that if it was easy to carve out that particular sector, it wouldn't have been done.

Mr. Mike Wallace: I have a question for Mr. Dancey. I want to be clear that the organization you're representing here today has no pecuniary interest, and that you're here representing the chartered accountants from a business perspective. You highlighted in your presentation that this was tax-neutral and tax-fair. Could you tell me why that's important from an accounting point of view?

The Chair: Mr. Dancey, we have time for just a very brief answer, sir.

Mr. Kevin Dancey: Okay, I'll be very quick. I think the key issue is that businesses should select the structure that they need for business reasons, not for tax reasons. The environment prior to October 31 was such that there was an incentive to select their structures basically for tax reasons, not for business reasons.

The Chair: Thank you, sir.

We continue with Mr. Peterson.

Hon. Jim Peterson (Willowdale, Lib.): Governor Dodge, my interpretation of your comments is that you did not offer an unqualified endorsement of the government's actions. Is that correct?

Mr. David Dodge: What I said was that a step was taken to level the playing field and it was a step absolutely in the right direction, but that, as Mr. Dancey said, the tax system is complicated, there are incentives in it, and it's always an ongoing process in trying to deal with the tax system to get greater neutrality.

Hon. Jim Peterson: Thank you, Governor.

Mr. Tait, with respect to Telus in B.C., the government had options. It chose to ensure that there were no new trusts, and that they would kill off existing ones over four years. The result was a washout of savings of $25 billion or more.

If the government had instead put a moratorium on the creation of new trusts and had considered ways of better integrating the personal and corporate income tax systems, such as those Mr. Dancey and Governor Dodge have talked about—by refunds or whatever—and had the government announced that approach instead, would that have resulted in this incredible, huge loss to Canada's pensioners?

Mr. Gordon Tait: No, I don't believe it would have. If there was no tax being.... If there's really a way to study the issue and put a moratorium on these trusts, if there's a way to study the issue without immediately introducing the 31.5% tax, if that's the best way to go, then no, it wouldn't have been as damaging. People would have been nervous and there would have been some sell-off, but in my view it wouldn't have been anywhere near what we saw on November 1.

Hon. Jim Peterson: Around the table have you seen any studies, any view on this, from the government as to what the precise market reaction to the government's measures was going to be?

Mr. Gordon Tait: No, I haven't. We've done our own studies. We've made our own estimates, but I haven't seen studies from others that might have assessed what it could be before. Is that the question?

● (1210)

Hon. Jim Peterson: What were your estimates?

Mr. Gordon Tait: We did think that it would be slightly less than the initial sell-off, but the market very quickly prices these in. If you had put a 31.5% tax on bond income the next day, you would have seen the same kind of sell-off.

My view is that if they had said it was a problem and they didn't want to see companies in key sectors, the very large corporations, converting, and that we had to study it, it would have caused some nervousness, but I don't think you would have seen the reaction that we did see on November 1.

Hon. Jim Peterson: Do you think the government intended by its measures to increase the overall tax burden on a pension fund holding an income trust from somewhere in the mid-40s to the mid-60s?

Mr. Gordon Tait: I'm sorry—could you say that again?

Hon. Jim Peterson: I'm out of time; I'm sorry.

The Chair: We can carry that conversation on later, I suppose.

We'll conclude with a very brief question from Mr. Dykstra.

Mr. Rick Dykstra (St. Catharines, CPC): Mr. Fortin, we've got letters from finance ministers from every province across this country. The finance department supports this; Mr. David Dodge has made his comments today, and Mr. D'Alessandro, and Mr. Dancey.

You're in opposition to that, and as a former member of the Department of Finance you made an absurd comment that I think discredited you as a witness here today when you stated that big corporations behind the scenes have influenced the Ministry of fFnance in their decisions. Are you suggesting that's what happened when you actually worked for the Department of Finance, or was that happening after you left?

Mr. Yves Fortin: No, sir.

What I am saying is that the corporations are applauding the measures because they suit them. That's what I'm saying. Do not try to distort what I said.

Mr. Rick Dykstra: That's not what you said in your statement, sir.

Mr. D'Alessandro, your position on this in terms of—

Mr. Dominic D'Alessandro: I'd like to clarify that in our particular case, we would have preferred an announcement that would have dealt with the trust issue in a way that would have left our investments...because we have sizable investments; we have trusts of our own. I personally, as a Canadian, have investments in trusts. Had they been grandfathered in some way, that would have suited us. I think the notion and the implication that on this file the government is somehow responding to initiatives that originated with corporations is not based in reality.

The Chair: Thank you, Mr. Dykstra, and thank you all for your participation today. It's much appreciated.

We'll take a couple of minutes to ask the second panel to move in.

I have a notice of motion from Mr. McCallum for a motion he wants to bring forward following the second panel. We'll deal with that at that time.

●

(Pause)

●

● (1215)

The Chair: I welcome our second panel. Thank you very much for being here.

You're probably aware of the format already, but I'll review it. You've been told to keep your presentations to five minutes. Obviously that's to allow for an exchange with committee members. I will give you an indication, if you wish, when you have a minute remaining, and I would invite you to wind up your presentations before I have to unceremoniously cut you off, which I must do.

We appreciate your time, and we appreciate your being here. The panels have been most interesting.

We'll begin with Mr. Dirk Lever, from RBC Capital Markets. Welcome. Five minutes is yours.

Mr. Dirk Lever (Managing Director, Global Equity Research, Chief Income Trust Strategist, RBC Capital Markets): Thank you very much for the opportunity to present today.

I'm a chartered accountant and have been a research analyst in the trust sector for over seven years. My work is focused on trust structure, taxation issues, and evaluations. Like Gordon Tait, I am a research analyst, and my comments will represent my own views and not necessarily the views of the Royal Bank of Canada.

We have looked at the trust proposals put forth by the federal government and analyzed the expected financial impact of the proposals in the hands of investors, primarily Canadian investors. We've compared the trust proposals against current corporate tax legislation.

During 2006 the federal government took a step in the right direction when it eliminated double taxation of Canadian corporate dividends received by Canadian individuals. Unfortunately, double taxation of Canadian corporate dividends still exists in Canada today, and with the federal government's proposed trust taxation, a second instance of double taxation of Canadians will be introduced. We think the double taxation of Canadians should be eliminated because it is unfair.

Double taxation exists when an investor receives less income after tax than if the income had been received directly and then taxed. For example, if you receive a dollar of income and your tax rate is 30%, something is wrong with the system if you end up with less than 70¢. When that happens, rational investors look for ways to ensure they get their 70¢, and not less. Forget everything else you've heard today about the trust and alleged loopholes; trusts exist today because Canadians were fed up with receiving less than their fair share.

How does double taxation still crop up today? Quite simply, a Canadian corporation paying a dividend pays that dividend after corporate income taxes. Canadian shareholders receiving that dividend expect to be given a dividend tax credit for the corporate taxes paid on their behalf by the corporation.

