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Chair

Mr. Brian Pallister

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● (1110)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): I'll call the committee to order now.

Pursuant to Standing Order 108(2), we meet today for our study on income trusts. We have several witnesses to present their points with respect to the income trust issue.

To the witnesses, welcome. Thank you for taking the time to be here and to prepare your reports and whatever work you've submitted to the committee members. I understand that some of that work is being distributed as we speak.

I believe you've been apprised of the fact that you have five minutes to make your remarks. I will indicate when you have one minute remaining. Unfortunately we'll have to unceremoniously cut you off at the end of your five minutes. I hope you understand in advance the reason for that, which is to allow for an exchange with committee members so that they can pick your brains on the issues you're speaking to today.

Again, thank you for being here. We appreciate your time.

To committee members, we should have approximately 30 to 35 minutes for questions, so I encourage your focused attention.

We'll begin with a representative from HDR/HLB Decision Economics, Mr. Dennis Bruce, vice-president.

Welcome, Mr. Bruce. Five minutes to you.

Mr. Dennis Bruce (Vice-President, HDR|HLB Decision Economics): Thank you, Mr. Chair. I am pleased to return to provide additional evidence on the tax leakage issue.

As stated on February 1, we believe the Department of Finance sharply overestimated tax leakage at $500 million for 2006. Our figure, after making appropriate adjustments to the department's approach, is a tax leakage of $164 million. But today I will focus on addressing the cost of extending the transition period from four years to ten years.

If we look at extending the transition period, HLB calculates $32 million of federal tax leakage per year. The total cost of the six-year extension is $192 million, as opposed to the department's estimate of approximately $3 billion. Notwithstanding identical methodologies, the HLB calculation differs sharply from that of the department.

There are four significant factors at work that I will address in turn.

First, the Department of Finance's exclusion of already legislated corporate income tax changes through 2010 results in an overstatement of tax leakage. The evidence provided by the Department of Finance in its backgrounder, and by the minister in his statement before the committee, makes no reference to the impact of already legislated tax changes. While the minister indicated that the $3 billion estimate is the result of multiplying the department's $500-million-a-year figure by six, no formal written documentation has been provided that explains the department's calculation. That includes the materials provided last week by the Department of Finance.

I recognize that in response to committee questions on February 1, departmental officials stated that projected growth in the trust sector would offset the impact of legislated corporate tax reductions. I find this to be a most extraordinary notion for a sector in which no new conversions are allowed, where constraints are to be imposed on the growth of each individual trust, and where the increase in tax burden is known to be significant under the proposed rules. In fact, very few trusts are likely to remain in the current form over the medium to long term.

Second, the exclusion by the Department of Finance of deferred taxes results in an overstatement of tax leakage. In ignoring the present value of tax revenues and deferred accounts such as RRSPs, the department has quite inappropriately adopted a one-year budgeting framework to analyze a policy proposal with multi-year implications.

We do think the department acknowledges this point in principle by allowing in its calculations tax revenues, from shareholders of corporations, from capital gains that may not be realized until future years, when the shares are actually sold or disposed of. It is inconsistent to not apply the same logic to tax-exempt accounts and include the value of deferred taxes from income trust investors.

Third, the overestimation of tax-exempt unit holders by the department results in an overstatement of tax leakage. In its 2005 public consultation paper, the department used HLB's figures for the proportion of tax-exempt investors. We have since updated that figure. However, we did so shortly after the consultation paper was released. Since then we have collected additional information that corroborates a revised number. The department, however, continues to rely on our out-of-date figure for the analysis.

Fourth and finally, the overestimation of ongoing corporate tax rates in the energy trust sector results in an overstatement of tax leakage. The department's assumption for the effective corporate tax rate in the energy sector has been arbitrarily increased to reflect the favourable market conditions that happened to prevail in 2006. This reasoning, by the way, is a departure from the more appropriate approach the department used in its 2005 public consultation paper.

To conclude, the combination of the four factors I've discussed leads the department to overstate by a factor of about 15 the tax leakage associated with extending the transition period to ten years. In short, the total cost of extending the transition period for income trusts is $192 million, not $3 billion as the department has provided.

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

Thank you very much for the time.

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

We will continue with Al Rosen, president of Rosen & Associates Limited.

Welcome, Mr. Rosen. It's over to you.

Mr. Al Rosen (President, Rosen & Associates Limited): Thank you.

I have some handouts. Are they being passed around? Is there one page or are there four pages? I need a clarification. Is there only one page?

The Chair: That handout can go around, but the other one has names in English. If we could have the agreement of all committee members, we would be able to hand it out, otherwise it will require translation.

Do any committee members object to it being handed out?

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): Yes, it's okay.

The Chair: All right. The handouts are going around right now, Mr. Rosen.

Please commence.

Mr. Al Rosen: Thank you.

The first handout is only one page, and it has columns one, two, three, and four on it.

This is a live and actively traded income trust, at the moment, and it's trading for around $9. The name has been withheld, but you'll see that we have tracked nine years, from 1997 through to 2006.

The first column is the sale of trust units. It starts in 1997, with $80 million, and it works its way down to 2004, with $85 million. The next column is debt and redemptions. Column three is the income or the loss for those years. The fourth column is distribution. If you add up the distribution, you can see it comes to $335 million over that period of time. You can also see that the income loss is $133.6 million. The translation is that the distributions are 250% of income and they paid out $201 million in excess of what they earned.

Backing away from this for a minute, we work with two corporations. Number one is the Accountability Research Corporation, which does this type of thing. Our second business is forensic accounting, and we're very heavily involved in securities problems. Intertwined with the tax is all of the reporting that is going on.

You can see from this particular situation that the typical lingo for this is a pyramid scheme, or if you can prove conspiracy, recklessness, and so on, it becomes a Ponzi fraud. Having tracked most of this material for several years, my concern has been extensively along the lines of these pyramid schemes and Ponzi frauds being well over half of the income trusts.

If you turn to page 17, you'll see something that starts with “Medical Facilities - IDS”. This is a study we did that was published in November 2005, and I have deliberately brought this material today to show what the situation was like before we had the various flip-flops happening.

The first column is income as a percentage of what was distributed. You can see with the first three, with the dashes, that the income was in fact a loss. As you work down the columns—and there are roughly 50 companies here—you see that very few of them were actually distributing out of their net income. It was coming from other sources.

The next column is the cash yield as of November 9, 2005, and I might add that things have become substantially worse since then. For example, Medical Facilities had 10.90% of a cash yield. This is cash being distributed to people compared to the trust unit price at the time. How much of that 10.9% came from income? It was zero. It was all a return of capital.

There is nothing wrong with returning capital, as long as you tell people that is where it is coming from. The fraud allegations come in as a result of not telling people what the sources are. This is of deep concern to us.

If you keep working your way down the columns, you can see that very little income is being produced by a large percentage of these particular trusts. Overall, you are seeing 4.97% in the third column, and you're seeing 2.98%, which is a straight return of capital. That has become significantly worse since then.

As in the first example I used, you can see how serious the problem is. It's not being regulated. The securities commissions came up with something a couple of weeks ago that does not regulate this. The chartered accountants are not regulating it. They have one subgroup, which is not part of the standards board, that I think has a good idea that needs to be developed.

● (1115)

The next page, as you can see, starts with heating oil partners at the top left. The first column over is the issue date, when these items were sold, and then what the offering value to the public was, and then you see the current value and the decline. These declines go from 100% down to 30%, which is where we cut it off. Since then, this table has tripled in numbers and problems.

If we go to the next table, this is one of capital maintenance. The argument is that we are simply distributing back to you depreciation and the tax savings. This is sheer nonsense for two-thirds or three-quarters of the trusts we track, which is most of the business trusts. If you look at the column, you can see that maintenance capital expenditure is 0%, so the money is not being reinvested. What's happening here is quite different from the stories we see in the media. The figures really tell you a totally different story.

● (1120)

The Chair: I have to cut you off, but there will be time for questions, of course.

We'll continue now with Jean-Marie Lapointe. Welcome, and we'll go over to you for five minutes, sir.

[*Translation*]

Mr. Jean-Marie Lapointe (As an Individual): Thank you, Mr. Chairman. You are a sports enthusiast, a marathon runner. You're asking me to be a sprinter, when I'm in no shape to be one! I would need more than five minutes to make my presentation.

Have all committee members received the green folder made of recycled paper? It contains charts and figures, but no particular comments.

[*English*]

The Chair: Please proceed, sir. That will be distributed as you are making your presentation.

[*Translation*]

Mr. Jean-Marie Lapointe: First off, I'd like to talk about these charts. Let me say right away that in these files—

[*English*]

The Chair: We'll go to Monsieur Thibault.

[*Translation*]

Hon. Robert Thibault (West Nova, Lib.): Mr. Lapointe plans to refer to his documents. We need copies to follow along with him. Can we take a few moments to pass around these documents, so members can follow his presentation?

[*English*]

The Chair: Proceed if you wish.

[*Translation*]

Mr. Jean-Marie Lapointe: Fine then.

I drew up these charts on my own PC. They show the situation of my immediate family members. Chart 1 shows the investment curve of my grandchildren's RESPs. As you can see, the situation was on the upswing prior to October 31. As of November 1, a downward trend set in. Further on, there are signs of improvement, but only because additional investments were made in January. This chart reflects only to my grandchildren's RESPs.

The next chart shows my daughter's RRSPs. You can clearly see the impact of the November 1 decision and the subsequent stability. Clearly, there has been no real recovery.

The next page contains a chart showing my son-in-law's RRSP. There was a downturn, followed by a recovery because we reinvested funds from elsewhere. These funds were specifically reinvested in income trusts.

The next page shows my spouse's RRSP. I don't think any comments are necessary.

The same applies to the page showing my own RRSP.

The last page shows the situation of one of my sisters.

Obviously, these are personal and private documents. I'd like to ask a lawyer who is here today, namely Ms. Diane Ablonczy, to collect these documents after the meeting or after your in camera session. These are personal documents and I don't intend to bemoan my fate any longer.

My file also contains long-term planning and information about RRIFs. According to my projections, retirees won't be able to get by with a 4.5% rate of return. They may be able to hold on a little longer with a 6% rate of return, but if they are to truly survive, ideally their RRSPs needs to generate a return of about 8%. In this case, the retiree will pay considerably more tax and when he dies, the government will obviously take its share before the children and grandchildren get theirs. It's not difficult to maintain an RRSP when you are healthy.

While the Minister of Finance may well say that he works to pay bills for the current year, we are all left to worry about the years ahead, and we do worry.

I won't bore you with any more figures or personal tales.

Let me relate a simple story to you. In the fall of 2004, I invested some money in a company in Saint-Léon, Manitoba, that produced wind energy. I was entitled to tax credits from the federal and Quebec governments.

No doubt Mr. Paquette will hate me for contributing to the fiscal imbalance.

Subsequently, Ontario's Algonquin Power took over this operation. This facility operated in Manitoba, while investors come from across Canada, including Quebec.

As a result of your plan, Algonquin Power will probably be privatized. The Government of Canada will lose its subsidy, as will the Government of Quebec. As a small investor, the decision represents for me a permanent loss of revenue. Algonquin Power is no Ponzi scheme. However, it generates a 10% rate of return on my initial investment.

Therefore, I have a good question—

● (1125)

The Chair: That's all. Thank you.

Mr. Jean-Marie Lapointe: Thank you, Mr. Chairman.

[*English*]

The Chair: *Merci*. There'll be time for questions, of course, Monsieur Lapointe.

We continue with William Barrowclough.

Welcome, sir. You have five minutes.

Mr. William Barrowclough (As an Individual): Thank you, Mr. Chairman.

First, I would like to congratulate the committee for finally inviting some real investors to tell their stories. By the end of today's session, you will have heard four such people. That's four over three full days of hearings. It's high time you encountered some real people. I only wish Mr. Flaherty had given us some thought.

Seven years ago, my wife died as the result of a traffic accident. Our car was demolished by a reckless speeder who ignored a red light. The insurance settlement formed a large part of a portfolio that I invested to make a better life for our children and for the grandchildren she hadn't lived to see. Three and a half months ago, a large portion of that portfolio was erased, this time by the rash and reckless action of our finance minister. That's two major assaults on my family, both with reckless indifference. The first took my wife, and the second stole part of her legacy to her children and her grandchildren. You can't know the depths of my anger.