Today, Canadian individuals are given a tax credit to ensure double taxation is eliminated. However, Canadian pension funds are not given a dividend tax credit. As well, although the Canadian pension fund makes distributions to the Canadian pension beneficiaries with after-tax dollars, that same Canadian pension recipient is subject to full taxes on the pension benefit; no tax credit is passed along to the Canadian pensioner, and taxes are paid a second time on that same income.

The problem of double taxation does not exist with interest income, so why should it with dividend income? Consider that interest paid by a Canadian corporation or government is paid without first being subject to tax. A Canadian pension fund can then distribute the pre-tax income to Canadian pension beneficiaries, who will then pay tax on the interest income for the first time.

From this example, you can understand that from the perspective of the Canadian pension beneficiary, the dollar is worth less if it starts off as Canadian corporate income rather than if it starts off as interest from a Canadian corporation or government. In this instance, a dollar is not a dollar because it's subject to double taxation.

The proposed trust taxation will do the same thing to trust distributions. The distributions will be subject to double taxation in the hands of Canadian pension beneficiaries. We typically refer to Canadian pension beneficiaries as pensioners.

What's the solution? It is simple—and we have to thank Professor Jack Mintz and Price Waterhouse Coopers for their collective work on this: it is to provide all Canadians with a full tax credit for taxes collected from a Canadian corporation on dividends paid, and a full tax credit for taxes collected from Canadian trusts on distributions paid. For some low-tax-rate Canadians, this will mean an actual tax refund; for Canadian registered pension plans, this will mean a full tax refund. In this way Canadians can be assured they will not be taxed twice on income received from their retirement funds and plans. We believe our amendment will help make the current proposal fair.

Canada, like other countries, has underlying problems with underfunded pension plans, and we can not understand how policies that effectively tax Canadian pension plans can possibly solve this problem. The Minister of Finance talked about having cash today to pay for the bills today, but we also must keep an eye to the future so that we do not saddle our children with financial problems we know of today. That is not fair.

The trust market has been a viable source of capital for many small and medium-sized Canadian businesses. Trusts are part of our everyday life, and Canadians buy goods and services from them daily. Trusts employ thousands of hardworking Canadians who take pride in their work and in their businesses. Trusts can live alongside corporations. Our amendments will put trusts and corporations, as well as Canadian investors, on equal footing. We believe trusts can and will succeed if they're given a fair chance to prove themselves. Let us not let Canadian businesses fall prey to those who conceive the values.

We believe our amendments are simple and fair. We have other recommendations we believe will help amend the current trust proposals on technical issues, and we'd be pleased to provide the information to the committee for consideration.

● (1220)

Thank you.

The Chair: Well done, Mr. Lever. Thank you.

We move to the National Pensioners and Senior Citizens Federation, and Art Field. Nice to see you again, Mr. Field. Welcome.

Mr. Art Field (President, National Pensioners and Senior Citizens Federation): Thank you, Mr. Chairman.

I just want to make a couple of comments before I get started. I was here in November with the National Pensioners. I got a letter from the chairman, thanking me for coming, so I appreciate that. I have a handout, but we don't have it translated, so we'll give it to the clerk to be done afterwards.

I'll give a history of our association and what we're trying to do. We're a national association where membership is by clubs, chapters, or provincial bodies. We consider that we probably represent a million people, but we don't have a million-person membership list. It's by the association you belong to. For example, suppose a seniors club in Lindsay has a thousand members in it. If you're a member, then you're part of our federation.

We're cross-country. I myself work out of Ontario. The first vice-president and a past president are out of Newfoundland. The second vice-president, who is also the secretary of a federation of Nova Scotia seniors, is out of Nova Scotia. The third vice-president is also out of Newfoundland, and is also secretary of a Newfoundland 50-plus seniors' group. The treasurer is in Ontario, and the secretary is in Saskatchewan, and she's also president of the SSAI in Saskatchewan. The treasurer is the second vice of the USCO in Ontario. So we're all very integrated, and our main goal is looking after seniors.

We've been working with the SIPA, the Small Investor Protection Association, and they had hundreds of horror stories from before this. Our agenda was set before what happened on October 31. There was some misrepresentation and people have been losing money because their broker or whoever told them it was great, it was great this year, but then it was not great two years from then. Obviously, I didn't bring them, and you're not here to hear that.

We also are working with the FADOQ in Quebec. Our past president from a few years back is working with them. The FADOQ, as you know, has a 400,000-person membership in Quebec, with 15 or 20 vice-presidents, but theirs are individual memberships. Individuals pay a membership fee in FADOQ. They have big numbers. Obviously they're a big organization, they have resources, and they work with the government. We're working with them on some of the while-collar crime, as you may want to call it.

We are wishing for a regulator, because there isn't one. You have regulations if you buy a fridge and you have regulations if you buy a furnace or whatever, but nobody answers to anybody or any regulation when you're buying shares or income trusts or whatever. Seniors—and most of us think this way—are reluctant to speak out if they lose their money. It ends up being “their fault” even though they were given bad advice. You complain about your car that doesn't work and you get mad at the dealer and you complain about something else, but you don't tell your neighbour that you lost $50,000 because you made a bad investment or you think you made a bad investment. You invested with cooperation from a broker and maybe he advised you badly. There are no rules to combat that, so we need those.

We welcome the income splitting, plus a higher deduction for the age credit. The government, on income trusts and what was going on, needs a good tax base to supply the needs of all Canadians, but not just seniors.

Where I live in Ontario we have the highest density of seniors. We're an hour and a half out of Toronto, but we're also in cottage country. The cottage that you got 30 or 40 or 50 years ago is now your house. Obviously most cottages aren't cottages any more, but they're worth a fair amount of money. But we also have a lot of seniors who are on the edge and don't have a whole pile of money, and they're living in our area.

● (1225)

We have a good hospital there that is very busy, but there's a shortage of doctors, like everywhere else in Canada.

I just want to give one credit on the thing we're handing out. Fred Silk, chartered accountant, did it for us, and we have others.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Field. We'll look forward to reviewing your presentation as well, once it's translated.

From the University of Toronto, Ramy Elitzur is here. Welcome, sir.

Mr. Ramy Elitzur (The Edward Kernaghan Professor, Financial Analysis, Rotman School of Management, University of Toronto): Thank you for inviting me. It's a great honour and a privilege to be here, and it's a great privilege to see democracy in action.

Before I start, I want to point out that as opposed to some of the people who came here, I don't represent any interest group. I don't have any financial interest whatsoever in income trusts. I don't get commissions from them. I'm just an academic. As you probably know, I have a professorship in financial analysis, and I've been following the trusts since their inception, as well as other things.

My angle is not taxation. Taxation is very important—my good friend and colleague Jack Mintz made very good comments—and of course tax leakage is a serious issue. My angle is the perverse incentives that existed prior to the legislation. I think the tax change is actually a step in the right direction, but let me make my points very briefly.

If you take a look, many of the income trusts that we have out there have no business being income trusts. In order to be an income trust—a company that distributes most of its cashflow—distributions have to meet certain conditions. As condition number one, a company has to be a mature company. That means it has large operational cashflows and small capital investment. Condition number two is that it still has lots of time remaining in this stage. Condition number three is stability. It has to have stable income—in other words, stable revenues and stable expenses—and less or almost no uncertainty.

If you take a look at some of the recent companies that registered as income trusts, they violate every one of the conditions, or most of them. As such, I think what we have now is a bubble. If we hadn't stopped it now, in the long run more investors would lose their money.

I hope I'm wrong in many respects, but I think you are going to meet me again in the future, talking about the income trust debacle and why so many companies registered. If people ask me, I'll be more than happy to answer about the perverse incentives of the financial institutions and management and so on.

Thank you very much.

● (1230)

The Chair: Thank you very much, sir.

Gordon Kerr will continue. He is from the Coalition of Canadian Energy Trusts.

Welcome, sir. It's over to you.

Mr. Gordon Kerr (Co-Chair, Coalition of Canadian Energy Trusts): Thank you for this opportunity to speak to the committee. My name is Gord Kerr, and I am here on behalf of the Coalition of Canadian Energy Trusts.

On October 31, 2006, Canada's new government broke a key election promise not to tax income trusts. This has cost energy trust investors billions of dollars. Investors relied on the government's good word, and the subsequent devastation was unnecessary. We believe the government broke its promise to Canadians in its rush to stop trust conversions.

We're not here to dispute the government's decision to stop conversions, but we do believe this decision should have been followed by consultation regarding the role trusts should play in specific sectors of the Canadian economy. With a more complete analysis of our sector, we believe the government would have recognized that energy trusts are different and ought to have been exempted from any new policy, just as real estate investment trusts were.

We are not suggesting that the entire oil and gas industry should be structured as trusts, nor do we believe that would happen. As my comments will show, this structure is the right business model for a significant component of the western Canadian sedimentary basin.

Our coalition has produced a detailed document that justifies the continued existence of trusts in the energy sector. Our report concluded that energy trusts do not cause tax leakage; that energy trusts enhance productivity; that contrary to the government's assertion, U.S. energy trusts continue to thrive; and that millions of Canadians, including retirees, have suffered enormous financial losses as a result of the government's broken promise.

With regard to trust-like entities in other jurisdictions, this committee has already heard from others that the Minister of Finance is wrong. Comparable structures do exist in other countries and are in fact expanding, potentially increasing foreign control over Canada's energy sector. I won't revisit that territory. What I want to address is the issue of tax leakage and the important role of energy trusts in Canada's energy future.

On the matter of tax leakage, we heard a lot about tax leakage in the previous session. Our research shows that government revenues are actually enhanced by the energy trust structure. During the past five years, energy trusts have generated greater taxes than they would have as corporations. For 2006, we estimate that our $8 billion in distributions will generate in the order of $2.4 billion in taxes. Moreover, for 2005, our data shows that our sector will have generated an estimated 30% of the tax revenue collected from publicly traded Canadian entities in the oil and gas sector, while representing only 16% of the revenue.

Regarding our contribution to productivity and sustainability, since 1986 the energy trust structure has evolved as an ideal model for Canada's maturing hydrocarbon basin, through our focus on maximizing recoveries from mature oil and gas pools. Our report clearly shows that members of our coalition have substantially increased capital spending on these assets, resulting in significant reserve and production additions. We have also repatriated approximately $10 billion worth of assets from foreign control over the past ten years.

Despite record levels of drilling, Canadian conventional oil production is falling and natural gas production has plateaued. The traditional corporate growth model is not sustainable for all entities operating in a declining producing region.

Finally, Canadians deserve to have the decisions that impact their economic future made with proper care and all of the facts. We want the government to take the time and do the consultations required to get this decision right. We believe such consultations and this committee's work this week will show that energy trusts are unique and should be exempt from the proposed tax changes. We want to get it right for ordinary Canadians who believed the Prime Minister's promise not to tax trusts, and for Canada's producing regions so that we can maximize ultimate recovery of our scarce resources for the benefit of all Canadians.

We have produced a report supporting our position in this regard. We welcome critical review and debate on this issue and we invite the government to do so, rather than continually stating that they will not change their decision. It is never too late to get it right.

Thank you, Mr. Chairman.

● (1235)

The Chair: Thank you very much, Mr. Kerr, for your presentation.

We continue with Dennis Bruce, of HDR|HLB Decision Economics. Welcome to you. Five minutes are yours.

Mr. Dennis Bruce (Vice-President, HDR|HLB Decision Economics): Thank you, Mr. Chair.

Good afternoon. Thank you for inviting me to appear before the committee today. It's a great honour.

I'll be presenting evidence on tax leakage, and I'll submit it after my testimony today.

I'm vice-president of the firm HDR|HLB Decision Economics. For the sake of time, I'll refer to it as HLB going forward.

Our firm specializes in the provision of impartial and objective third-party economic analysis. Since the fall of 2003, we have been working on behalf of the trust sector to ascertain whether taxes generated under the income trust structure are less than tax revenues generated under the corporate form.

We also have met and collaborated with the Department of Finance in developing our methods and models. In the period during which the Department of Finance prepared the government's 2005 consultation paper on the tax effects of income trusts, HLB was asked by the department to work with them to help come up with a common methodology and assumptions for deriving tax leakage estimates.

HLB and the Department of Finance achieved a consensus on general methodology, with one key exception. We did agree to disagree with respect to whether or not to include the value of deferred taxes. While not immediately taxable, distributions received in tax-exempt accounts are taxable upon withdrawal from such accounts, and they do therefore have economic value.

The discussions that you're hearing about deferred taxes reflect confusion about budgeting convention versus policy analysis. While budgeting is done on a current basis, policy analysis should be done on a life-cycle basis. Accounting for the life-cycle effects of tax changes, namely deferred taxes, is appropriate in consideration of tax policy.

With the release of the new data from the Department of Finance on Tuesday, HLB has updated its analysis. The results are summarized in exhibits that I'll provide to the committee after I testify.

We can confirm that the general methodology employed by the department remains the same as that which we had previously discussed with them. In fact, given the department's assumptions, we've managed to replicate their numbers based on their assumptions. There remain, however, important differences in the way the methodology has been applied, leading HLB to conclude that the department is sharply overstating tax leakage.

The difference between HLB's analysis and that of the department stems from four key factors. First, the department's assumed effective corporate tax rate for energy trusts fails to reflect the reductions in the tax rate for resource corporations from 2004 through 2006. This results in an overstatement of tax leakage of approximately $84 million per year.

Second, the department's figure for income trust units held in tax-exempt accounts is overstated. Derived from data from surveys, interviews, and Scotia Capital Markets data, the percentage of units held in tax-exempt accounts is approximately 31%, which is less than the department's estimate. This results in an overstatement of tax leakage by approximately $125 million per year.