I had invested a large part of my portfolio in income trusts because Mr. Harper gave such solid assurances that one couldn't possibly doubt him. After all, Mr. Harper had gone to great lengths to differentiate his and his party's integrity from the perfidious Liberals. That should have tipped me off: beware the man who parades his own virtue.

My family and I have suffered gravely at Mr. Flaherty's hands, but others have suffered more, even though the actual dollar amounts may have been smaller. A loss of $25,000 or $50,000 might be more devastating than a numerically larger sum. If, like so many middle-class Canadians, one had retirement savings that provided an income barely adequate to meet expenses, then a few thousand less in capital would make a tremendous difference in monthly cashflow. And make no mistake; it's regular cashflow that is of primary importance to retirees. That's why seniors loaded their RRSPs and RRIFs with income trusts in the first place.

The Halloween massacre not only caused the evaporation of billions of dollars of our capital, but thanks to the impending death sentence hanging over income trusts, there isn't likely to be much of a rebound in valuations. That means our capital isn't coming back.

So what's an income trust investor to do?

Well, he can sell all of his trusts at fire-sale prices and use his reduced pile of capital to buy more expensive securities that pay far less in income. That's not very satisfactory for those who were just getting by before the bombshell attack.

Or, of course, he could just sell everything up and buy GICs and stick his hand out for every government program available, and I think then you'll see some tax leakage.

Or perhaps he could hang on and hope that his trusts would be among those to survive and that they would be able to continue paying their normal monthly distributions. That would require both faith and a deal of luck—far more luck than we had last Halloween.

Either way, the retiree would be facing a much reduced stream of income. Under the Flaherty scheme, taxable accounts would eventually see some relief through the dividend tax credit, but there is no such relief in registered accounts from the rapacious 31.5% proposed tax.

In sad fact, the brunt of the Flaherty tax plan, whether planned or accidental, is borne by foreign investors and Canadians with registered accounts. We're either collateral damage or the victims of a brutal mugging. Is it reckless indifference or a vicious attack on retirement plans? I must say, neither is a very comforting conclusion.

In my brief, which I assume was distributed to you, I have suggested a range of options that would go some way to ameliorate this ghastly situation. Naturally, grandfathering would be ideal, but at the very least I implore you to adopt a 10-year tax phase-in, as did the Americans at a time when trusts were a minuscule part of their economy—nothing like the over 20% they composed of our index—and to put in place the plan described to you previously by Mr. Dirk Lever for a refundable tax credit, so that seniors with registered accounts wouldn't bear the entire brunt of what Mr. Flaherty, in his best Orwellian doublespeak, calls a “tax fairness plan”. War is peace, freedom is slavery, ignorance is strength, double taxation is tax fairness—George Orwell would have been proud.

● (1130)

Mr. Chairman, two days ago I received a telephone call from another person on the witness list for today's hearings. I had never before had communication with this person, who proceeded to preach an hour-long sermon on the evils of trusts and then attempted to get contact information for the other individual investors. While at no time did this witness directly counsel me to change my testimony, what I heard was a diatribe that through its content, tone, and timing —two days before our appearance here—was clearly an attempt to influence my testimony before this committee. That fits my definition of witness tampering, Mr. Chairman, and I hope it fits yours.

Thank you.

The Chair: Thank you, sir.

We move to questions. Mr. McCallum, five minutes.

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

Thank you very much to all of the witnesses.

I'd like to begin with Mr. Bruce. I think your testimony is significant in the sense that I believe you are one of approximately four people who have severely questioned the government's tax leakage conclusions. There has been no witness that I can think of who has defended the government's estimates. At the same time, the government has refused to release its numbers. I want to make sure the committee is clear in their minds of your conclusions.

If we go through your four points, your first point is that they've excluded already legislated corporate income tax changes, and the only way that could be rationalized is if you assumed substantial growth in the income trusts over the next six years, which is a crazy idea when income trusts are essentially being taken out of business. Is that a fair summary?

Mr. Dennis Bruce: Yes, the income trust market would have to grow significantly over the next 10 years in order for that to occur and offset the legislative changes.

Hon. John McCallum: On the third point, the overestimation of tax-exempt unit holders, you have in the past been the source for the Department of Finance, and now you have more recent numbers, which they have not adopted. Is that right?

Mr. Dennis Bruce: That's correct. In the consultation paper our estimates for tax-exempt unit holders were utilized. We shared data. Obviously we had done a lot of discussion with industry, etc., and that information was used. We updated our data last year, and then our report of November 23, 2005.

Hon. John McCallum: And the department didn't.

I'll mention the last point and then move on. They exclude deferred taxes, and you argue they ought to include deferred taxes. But as I understand it, at least they should be consistent. Either they should include everything deferred and include deferred taxes, which gives you your number, or they should exclude not only deferred taxes but deferred capital gains, I think it is, which works in their favour. Am I right in thinking that if they exclude everything deferred, which at least would be consistent, again your story wouldn't change very much? Or is that not fair?

Mr. Dennis Bruce: It might tilt things the other way if they excluded everything. There might be tax gains there. But let me say I believe deferred taxes should be included with respect to income trust accounts, from a tax-exempt account. But on the other side of the ledger, I believe deferred taxes should be included from capital gains as well.

● (1135)

Hon. John McCallum: Thank you very much.

I would conclude that, going through those things point by point, this is a pretty definitive case, buttressed by at least three other witnesses, unopposed by any government-side witness, and further buttressed by the fact that the finance department continues to refuse to release their numbers, which form the basis for the policy and which are a crucial basis for their policy decision.

Mr. Rosen, my question to you goes to relevance. I'm sure you're aware that both the CCA and the CSA have made recommendations on the reporting of distributions and accounting standards for income trusts. I'm at a bit of a loss as to your role here. Are these not the organizations you should be making your representations to?

Mr. Al Rosen: No, I believe the tax is closely interrelated with the accounting and financial reporting. We have a serious question here of why the taxation is somehow favouring for years, and currently doing much the same thing of trying to encourage for 10 years, what amounts to Ponzi frauds. This is criminal. We work around the world, and I can easily say that if this had been occurring in the U.S. people would be in jail.