Third, the value of deferred taxes, as I discussed earlier, is excluded from the Department of Finance's analysis. This results in an overstatement of tax leakage of $80 million per year.

Fourth, the impact of future legislated tax changes through 2010 has not been accounted for. Doing so reduces the ongoing federal tax leakage by $232 million per year, and this excludes planned corporate tax cuts that have been announced for 2011.

In addition, in our analysis, we looked at the income trust sector only, and not limited partnerships, which have a small impact. Based on our overall analysis, we conclude the following.

Federal tax leakage for income trusts for 2006 was $164 million, not the almost half-billion dollars stated by the department. Ongoing tax leakage for income trusts post-2010, after taking into account the legislated tax changes, is approximately $32 million a year, or about 5% of the department's estimate.

I'd be pleased to answer any questions from committee members during the remaining time or after the session ends today.

Thank you very much.

The Chair: Mr. Bruce, I didn't want to indicate you were done your time. You do have 45 seconds left if you wish to use them.

Mr. Dennis Bruce: I'm quite good. Thank you.

The Chair: Very good. Well done. Thank you, sir.

We're here to listen.

We're pleased to have the Honourable Mitchell Murphy with us today. He is Provincial Treasurer for the Government of Prince Edward Island.

Welcome to you, sir. It's your option to use the five minutes as you wish.

● (1240)

Hon. Mitchell Murphy (Provincial Treasurer, Department of Provincial Treasury, Government of Prince Edward Island): Thank you very much, Mr. Chairman, and my thanks to the committee members for inviting me here today to provide my province's views on income trusts, as part of your current examination of the issue.

I will begin by saying that I have written the federal Minister of Finance, expressing my support for the proposed tax fairness plans as announced on October 31, 2006. This letter is the latest in a series of correspondence we've been having regarding the income trust issue. As early as March 2006, I wrote to the federal minister, expressing Prince Edward Island's concerns. The letter reiterates my government's support for Minister Flaherty's proposed tax treatment of income trusts, including the four-year transition period for current income trusts. A copy of this letter, as well as those of similar letters from other provincial governments, were provided to the committee members by the federal minister on Tuesday.

I'm here today to further lend my support for the measures proposed in the new tax fairness plan of October 31, and I urge this committee to endorse this plan as it is currently proposed.

As Provincial Treasurer for Prince Edward Island, I have a responsibility to manage and protect the public finances as well as the economy of our province. We, like you, also have an obligation to provide public services, especially in the areas of health care, education, and infrastructure. It became abundantly clear in 2006 that the sudden increase in income trust conversions was becoming a threat to both.

In Canada, the income trust structure has been permitted for the last few decades, but their impact on Canada's corporate structure, the economy, and government tax revenues was relatively modest for that period. Until relatively recently, companies that converted to income trusts did so because that corporate structure fit their business model. However, in 2006, the number, size, and, importantly, the types of companies that were either becoming or were proposing to convert their operations to an income trust structure began to increase significantly. This was in large part due to significant tax advantages that income trusts had over traditional corporate organization. It was becoming increasingly evident that something had to be done.

I have personally seen and heard the pressures that corporate managers were under to convert their businesses to income trusts even when the income trust corporate structure did not make sense for their business model. My colleagues across Canada heard of similar pressures.

Minister Flaherty spoke Tuesday as well about the damaging effect that income trust conversions have had on the balance of the tax burden between both corporations and individuals. The rising popularity of the income trust structure and subsequent conversions was beginning to significantly shift the tax burden in this country toward the average Canadian. This situation needed to be rectified, and the tax fairness plan achieves that. We cannot have a sustainable economy in which corporations do not pay tax, and this situation would also not be socially just.

There is another very important issue relating to the distortional tax effects of income trusts at the provincial level that I would like to raise with the committee. This issue was less of a concern at the federal level, but very relevant to most provinces. It has been one of the primary concerns of my government with the income trust model.

When a company converts to an income trust, it no longer pays provincial corporate income tax to the province or provinces in which it operates. The resulting increased payments to trust unit holders are taxed provincially through the personal income tax system of the province in which the unit holder resides as long as they reside in Canada. If a company operated in one province and all of its unit holders lived in the same province, this would not be a significant issue. However, this is not the typical scenario for large companies in Canada. Many of the companies that have converted to trusts, or were planning to, typically operate in many provinces, but their unit holders, for the most part, reside in the larger provinces, as well as outside of the country altogether. When a unit holder resides in another country, federal non-resident tax applies to the income a foreign investor earns from a trust, but that same income is not subject to tax in any province. In contrast, the dividends that a foreign shareholder of a Canadian corporation receives are paid out of corporate income that has already been taxed federally and provincially.

● (1245)

This situation has had a severe detrimental effect on smaller provinces in particular, as they have seen the corporate tax revenues from some of their largest corporate taxpayers dry up, while the personal provincial income tax receipts are being collected by the larger provinces. This is less of an issue for the federal government, as a Canadian unit-holder will pay federal personal income tax regardless of which province they reside in, and non-resident unit-holders also pay their federal tax.

My case in point is a conversion of Aliant by Bell Canada Enterprises during the first half of 2006. Aliant was one of Prince Edward Island's largest corporate taxpayers, as well as a very significant one for all of Atlantic Canada. However, a vast majority of shareholders in the company do not reside in the region, so relatively little provincial personal income tax was recovered to offset the loss of provincial corporate tax.

The Chair: Mr. Murphy, I'm going to have to cut you off there. I'm sure there will be questions pertaining to the issue you're speaking about.

Thank you all for your presentations. Well done.

We move now to questions. We begin with John McCallum. You have five minutes, sir.

Hon. John McCallum: Thank you, and my thanks to all of the witnesses.

I'm going to use my limited time to focus on Mr. Bruce, because I think it's highly significant that someone using precisely the same methodology as the Ministry of Finance could have such very different results, as shown in this chart.

I wonder if there's a finance department official in the room. I'd like to begin—

The Chair: Would you like them to come to the table, John?

Hon. John McCallum: Yes, please.

The Chair: I'll invite the finance department officials who are with us today to come forward to assume a seat at the table, just in case there are some questions directed your way.

Hon. John McCallum: I'd like to start with the largest item.

Mr. Bruce has worked with the finance department officials. They use the same plumbing or model, yet Mr. Bruce says the finance department should have taken account of legislated tax changes that change the result by $232 million. I wonder if the finance department would agree with Mr. Bruce on that point or not. I'd be grateful if you were succinct in your answers, given the time limitation.

The Chair: Who would like to take that? Mr. Ernewein, would you like to, or Mr. Normand?

Mr. Brian Ernewein (General Director, Tax Legislation Division, Tax Policy Branch, Department of Finance): Mr. Chairman, first of all, as a lawyer, I'm presumed to be innumerate. I must confess to approaching these more intuitively, as some of the previous witnesses did, in suggesting that a revenue loss must exist or else the markets wouldn't have reacted the way they did, or else, as one of the previous witnesses said—

Hon. John McCallum: No, please. I have very little time.

Mr. Brian Ernewein: I'm sorry.

Hon. John McCallum: Do you accept the point about the $232 million being due to the fact that you didn't consider legislated tax changes?

Mr. Denis Normand (Senior Chief, Financial Institutions, Business Income Tax Division, Tax Policy Branch, Department of Finance): The $3-billion figure that the minister quoted the other day took into account the legislated tax changes from 2007 onward. The estimate that the minister provided in the background is for 2006.

Hon. John McCallum: Can I ask Mr. Bruce to respond to that?

Mr. Dennis Bruce: Yes.

It was not my understanding that this was referenced in the documentation that I've seen from the Department of Finance. My understanding was that the estimate for 2006 was an ongoing tax impact of $600 million, with $100 million in one-time effects, the net impact for 2006 being $500 million. I may have misinterpreted the data, but my understanding was that there was a $600-million ongoing impact assumed. I did not understand, from the information presented, that it reflected the legislated tax changes going forward.

Hon. John McCallum: Mr. Normand.

Mr. Denis Normand: It's important—and the backgrounder attempts to do this—to understand that there are ongoing tax losses from income trusts over a number of years. They are offset by a one-time capital gain in 2006 for conversions that occurred in the year, but you have to look at what's ongoing. It's still a picture of 2006.

The second point that HLB disputed is again in the paper. We've used the same effective corporate tax rates as we did in the 2005 consultation paper. In terms of the energy trusts, we've indicated that energy prices have gone up 65% since 2004. The statutory tax rate has come down about 15%. Therefore, we thought it to be a very conservative assumption to leave the rate the way it was.

The second point—

● (1250)

Hon. John McCallum: I fear my time is running out.

Mr. Denis Normand: If I could just complete the comment on the effective rates, new Statistics Canada data would imply that business trusts should actually have a higher effective rate than in the paper—about one percentage point higher—which would mean the revenue loss is $100 million or so more than stated in the paper.

Hon. John McCallum: I fear I'm about to run out of time, but I'd like to give a little time to Mr. Bruce to respond.

The Chair: You have about thirty seconds for a response, sir.

Mr. Dennis Bruce: With respect to the legislated changes, it was my reading of the document that they weren't included. Again, I didn't notice them there, but I guess that's something the Department of Finance could confirm.

With respect to the statutory rate on energy trusts, it did fall from 2004 to 2006. I understand that the profitability of the market may have changed over that time due to the high world price of oil, but I'm looking at this more from of a tax policy perspective. I wouldn't want to hinge tax leakage estimates on the sustenance of a certain world crude oil price. I would feel uncomfortable with that.

That's my comment.

[*Translation*]

The Chair: Thank you very much, sir. It is Mr. Paquette's turn.

You have five minutes.

Mr. Pierre Paquette: Thank you for your testimony. Mr. Bruce, based on the minister's presentation last Tuesday, I understood that he and the department foresee losses totalling $500 million for 2006. And he actually said that he got the $3 billion figure by simply multiplying $500 million by six. Was that your understanding, as it was mine, of the method the minister proposed last Tuesday? He even use the word “arithmetic”.

[*English*]

Mr. Dennis Bruce: Again, it comes down to the legislated tax changes. My understanding of the numbers presented on Tuesday was that there was a $500 million tax leakage in 2006, and that was multiplied by six to get the $3 billion. Because of that, my interpretation was that the future changes in future years—the corporate tax rates falling to 19%—were not taken into account. That's my interpretation.

[*Translation*]

Mr. Pierre Paquette: That is exactly what I took away from the minister's presentation. You may have already said this, but if you take the 2006 figures and apply them to 2011, what sort of a bold pack tax leakage would you be looking at?

[*English*]

Mr. Dennis Bruce: If you take everything into account that we have, we would show that from 2011, after the legislative tax changes and some of the other things that I spoke of earlier, we would get a very marginal tax leakage, in the order of $32 million a year. If you're just looking at the legislated tax changes—and those that are just legislated, not those that are planned and have been at least announced in some fashion—the impact is about $232 million from those. Again, that's from our math, but that would be the impact.

[*Translation*]

Mr. Pierre Paquette: So you took in the differed income tax then. Is the minister making a valid argument when he says that he needs to pay for this year's federal government programs and that income trust units which are in RRSPs or RRIFs are actually tax leakage?

[*English*]

Mr. Dennis Bruce: There are a couple of points on that. As Mr. Dodge said in his testimony on looking at impacts, it's important to take into account the present value of things. That's what deferred taxation is. We feel the inclusion of deferred taxes is important because even though all of them do not occur in-year, they will occur at some point and they're related to the issue at hand, which is tax policy. So I think it's important to take into account the life cycle effects. There is a value there.

That issue is not a debate for income trusts. We can make the same argument about whether or not it's a good thing to have the ability to defer taxes.

[*Translation*]

Mr. Pierre Paquette: Mr. Kerr, I was a little surprised to read in your brief that you link the disappearance of income trusts in the energy sector to an enhanced reduction in greenhouse gases. Could you elaborate on that please?

● (1255)

[*English*]

Mr. Gordon Kerr: Actually, in our report, we point to the fact that some of the members of our coalition are involved in projects that have involved carbon dioxide sequestration with regard to enhancing productivity out of older, more mature reservoirs. This is something they've been looking at to see whether they can actually employ it in additional reservoirs.

There is already application of carbon dioxide flooding, as is referenced commonly, in reservoirs in western Canada. Given the impacts that this could have with regard to those decisions to pursue what are right now economic projects, and given where we play and what we can bring to bear from our investor base—in other words, those investors who are looking at lower returns, but something better than a GIC rate—we can actually enhance the recoveries out of these reservoirs through things like carbon dioxide sequestration.

It's an incremental piece, I think, in the grand scheme of maybe some of the things that Canada is looking at as a country in order to improve what we do. It has an economic benefit, and it may have a greater benefit for some of the environmental concerns that we have.

[*Translation*]

The Chair: Thank you very much, sir.

[*English*]

I'll just interject a quick question for the finance department officials.

Some of the testimony we've heard and some of the commentary that we've heard borders on or gets right into accusations of incompetence on the part of finance department officials, that you're somehow the gang that couldn't add straight. I think we need to get a response to the comments that you took numbers projected for next year and multiplied them by a certain number, and that this was somehow a simplistic disengagement from what the actual facts of the future might be. I think you need to respond to that.

Mr. Normand, I'll give you the opportunity to do that now.

Mr. Brian Ernewein: If I may speak to that, I guess if we were incompetent, we wouldn't admit to it.

Voices: Oh, oh!

Mr. Brian Ernewein: As for the numbers—

The Chair: There's not a lot of sense in continuing with your answer at this point.

Voices: Oh, oh!