Hon. John McCallum: That perhaps is important, but it's very distinct from the issues the committee is examining. It seems to me it's more for those agencies I mentioned. In any event, thank you very much.

Thank you, Mr. Chair.

The Chair: Thank you.

[*Translation*]

Next up is Mr. Paquette.

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

I'd like to thank all of the witnesses for their presentations. You have obviously enlightened us. However, we still do not have all the information we need to make recommendations to the minister with a view to minimizing the impact of the decision taken last October 31.

Mr. Bruce, the last time you were here, you provided some details about the fact that the Department of Finance had excluded legislative changes applying to the period ending in 2010. What exactly are we talking about in terms of numbers? Regarding the Department of Finance's decision to exempt deferred tax plans, what kind of numbers are we talking about here? Could you give us some figures? I think it would be interesting to know what these figures are.

[*English*]

Mr. Dennis Bruce: If it would help the committee, I have tables that provide this, which were filed as exhibits last time.

[*Translation*]

Mr. Pierre Paquette: That being the case, perhaps I will put the question to Mr. Lapointe.

Mr. Rosen and Ms. Urquhart, both of whom previously appeared before the committee, called into questions the ethics surrounding income trusts. According to Ms. Urquhart, it would be unwise to extend from 4 to 10 years the transition period for income trust unit holders so as to soften the blow and allow them to make some sound choices. In my opinion, this would only encourage older, more vulnerable taxpayers to invest in this type of vehicle and to run the risk of losing their life savings. I'd like to hear your views on this subject and on Mr. Rosen's comments.

Mr. Jean-Marie Lapointe: If the aim of this committee is to protect retirees from themselves and from dishonest representatives, then that's another matter. If Mr. Rosen believes that criminals are at work, then he should denounce them and file a complaint with the RCMP.

My particular Ponzi scheme involved making investments in an electricity generating project in Manitoba. I don't believe the Government of Manitoba acted dishonestly by conspiring with criminals. It dealt with reasonable individuals and signed a contract of at least 25 years. The project involves supplying clean energy to 41,000 households in Manitoba. We're not talking here about criminals that the RCMP should be investigating. The RCMP has other matters to attend to, but if Mr. Rosen knows of any specific cases, then he should bring them to the RCMP's attention.

One of these “rogues” is set to appear before your committee this afternoon. I'm talking about the President of Pengrowth Energy Trust. This company has been in business for 17 years. Units issued in 1989 for $10 now sell for $20 on the market, even after the meltdown. Shareholders have received $34 and upwards for their units. If you know of any Ponzi schemes like this, please let me know.

This rogue, who is set to meet with investors, will be testifying this afternoon before your committee. He has just purchased ConocoPhillips, a North American company with one billion dollars worth of assets in oil fields that are nearing the end of their productive life. And, do you have any idea of who ConocoPhillips teamed up with to develop oil sands by selling end of line operations to a Ponzi scheme? With EnCana. EnCana teamed up with an American who sold end of line operations to Pengrowth Energy Trust, which you have qualified as a Ponzi scheme.

This businessman, who is said to be honest and who has managed a company founded 17 years ago, a company in the business of serving small shareholders, will be here this afternoon. We invest our money for our grandchildren and for our families, and as the gentlemen was saying, the rate of return on this investment is 15%. This Ponzi scheme has been going on for 17 years. For heaven's sake, give me another 17 years of the same thing.

Thank you.

● (1140)

Mr. Pierre Paquette: Mr. Bruce, you are critical of the minister, and justifiably so, for automatically taking this $500 million per year and multiplying it by six, for a total of $3 billion. Does this method of calculation take into account the tax changes which will take effect in 2010? I see that the $192 million figure that you quoted represents $32 million in annual tax losses identified, multiplied by six.

[*English*]

The Chair: Your time has elapsed.

We move now to Madame Ablonczy. Madame Ablonczy, you have five minutes.

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

Thank you to all of you for attending. We know this is an effort and a work that really helps the committee. We appreciate it.

I'd like to address this issue of lost tax revenue, which Mr. Bruce talked about. The Finance officials are here, and some pretty serious allegations were made, which I think they should respond to. I'm hoping that the Finance officials haven't cooked up some sinister plot to wrongly convince the government that they're losing significant taxes, in order for them to break a campaign pledge and take a big political hit.

I assume there must be some response to these allegations that Mr. Dennis Bruce is making, so please respond and give us your take on what Mr. Bruce said.

I'll leave it to the officials to decide who.

Mr. Denis Normand (Senior Chief, Financial Institutions, Business Income Tax Division, Tax Policy Branch, Department of Finance): I can start. I'd say the same thing as I said at the last committee meeting. In terms of the $3 billion impact of going from four years to ten years, it was calculated based on the corporate tax rate reductions, including the resource tax rate reductions, going from 2006 or 2007 on for six years.

You have to take into account the fact that, as Mr. Bruce indicated, there are probably not going to be any further conversions into income trusts over that period. Also one of the big offsets that reduced our 2006 estimate was the one-time capital gains, which we estimated on conversions and IPOs in 2006. That doesn't occur in other years over the transition period.

So you don't have to have a very significant—in fact you could have a very minor—organic growth rate, and that's consistent with the issuances that have been made even over the past few months on income trusts.

Ms. Diane Ablonczy: Thank you.

It's interesting that there seems to be such a divergence of testimony between Mr. Bruce, who I understand told us before that he was hired by the trust industry to look at this issue of tax leakage, and the finance department officials, who I assume have some pretty significant resources and corporate memory from over the years and put the discussion papers out. How do you explain this divergence? To people watching, I think it seems a little odd.

● (1145)

Mr. Brian Ernewein (General Director, Tax Legislation Division, Tax Policy Branch, Department of Finance): I will make a comment in that respect. My colleague is the leading expert in the department on the revenue estimates that have been put together on this. But in some respects, it seems to me that the market has actually opined on this since our announcement. The only change that occurred between the evening of October 31 and the morning of November 1 was the announcement of our tax change. Then the market seemed to reacted with an adverse impact on a couple of witnesses we heard from.

The point I'd like to make is that as we have said, this market impact seems to suggest that our revenue estimates were conservative. If Mr. Bruce is right and the actual revenue effect of this change was much more modest than even we had suggested, then I would have difficulty reconciling this with the impact that the market has shown to have actually occurred.