Mr. Brian Ernewein: I would say the minister spent quite a bit of time on the numbers the other day, and on the reasons why he and we believe they are conservative. Yes, I think the answer he provided the other day was that he did take—apropos the discussion of extending the transition period from four years to ten years—the $500 million of estimated costs and multiplied them by six to come up with a number of $3 billion for that.

There is obviously more that goes into that when you get through it, as my colleague has mentioned. And as Mr. Bruce has said, there has been some decline in tax rates during that period of time. There has also been, according to our observation, quite an appreciation in the profits during that period. Washing those two out, we thought, was another example of being conservative, thus giving support to the numbers that had been previously provided to the committee.

The Chair: Mr. Normand, do you have anything to add?

Mr. Denis Normand: The only point I would add is that, as I mentioned earlier in my remarks, the $500 million is net of one-time capital gains. To project the $3 billion, you don't take that into account. You start off with the ongoing impact and you take into account reductions in the corporate tax rates and growth in the sector, and that's how you come up with $3 billion. It turns out that a very simple arithmetic of six times $500 million comes pretty close to the same number.

The Chair: Thank you, sir.

We'll continue with Mr. Del Mastro now.

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

I'd like to begin—

The Chair: Excuse me, Dean, but Monsieur Thibault has a point of order.

Hon. Robert Thibault (West Nova, Lib.): The invited witnesses have been referring to some documents, some calculations, some information that they would have prepared to advise the minister and to advise other people on the staff. I think it would be quite appropriate for those documents to be tabled at the committee so that we can—

The Chair: They may well be. I'm not sure if the information we received yesterday includes the information the witnesses are referring to. Nonetheless, Mr. McCallum has given notice of a motion that will deal with that topic.

We'll continue with Mr. Del Mastro now, and we'll deal with Mr. McCallum's notice of motion after the witnesses have done their testimony.

Mr. Dean Del Mastro: Thank you, Mr. Chair.

In the previous committee, I found it interesting to note that some of the opposition members were calling on a consultative process that might have benefited this understanding. It's funny that when it resulted in a 9% fluctuation in the market, that resulted in people in the know ultimately making a lot of money on the backs on innocent investors, which didn't work out too well.

Mr. Murphy, I am holding in my hands letters from the finance ministers of the provinces in Canada. We have heard from departmental officials. We've heard from the finance minister. Is it possible that you guys all have it wrong and that there is no tax leakage?

● (1300)

Hon. Mitchell Murphy: I wish there were no tax leakage, but, no, the tax leakage is genuine and it's especially a concern for all provincial ministers. As you can appreciate, depending on the size of the economies, those dollars are significant, ranging from $400 million in one province down to what the loss would be in Prince Edward Island.

Obviously, when we prepared our budget for this year, in our revenue projections for our budget, we had to take into account the loss of corporate tax income that we were anticipating because of the trust conversion.

Another significant point that I was just getting to when I ran out of time was that in a small jurisdiction like ours, when you have a large corporation whose majority of unit-holders live outside your jurisdiction, they would pay personal income tax on their earnings from that trust. However, most of the personal income tax that they would pay would not be to our province. The chances of us recouping any of the money that we lost in corporate tax is minuscule, because most of the personal income tax gain on that is paid somewhere else.

Mr. Dean Del Mastro: Right, and I'd add that you're the first person to bring up that particular regional distortion that existed.

Just for clarity, if I can just get you on the record, every single department of finance in every province, and the Department of Finance of Canada, in your opinion, is not wrong and not incompetent.

Hon. Mitchell Murphy: No.

Mr. Dean Del Mastro: No. Thank you. That's all I need.

Hon. Mitchell Murphy: We believe the federal finance department is right and we believe provincial financial departments are right.

Mr. Dean Del Mastro: Thank you very much.

Mr. Elitzur, the Rotman School of Management actually made a presentation to the finance committee earlier, and they spoke of a productivity challenge faced by the Canadian economy. The finance minister has said that, moving forward, an income trust economy is not good for Canada. Would you concur that ultimately, by bleeding off capital, our productivity is going to further suffer?

Prof. Ramy Elitzur: When I was 18, I knew everything. Now I know I don't know everything. Thank goodness I have my kids to consult with.

I concur with the conclusion. The problem is that companies that are naturally income trusts are companies that don't invest. Thus, if they don't invest in capital investment, they don't grow. So the long-term detrimental effect on the economy, I think, is very intuitive.

The Chair: You have a minute.

Mr. Dean Del Mastro: Wonderful. I will certainly very happily use that.

Mr. Lever, you talked about a fair share of taxes, and certainly we made this decision based on tax fairness. You said investors who are expecting, at a given rate, to be taxed at 30% should get 70¢. Could you please apply that broad base right across the tax spectrum, to all Canadians, many of whom are not wealthy, who expect to pay only their fair share of taxes? How is it fair that we're going to let corporations off the hook without paying their fair share of taxes?

Mr. Dirk Lever: Perhaps I don't understand the question, but I'll try to answer it.

Lawyers, accountants, architects—a lot of them operate without having a corporation. They operate via partnership. They pay taxes themselves. They just share the profits. Really, that's what a trust is. So whether a corporation pays the taxes or the shareholders pay the taxes, it doesn't matter to me, as long as the taxes are being paid.

Mr. Dean Del Mastro: But we've heard from Mr. Murphy that there's a tax loss, so clearly it can't be fair.

The Chair: Mr. Del Mastro, thank you. You were ready to quit a minute ago. You have to quit now.

Welcome to our colleague from Hamilton, Mr. Marston. It's over to you.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Thank you, Mr. Chair.

I am really relieved to hear the government members talk about fair taxation for corporations. The world is turning.

Mr. Field, when we listened, we heard Mr. Elitzur's comments around perverse incentives. When you're the ordinary persons at the grassroots sitting at home—and I'll interject on myself to say that we have confidence in the public service of this country—the average, ordinary Canadian, and you hear these ads that usually come on around RRSP time, the ads say “minimum risk” and “maximum return”. Is it fair to say that because of the mishandling by the previous government, your seniors were set up to walk into this debacle that we're now facing here today?

● (1305)

Mr. Art Field: Some of it's possible. Those ads are coming on even now. Since October 31, I'm surprised that some of the companies are advertising, still trying to sell you all this high-profile or safe stuff. It's sad that it goes on, it's sad that there's no regulation, and it's sad because it's all across the country.

The other thing, off your question a bit, is that the regulations have been cut from six years to two years in Saskatchewan, Ontario, and some other places. Sometimes it takes you two years before you find out you are losing money, and then it's too late. And when you lose, you don't have any left for lawyers anyway, but then it's too late because the regulation says you can't do anything.

Mr. Wayne Marston: In fairness, Mr. Field, I understand that your organization was warning your members, prior to this government's announcement, that they should steer clear. I'm wondering where you were getting your advice from, as an organization.