So perhaps to respond to a question with a question, I'd invite the committee to explore how the actual market effects can be reconciled with our revenue estimates and those of others.

Ms. Diane Ablonczy: So you're saying that the market obviously believed the Department of Finance and their calculations, not what the trusts have come up with after the fact?

Mr. Brian Ernewein: I'm not suggesting that the markets signed on to the Department of Finance over anyone else. I'm really expressing the view, which the Governor of the Bank of Canada articulated when he was here the other day, that you can take the effect, the market impact, as a result of the changes and, by applying present values, try to determine what the tax effects of that were.

From this it would appear that the numbers that the finance department put forward were indeed conservative.

The Chair: Thank you, Madam.

Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairperson.

Let me go to Mr. Rosen first. I'm a bit surprised at John McCallum's suggestion that there's no relationship between what he has documented in possible illegalities and Ponzi schemes and what we're dealing with today, which is the future of income trusts and whether or not the decision made by the government makes sense.

It seems to me that's awfully irresponsible. It would be almost like suggesting that a plane can be cleared for takeoff without making sure it has enough fuel to get to its proper destination. After the sponsorship scandal, I would think the Liberals would be a little more concerned about trying to explore this issue and these allegations.

Hon. Robert Thibault: It's an interesting relationship.

Ms. Judy Wasylycia-Leis: It's a very interesting relationship. There's a pattern here, I think.

Mr. Rosen, you have suggested that something fairly significant and unethical is taking place. I don't want to put words in your mouth, but the legal implications of what you're saying almost seem to be on the scale of the Enron scandal in the United States.

Do you want to comment on that and, at the same time, address your numbers on the financing of paid distributions at 250% of income? Is that occurring regularly in Canada? I think that's relevant to John McCallum's assertion and the findings of this committee.

Mr. Al Rosen: It's extremely frequent. We've been tracking these trusts for a long time.

We have two major concerns that don't get addressed. One is the Accounting Standards Board in Canada. We're the only country in the world that allows the auditors to set the rules, so it's no great mystery that the rules are loose. I'm in court extensively on these types of cases. So I don't know how we can possibly allow that to happen.

We also allow provincial securities commissions, and I've testified before them many times. There's no point in talking to the RCMP, I'm sorry to say. I've done that 20 times and these cases go nowhere. So we have a situation across Canada where no one is looking at the interests of the investors.

On Mr. McCallum's reference to the securities commission and the document it put out a couple of weeks ago, I will have a response to that in the *National Post* perhaps as early as tomorrow. It's very clear that nothing is happening in that area.

We sat through the Nortel fiasco; we're now sitting through the income trusts. If you look at my track record, I've called many of these over the last 20 or 30 years. So I'm saying we have a crisis in Canada—the worst I have ever seen. It absolutely shocks me that we're foot-dragging on what is clearly the cause of the problems of the gentlemen here and many others.

No one is taking action. We're working with the class action lawyers because they're quite concerned. I also write every second issue of *Canadian Business*. Do you think I don't get e-mails, Mr. McCallum? I get tons of them, and they certainly don't support the foot-dragging that's occurring.

We have a major problem here, and passing it off and saying it's the responsibility of the provinces or somebody else is absolutely irresponsible, in my opinion.

● (1150)

Ms. Judy Wasylycia-Leis: One of the suggestions made by some of the witnesses, including Mr. Bruce and others, is that we can ease the pain and not cause any problems by extending the grandfather clause from four years to ten years.

What's that going to solve, Mr. Rosen?

Mr. Al Rosen: It's not going to do anything. In fact, the e-mails I get are telling me to find someone who's a bigger sucker to sell these things to. So it would be the worst thing on earth to not clamp down immediately.

I'm sorry, gentlemen, but sell your trusts except for a handful of important ones, because we have not seen the end of the decline in trusts. We have gross inflation in the market.

Let me take one example: Aeroplan. Probably no one else in the room knows that when it was formed out of Air Canada all of the obligations to redeem the points were given to Aeroplan; the cash was not. This is the old joke about the marriage and the split-up: I take the house, my spouse gets the mortgage. That thing is selling for $19 now. They frankly admit that 75% of the distributions are return of capital for fiscal year 2006. In 2005 it was 84%. So why is it at that point?

The Chair: Thank you, Madam Wasylycia-Leis.

We continue now with Mr. McKay. To permit as many members as possible, just go with three minutes, John.

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

I think Mr. Rosen makes a point, and it would be in the interest of this committee to follow up on the points and possibly invite Mr. Rosen and other relevant people back with respect to that particular point. What we are talking about today has to do with the market action of the finance minister and the deception of the Prime Minister.

Let me speak to Mr. Bruce, first of all. I wanted you to respond directly to the finance officials with respect to whether they considered the legislative changes in corporate taxes.

Mr. Dennis Bruce: I cannot see how that was handled appropriately in their coming up with the $3 billion estimate. Based on what I read in terms of market growth assumptions, including the front page of yesterday's business section in the *National Post,* indicating that perhaps in 18 months 75% of the trust sector is going to be gone, I can't see how that could be feasible at all. I've crunched the numbers using various growth assumptions and I just don't see how it's possible to be correct.

Hon. John McKay: In your opinion, it's just not there.

I want to turn to Mr. Barrowclough, because I have very little time.

I can appreciate that you're a pretty angry guy, and pretty legitimately so. You've been deceived. You made these investments, and Mr. Rosen makes a point about the mix of capital and income distributions and how all these schemes are ultimately going to collapse on themselves. We got into a whole war of doublespeak, that this is all about tax fairness and other nonsense like that.

But I'd be curious as to how this business of witness tampering came about. What would people say to you that would suppress you from coming before this committee and telling of your experience?

Mr. William Barrowclough: Nothing that was overtly said directed my testimony, but this person spoke to me for an hour on the telephone, and I couldn't hang up. It was much like watching a train wreck; you don't want to watch it, but you can't tear your eyes away. This person spoke to me for an hour and harangued me on the evils of income trusts—the criminality of which Mr. Rosen is commenting on—what horrible things they were, this being two days before I was to come here. We had never communicated before; I could come to no other conclusion but that it was an attempt to colour my testimony before this committee. If it had been two days after our hearing here, that would have been a totally different story, and I would perhaps have hung up, as I would on a telemarketer.

● (1155)

The Chair: William, what percentage of your investment portfolio was in the income trusts before October? An approximate number, would you know?

Mr. William Barrowclough: Eighty percent-ish.

The Chair: And Mr. Lapointe.

Mr. Jean-Marie Lapointe: One hundred.

The Chair: One hundred percent in the income trust.

Thank you, sir.

We continue with Mr. St-Cyr now.

[*Translation*]

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

I'd like to follow up on Pierre's question and ask Mr. Dennis Bruce about the $192 million figure. Mathematically, you seem to have arrived at this figure by multiplying 32 by six. Is that how you did your calculations?

An hon. member: Yes.

Mr. Thierry St-Cyr: I see.

You can always respond to the question later. Without going into any details about the method used, a discussion took place with Department of Finance officials on how the market reacted to the announcement. According to the department, the reaction reflects the fact that income trusts represent a very significant tax advantage.

Do you believe that's the case?

[*English*]

Mr. Dennis Bruce: To calculate the $192 million, essentially what we did was take our 2006 estimate, remove the one-time effects, as Mr. Normand suggested as appropriate, and then multiplied it by six, so implicitly in that we're assuming the market will be flat over the ten years going forward, which is perhaps optimistic. That's point one.

The second point is with respect to the market reaction on October 31. I would interpret the market reaction on October 31 to be an assessment of the taxation proposed for the new SIF structure versus the taxation that's in place today of the current trust structure. I wouldn't even factor in the fact that it was a comparison to corporate taxation. I think the market, from our estimates on November 1, saw a large increase in taxation of the trust structure. In fact, under the new SIF structure versus the corporate structure, if you do the math very similarly, we would estimate an extra billion in taxation. That presumes, of course, that no one moves back to a corporate structure, and of course they will because the tax rate is just not sustainable. I would interpret the market to be reactant to that phenomenon, and I don't believe the market, in that sense, the market reaction had anything to do with tax leakage.

[*Translation*]

Mr. Thierry St-Cyr: Mr. Rosen, you presented a number of tables showing a series of companies and income trusts. You demonstrated that a significant percentage of distributions could be attributed to capital, rather than to income. I find that interesting, but I'm curious as to the situation for the overall market. Is the problem confined to just a few companies, or is it more industry wide?

[*English*]

The Chair: Mr. St-Cyr, I'm sorry, you have used up your time, as you were expecting.

[*Translation*]

Mr. Thierry St-Cyr: Already!

[*English*]

The Chair: Mr. Dean Del Mastro now.

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

Mr. Rosen, the finance minister acted very definitively on this issue. We dealt with it in what we felt was the fairest way to deal with it. It was obviously a very difficult situation. Could you talk a little bit about the difference between...maybe you could touch a little bit on how investors were hurt through the various muddlings that went on with the issue in 2005, how a number of people who were in the know made quite a bit of money on that, and talk about how that is wrong.

Mr. Al Rosen: Yes. I thought in September 2005 that the warning signal had been given, that it was a good move, and that hopefully it would have cleaned things up. The reversal in November floored me, personally. The fallout we've seen after that has been significant.

What amazes me is that somehow or other, on the distributions, if you use a typical 8% distribution and 75% of that is a return of capital—and there are quite a few companies like this—then your real return is 2%. But the market is somehow capitalizing the 8%. If you look at many of the newspapers and the articles, they call that 8% the yield.

From my point of view, the action taken on October 31 was overdue. It should have been taken a long time before, because of the Ponzi frauds.

● (1200)

Mr. Dean Del Mastro: In your opinion, the market correction on trusts was inevitable?

Mr. Al Rosen: For sure. I can sit here right now and tell you we're going down a long ways still.

Mr. Dean Del Mastro: Right.

I'm going to give you a quick preamble and tell you a story. My uncle started working full time at 15 years old, retired a number of years ago, and took a significant loss on October 31. He had a significant portion of his portfolio in income trusts. Obviously he was not my only family member who was caught in that.

How did this happen? How did we get here? We've had Bank of Montreal officials come in and compare these income trust investments to junk bonds and high-yield bonds. How did we get here?

Mr. Al Rosen: Well, it's massive hype. If you want to look at the number of inserts that were in the newspapers that were pure income trusts, if you want to look at the brokers—The brokers call me. You have TV stations doing this. It was just absolutely ridiculous hype telling people what the yields were, what the distributable cash was.

Even calling these income trusts—They are not income and you can't trust them. So with the wording that came out, all of this was highly misleading. Why aren't the underwriters number one on the list to blame? Why aren't the brokers second? Why aren't the accountants third? We can go down the list. Why people are blaming the two federal governments of the last few years is beyond me. Somebody had to act.

The Chair: Thank you, Mr. Rosen.

Thank you, Mr. Del Mastro.

We'll conclude with a quick question from Mr. Pacetti.

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

Mr. Rosen, I just want to ask you a couple of questions

Just quickly, we're here for tax leakage, and I think we're getting away from the subject. But I think the points you bring up are quite important, and it probably means that we have to spend a little bit of time on this. I think your points were mainly on governance and regulation and on how that's interlinked when investors are putting money into these vehicles, whether it be trust or even shares of companies.

First of all, you have a problem with trust funds, income trusts, but what about the real estate tax sector? The government decided to keep the real estate tax sector going. They're going to have the same problems.

Secondly, for corporate structures, you can't tell me that junior mining companies out there have not undergone significant scrutiny, or non-scrutiny, if you wish, where they state that they've discovered minerals, diamonds, or gold—you name it—and meanwhile they're not worth anything. The marketing or the underwriters, or whoever you want to blame it on, have brought the stock prices up to the sky, and then all of a sudden they've dropped overnight.

So you can't tell me it's just in the trust sector. I'm not sure how you can correlate the two, where you can say it's fine that the corporate sector remains alive, and that the real estate sector and the income trust sector remain alive. You can't have it both ways.