Mr. Art Field: We passed a resolution on this at our convention in Truro. It came from an independent consultant we're working with, who is here today with me. It came from her, and our convention, which had 150 people at it from across Canada, passed that resolution. There was some debate, but it was really unanimous after the debate, because of the resolution. The resolution is in the package I gave when we were here before, and it's going to be in the package you're going to get this time.

Mr. Wayne Marston: I'm aware of the resolution, Mr. Field. As you recall, I spoke to your convention. At that convention, I advised them to avoid income trusts, but that's an aside.

I am very pleased with Mr. Murphy coming forward and reminding us that all the finance ministers of this country have shared the same concerns. Our political party had those concerns prior to the last election, and we were clear that we would have to act upon this issue were we to become government.

Out there, of course, ordinary Canadians had mixed messages. Their government promised not to tax but is ultimately doing that. Still, this is a file that has a lot of questions remaining, with a lot of questions stemming from the previous government's actions.

I still would like to come back to you, Mr. Elitzur, on your suggestion of perverse incentives. Would you give us an example?

Prof. Ramy Elitzur: I wouldn't name the company, but one example is of a company that basically went public recently as an income trust. It's a telecom company, and I guess you can guess the name. They have huge investments that they face. They also are facing a potential attack in terms of their revenues because of the huge technological risks. Voice-over IP is going to kill most of their profitable sectors, so the question is why they went public as an income trust.

In one of the things I hypothesized, I took a look and saw that the CEO owns over half a million shares, and there are more in the pipeline. So he's going to not be due from now until basically eternity.

Mr. Wayne Marston: I was really asking about the incentives you were referring to.

Prof. Ramy Elitzur: The incentives were basically to go and register as an income trust because the financial institutions were having a party. Instead of being listed on NASDAQ, they got listed here. The CEOs were making lots of money, lawyers were making fees, and everybody was making fees. But in the long run, it's like a musical chair game. The music will stop and some people will stay without the chair, and sometimes without pants.

[*Translation*]

The Chair: Mr. Robert Thibault, I would like to welcome you as a new member of this committee. You have three minutes.

Hon. Robert Thibault: It is a pleasure for me, Mr. Chair, to join your committee.

[*English*]

I have a couple of questions, but one brief question to Monsieur Normand.

I would presume—and tell me if I'm correct—that prior to the minister making his announcement, you would have prepared a memorandum to cabinet and a memorandum to the minister, outlining options, outlining what the risks were of options, and outlining the cost and risk, including the effect of an eventual decision on the market. Am I correct?

● (1310)

Mr. Brian Ernewein: I'll speak to that.

Yes, we did provide advice to the minister.

Hon. Robert Thibault: And you have prepared such documents, like a memorandum to cabinet in this case?

Mr. Brian Ernewein: Without being specific about the documents, we did provide material with advice to the minister.

Hon. Robert Thibault: Thank you very much.

I come to you, Mr. Field. We've listened to a lot of witnesses today, and we've heard a lot of credible people talk. One of the things they point out—and I tend to agree with them—is that there is a sector out there that is ideal for these types of investment, for this type of a vehicle, the income trust, like energy and real estate. The government has agreed on the real estate side and has left it in.

Intelligent investors approaching retirement would have heeded, I would presume, Mr. Marston's advice and limited their exposure to income trusts within their portfolio, on advice from their brokers—if they're being advised by good organizations—based on the fact that there was a proliferation of income trusts, that there were a lot of companies moving to income trusts, and that they were risky. It wasn't the ideal advice that we hear about innovation, that we hear about this thing.

Prudent investors would have tended to say that somebody has to react at some time. But when your Prime Minister says he will not take action, then the prudent investors, the smart investors, are encouraged to go the other way, to increase their exposure in income trusts, to maximize the value of their retirement savings, to make sure they can care for themselves and their families in their retirement years and in their failing years, should ill health come upon them. So this broken promise, this lie to Canadians, has cost them a lot of money.

We have seen and we continue to get evidence and letters from seniors who worked very hard to save a little bit of money that, well invested, would give them some comfort in their retirement. Now they are in situations of poverty when they most need the money because they believed the Prime Minister.

I accept what the minister says about the cost to the provinces because of the way these taxes are paid in some of these companies, but in your opinion, has anybody provided to you, Mr. Field, what the cost is socially to the provincial governments, to the cities, to the municipalities of these people who are put in poverty and who don't have the money to care for themselves?

The Chair: Monsieur, you have used your first opportunity for a question with a preamble. This is not an isolated case, unfortunately, for many of the panel members, but we do continue now.

[*Translation*]

Mr. St-Cyr, you now have the floor, sir.

Mr. Thierry St-Cyr: Thank you very much, Mr. Chair. My first question is directed to Mr. Murphy.

You referred earlier to the possibility of interprovincial losses which may have occurred if steps have not been taken to deal with the tax benefits inherent in income trusts.

I fully understand that you would have to forgo revenue from businesses in your province if they were to convert into income trusts, because the taxes would be paid in other provinces. But isn't the opposite also true? Aren't there income trusts in your province from which, should the companies go public, you would no longer be able to collect taxes because they would be withheld outside your province? For example, if an individual in your province has income trust units in a company which mines oil in Alberta, as things currently stand, any taxes would come back to your province. Moreover, if this trust were to become a publically traded company, the money would go to Alberta.

Have you done the math to make sure there is really a clear difference?

[*English*]

Hon. Mitchell Murphy: Thank you very much for your question.

Yes, we have, and part of it obviously relates to our population of 140,000 people. What we would stand to gain from growth in personal income tax from unit-holders who may participate in income trusts outside our province but pay provincial income taxes in Prince Edward Island is insignificant compared to the tax that we lose when one of our major corporations becomes an income trust.

[*Translation*]

Mr. Thierry St-Cyr: Is that specific to your province or is that something you find in many Canadian provinces?

[*English*]

Hon. Mitchell Murphy: If you look at the correspondence that has been provided to the committee by other finance ministers across the country, they have done estimates on what it has cost their provincial treasuries, of course, from almost a half a billion dollars in one province, down to us.

In speaking to a former colleague of mine in Newfoundland, they were very concerned because of the growth in the offshore that was happening. They wanted to be able to capture that to move their province ahead, so they had grave concerns in that area.

I don't feel comfortable speaking for other provinces. In a general sense, though, in our discussions at the meetings of the ministers of finance, everyone was very concerned about the loss of income.

● (1315)

[*Translation*]

Mr. Thierry St-Cyr: I just have one other question—

The Chair: Mr. St-Cyr—

[*English*]

Nice try.

We will conclude with a question from Mr. Dykstra.

Mr. Rick Dykstra: Thank you, Mr. Chair. It's great to be the final person in the order here and to have a chance to ask a couple of questions.

Mr. Field, one of the things we haven't talked a lot about is part and parcel, and you referred to it. I ask the question straight out to you. Do you think any member of the House of Commons should actually vote against the legislation that will actually allow income splitting for pensioners?

Mr. Art Field: No.

Mr. Rick Dykstra: Thank you.

One of the things we heard on Tuesday was that the unit payments for income trusts were actually from the investment of capital, versus the investment from profit. Does your association have any comment on that?

Mr. Art Field: No. My adviser could probably answer that for me, but that's over and above my capabilities of high finance. My capability, as the president, is running the organization and meeting here with the government and MPs on issues. That's an issue, but I can't give you a fair answer on it, so I'm not going to try.

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

Mr. Elitzur, I noted that at the beginning of your presentation you noted the fact that you came to the table as unbiased an observer as you possibly can be. What do you think from the other extreme, in terms of those witnesses who have commented on this while being six- or seven-figure folks who are making a lot of money on income trusts? They make huge salaries in a particular year and stand to gain tremendous bonuses based on the sales and growth of the income trusts. What are your thoughts in terms of whether or not their viewpoints are clouded because of that?

Prof. Ramy Elitzur: As somebody who deals with incentives, I would say that whenever you have an interest that you can gain something, chances are that the opinion is biased.

Mr. Rick Dykstra: Thank you.

Mr. Murphy, in terms of your letter, one of the things that intrigued me was that it was somewhat different from others because of your focus on the regional aspect. We're all here talking about this from a national perspective. Certainly the riding I come from has over 23,500 seniors. To me there's a lot at stake with respect to pension splitting, so you can see how it breaks down from a regional perspective. I wonder if you could comment further on that from a regional perspective.

Hon. Mitchell Murphy: Perhaps I'll use the example of Aliant, which has become an income trust. They're a major corporate taxpayer in Atlantic Canada and a major corporate taxpayer in Prince Edward Island, but because so many unit holders of that trust reside outside the region, in my opinion we get penalized twice under that structure. On the one hand we lose corporate tax. On the other hand, we do not gain any equivalency of personal income tax back because most of that personal income tax is paid outside the jurisdictions.

For the most part, on income trusts, in our case Aliant was a large corporate taxpayer, and some of what were coming down the line looked to be large companies and large corporations. Our fear was what might happen if two or three more large corporate taxpayers in our jurisdiction or in Atlantic Canada in general decided to move to income trusts. We felt we had a double penalty because of them moving in that direction.

The Chair: Thank you very much, Mr. Elitzur and Mr. Murphy.

We'll conclude with a very short intervention from Mr. McKay.

Hon. John McKay: The major issue here again is tax leakage. There seems to be a significant discrepancy between Mr. Bruce's testimony and Mr. Normand's testimony.

You seem to be using exactly the same model as the one the department is using. You seem to be working on exactly the same information that the department is using. Something has to give here. You're working on the basis of information that is in the public realm, but it seems you can't reconcile the two ways in which these numbers seem to have been arrived at.

I can understand the political imperative to up the numbers to show tax leakage. I can understand how the provincial folks basically have to go along with the federal folks. But there is a significant discrepancy between your numbers and the department's numbers.

On all four items that you've itemized as the differences, where do you see the numbers? What is the discrepancy as you see it?

● (1320)

Mr. Dennis Bruce: I'll be filing further exhibits that describe that, but from—

Mr. Dean Del Mastro: On a point of order, Mr. Chair, can I have some clarification if Mr. McKay is asking the witness whether or not he believes the bureaucrats would lie for political reasons—i.e., they're all Conservatives? Is that what he's getting at with his question? I'd like a little clarity on it.

The Chair: Order.

Mr. Del Mastro, you don't have a point of order, as you know.

We'll conclude with a very brief answer, Mr. Bruce.

Hon. John McKay: That is totally out of order. I've known them for years, and I regard them to be of the highest character.

The Chair: Mr. Bruce, proceed in spite of the interruptions from our less disciplined members.

Mr. Dennis Bruce: I have great respect for these gentlemen as well.

The major thing is that our interpretation on the materials provided on Tuesday was that the future legislated tax changes, as corporate tax reductions, were not factored in. That's our interpretation based on the information we have at our fingertips and what we know going forward about tax changes that have been legislated, so that's one of the major things we've highlighted.

As well, I mentioned that we have perhaps a philosophical disagreement on whether or not deferred taxes should be included, and those are worth $80 million. The previous adjustment with respect to legislated tax changes is $232 million, and deferred taxes we estimate at $80 million. We believe, as do many others, including Jack Mintz, who I know has presented evidence on this case, that they should be included.

And the other two really relate to two assumptions with respect to the average effective tax rate and how many of these accounts are held in tax exempt accounts. There are two real divides, but a good chunk of the issue relates to the legislated tax changes and whether they're included or not. That should be knowable just based on data, assumptions, and how the number was calculated ultimately.

The Chair: Thank you, Mr. McKay.

Thank you, Mr. Bruce.

On behalf of the committee, we thank all of you for your presentations. We appreciate them very much.

We will recess for three minutes and then reconvene to deal with the motion that Mr. McCallum is bringing forth.

Thank you all.

●

(Pause)

●

● (1325)

The Chair: Order.

Committee members, allow me to review quickly the work schedule for committee members and their staff.

First of all, in terms of orders of business for the coming week, next Tuesday, February 6, we will be dealing with a draft report on income trusts. I'm going to endeavour to get the room fifteen minutes earlier so that you can come in and read the draft prior to beginning discussion, just to expedite the process of dealing with the draft report.

Next Thursday, February 8, we have private members' bills. We have Bill C-294, Bill C-253, and Bill C-305 to deal with at that point in time.

Following that, very likely beginning on Tuesday, February 13, we will be dealing with Bill C-37, the Bank Act review, which should encompass a fair bit of the committee's time over the next while. I would suggest to you, committee members, that you forward names of witnesses to the clerk's office. Begin that process now and we'll give you some deadlines later on, but give some thought to Bill C-37, the Bank Act review, as soon as you wish.

At this juncture, Mr. McCallum, I believe you have a motion that you'd like to bring forward. I'd like for us to deal with it now if we could.

Hon. John McCallum: Thank you, Mr. Chair.

You have the motion before you if you have the agenda, except that it has to be amended because it was to have been presented earlier. The motion as amended should read:

> That the Department of Finance provide the Standing Committee on Finance, no later than 11:00 a.m. on Tuesday, February 6, 2007, all documents and information used to justify the government's decision to tax income trusts, as announced on October 31, 2006.

This was referring specifically to the document that we received in blacked out, censored form, plus any other information relevant, but particularly that document. In view of this disagreement over facts that we've just witnessed, I would suggest that this further underlines the importance of it.

That's the motion.

The Chair: The motion is pretty straightforward, committee. Can we go to a vote?

(Motion agreed to)

● (1330)

The Chair: Thank you.

Hon. John McCallum: We are going to have a notice of motion to have additional witnesses.

My point is, so as not to waste the time of the committee in the event that our motion passes, you may want to do the private members' business on Tuesday instead of Thursday.

It's up to you, but I just don't want to waste the committee's time, because we wouldn't do a report if our motion for additional witnesses passed.

The Chair: We must go through the process.

The meeting is adjourned.

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