This is not the issue of the hearings, but we're here to find out what the actual tax leakage is and why Canadians suffered all these losses. Again, I agree with your last comment, which was that the actions of the previous government are not necessarily what caused Canadians to lose all their money. But I think the Finance officials say that nothing happened between October 31 and November 1 outside of the government announcement, so I think today's new government has to take part of the blame.

Mr. Al Rosen: As for your comment about comparing to mining and other industries, I don't know how anybody can look at the figures that I gave you today, plus all the updates we've done since then, and come to any other conclusion than that these were quick disasters. They dropped very quickly. So the whole model, to start with, stunk, and there's no question about that. The winners out of it were the underwriters and brokers.

So if you're saying real estate and other corporate...people are quite well aware of the problems, and you are following along on a particular level. Once you decide that 90% or 80%—whatever the number is—of trusts go down the drain so quickly, I don't know what alarm bells one needs. This was a bad model.

● (1205)

The Chair: Thank you, Mr. Rosen and Mr. Pacetti.

And thanks to you all. We appreciate the time you've taken to be here with us today. You are dismissed, and we'll invite the next panel to come forward.

Committee members, I have a brief statement to make to you, so I'd ask for your indulgence.

Mr. Thibault.

Hon. Robert Thibault: On a point of order, Mr. Barrowclough referred to some recommendations that he had available for circulation to the committee members. I haven't seen them. Will they be distributed?

The Chair: I'm not aware of what recommendations you're referring to, frankly.

Hon. Robert Thibault: In his discussion, he recommended—

Mr. William Barrowclough: I said a brief would be translated and distributed.

The Chair: When it's translated it will be distributed, yes.

Thank you, sir.

You're dismissed, panel. Thank you.

To the committee members, I'd ask you to remain for a moment.

First of all, on a housekeeping item, we'll have lunch available at 12:30 for committee members and staff. I would encourage those who are not committee members and staff to make sure they wait until the former have had their lunch, because we're going to endeavour to deal with the report following the second panel's presentations.

To committee members, this Thursday the House of Commons finance committee will begin its review of the Bank Act. This is an important undertaking, and it's my sincere hope that the work of the committee in this, as in all of its undertakings, be given the serious consideration it merits.

As your chair, it is my wish to maximize both the efficiency and the effectiveness of your work. I know that none of us would wish to call into question the integrity of the work we do here. For that reason, I will be removing myself as your chair for the duration of the consideration of Bill C-7.

As I have previously disclosed to you and to the clerk, my family has a controlling interest in two companies that place insurance contracts of various types. I have consulted with the Ethics Commissioner's office. I have consulted with you, and I thank you for your input. I appreciate it very much.

The contentious topic of banks marketing insurance products will most certainly be raised at some point during your deliberations. This issue relates directly to companies in which I and my spouse have controlling interests. Although the impact of such changes as proposed is uncertain, there is no doubt that my participation in the discussions could potentially lead to accusations of conflict of interest and therefore have the effect of discrediting the work that we as a committee must undertake to do. As your chair, I cannot allow that to happen.

I thank the committee members for their support and their encouragement and advice during the difficult period of considering this issue. I believe this course of action is the correct one, and I believe this decision has come about because of your input to me and to my family.

I also want to thank Massimo, our vice-chair, for agreeing to take on the chairmanship during the committee's deliberation of the Bank Act.

I wish the committee great success in this important review, and I look forward to resuming our work together following the completion of your report.

We will recess for two minutes while the second panel comes forward.

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——————— (Pause) ———————

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● (1210)

The Chair: We recommence *immédiatement, s'il vous plaît*, with our second panel.

Panellists, we thank you very much for being here today and look forward to your comments.

Witnesses, I'll give you an indication that you have a minute remaining, and then I must cut you off at five minutes to allow time for questions. Some of you know this drill already.

We begin with Dave Marshall. You have five minutes, sir.

Mr. Dave Marshall (As an Individual): Thank you, Mr. Chairman.

My name is David Marshall and I'm from Cornwall, Ontario. Thank you for inviting me to share with you the impact that the government's decision regarding income trusts has had on our lives.

Let me tell you a bit about myself and my wife, who is with me today. When I got out of high school, my first job was as a telegraph messenger boy for Canadian Pacific at $24 a week. For many years I worked as a truck driver and a chemical plant worker, and then I retired five years ago at the age of 65. My wife retired last August from an auto parts warehouse at the age of 60.

During our working days, my wife and I raised two daughters, and I had to diligently save for our children's education and our eventual retirement. We realized that the income from GICs, T-bills, CPP, OAS, and my company pension was not going to support our modest lifestyle. My wife has never had the opportunity to participate in a company pension plan. After studying the income trust sector and the risks that were involved in all types of investments, we cashed in our GICs and T-bills and invested in income trusts. We were very satisfied with the results. Our portfolios were diversified and consisted of both growth and income.

So why are we here today? Because Mr. Harper and his finance minister took a sledge hammer to our savings and income. Overnight we lost over 20% of our retirement savings and big chunk of our future income. During the last election campaign Mr. Harper said—and this is important—that a Conservative government would protect seniors and not tax income trusts. You can't get any plainer than that.

Because of that very statement, I took him at his word and decided to vote for his party. As it turns out, one of the biggest mistakes of our lives was believing in Stephen Harper. What is amazing to me is how this government can flip-flop 180 degrees on something that is so important to the welfare of ordinary Canadians such as us.

To top it off, it appears that the government made its decision with very little study or understanding of the impact of their action. Many credible, knowledgeable people and institutions have come to the defence of the income trust structure.

Based on what I read from various sources, it is obvious that the government had alternatives. If in fact the government had become a threat to the Canadian economy, they could have taken action to limit the creation of new trusts and reform the reporting standards of the existing ones, without causing any financial hardship to pensioners such as us.

I must say it is very disturbing when a Canadian citizen applies for documentation through the Access to Information Act and all he gets back are blanked-out sheets. We have to wonder what this finance minister has to hide. My guess is nothing.

It should make all of us very sad. What has this great country of ours come to? My father and father-in-law fought in the First World War and Second World War, during which many men and women died. Presently our Canadian soldiers are fighting in Afghanistan. All this is to protect the rights and freedoms that each and every one of us enjoys today. So why the secrecy? The citizens of this country deserve an open and honest government—the kind that Stephen Harper promised us. We deserve full disclosure, because this is important to us whether we are young or old.

I have written to Mr. Harper concerning my concerns about the way his finance minister is treating us seniors, who were once the foundation of this country and now are the vulnerable within our society. No reply.

I'm nearly finished, but I want to say I believe that as members of Parliament, it is your duty to support a full public review of this matter before the members of the House vote on this legislation. I urge you to vote on this.

One last thing is that I do not want Mr. Rosen looking after my interests.

Thank you.

● (1215)

The Chair: Thank you, Mr. Marshall.

We'll continue with Dianne Urquhart, an independent consulting analyst. We'll provide five minutes to you, madam.

Mrs. Dianne Urquhart (Independent Consulting Analyst, As an Individual): Thank you.

The income trust tax plan removes tax advantages, and where there are tax advantages there is by definition government revenue leakage. If there were no tax advantages, there would not be this aggressive income trust lobby to reverse the income trust tax plan. If corporations had less combined business and personal taxes, then income trusts would be rushing to convert back to corporations to achieve these relative tax advantages. If there were no tax advantages, there would not have been a drop of about $20 billion in the market capitalization of business and energy trusts after the October 31 announcement.

I'd like to speak about the tax-deferred plans. It's my opinion, as a financial analyst with numerous years of experience both conducting financial analyses and supervising the work of up to 60 analysts and associates within the CFA Institute, of which I am presently still a member, that in the RRSPs and the pension funds there is permanent government revenue leakage. There is a tax-deferred loss. As a consequence, I do not agree with the witness testimony of Dennis Bruce, who indicates that there is a tax-deferred gain—and I believe it was on the order of $125 million—offsetting the estimates of the finance department.

I'm not going to attempt to redo the budgetary estimates; there isn't the time here. I want to use my expertise with respect to the tax-deferred loss from income trusts versus corporations in tax-deferred accounts.

There was a research report tabled by Mr. Art Field, president of the National Pensioners and Senior Citizens Federation, on February 1, 2007. From that report I determined that the present value of the tax-deferred loss from ownership of income trusts within tax-deferred plans is $98 for every $1,000 invested within income trusts. The loss occurs because you have to compare investing in income trusts in tax-deferred plans with investing in corporations in tax-deferred plans. Clearly there was a tax advantage, because the income trusts in the tax-deferred plans didn't have their business taxes collected; corporations in tax-deferred plans did.

When you take the present value of all of the aspects of the tax-deferred plan and do the proper questioning and comparison, there is in my mind an indisputable tax-deferred loss. As for the $500 million estimate, or whatever number this committee seizes on as the right one—I'm prepared to accept the Department of Finance and its expertise—the actual total loss, bringing into account the tax-deferred accounts, would in my opinion be substantially more than $500 million.

I want to turn now to the related issue noted by the various experts, including Kevin Dancey of the CICA and Dirk Lever of RBC Dominion. It has been said that there is double taxation in the ownership of income trusts, post-2011 and currently for corporations, because corporations owned within income trusts do not have the preferential tax treatment of the dividends.

It is categorically incorrect to say that within the RRSP plan and pension funds there is net double taxation, because of the structural benefits within the RRSP and the pension funds themselves.

When you calculate the investment value of corporations owned within RRSPs, you will find that the net present value and the future value of corporations owned in RRSPs will be more than that of corporations owned outside of RRSPs, and that's because, with the benefit of the upfront tax deduction, if you put $1,000 in you're going to get approximately $380 of tax savings to put to work. In addition, you have your investment income earning on a tax-deferred base and accumulating on a compounded basis over a very long period of time.

Now I'd like to turn to another matter that was of significance, which the income trust industry and others have indicated as the reason we have to reverse the income trust tax plan, and that is the reason we have to reverse the income tax plan, and that is the U.S. master limited partnerships.

The U.S. master limited partnerships are for the most part taxed identically to the Canadian income trusts following the income trust tax plan. Americans who invest in master limited partnerships in taxable accounts pay full personal taxes. Most notable, in the tax-deferred plan in the United States within master limited partnerships, individuals who own these within their IRAs must pay a special shareholder tax that is equivalent to the business taxes that would otherwise have been paid, and the purpose of that tax is to make sure that master limited partnerships within IRAs do not have an unfair tax advantage relative to corporations.

● (1220)

In conclusion, the master limited partnerships are not giving American retirees opportunities that Canadian retirees are allegedly going to be denied post-plan. More importantly, it is incorrect to argue that the master limited partnerships, because of their competitive advantages, are going to buy out the Canadian oil and gas industry. It is the reverse. The current Canadian income trust situation, with the Americans being able to buy them through such a strong incentive, is why the majority of our Canadian energy trusts are owned by Americans.

The Chair: Madam, I'm sorry, your five minutes has passed. Thank you very much.

Mr. Don Francis is with us. Mr. Francis, it's over to you, sir.

Mr. Don Francis (As an Individual): Thank you.

I'd love to debate that, but I'll give my presentation.

I'm a 63-year-old retired scientist and small businessman. We lost $70,000 on November 1. We had $7,000 less income this year. Even worse, double taxation at lower yields will plunge our retirement income from $60,000 to $30,000 a year. Like millions of Canadians caught in this mess, we'll not be spending our golden years in the lap of luxury.

Tax policy decisions must be based on numbers, not on lies or personal or political gain. I'm a numbers guy, and I decide using logic and verified facts. Given new information, I'm open to changing my mind.

I'm upset by the lack of logic and honesty that the Tories and the NDP have displayed on this issue. We all know the Tory objective is to double-tax income trust distributions in retirement accounts in order to kill income trusts. Their justification is contrived and wrong.

Is there tax leakage? There is none. Is there reduced productivity and competitiveness? No. If other business structures can't compete, boo hoo. Is there unfair tax collection from citizens? No way. Is trust accounting worse than corporate accounting? No way. Do these answers logically justify this proposal? No. Are those even the right questions? No.

The right question that you should be debating is this: does killing income trusts benefit Canada? The clear answer is no.

Why this proposal, and who benefits? That answer is easy. It's thoughtless, unethical, power-seeking politicians and those who serve as the messengers, the fat cats. You know where I'm going. It's corporate executives at the top of the greed chain, the uber-rich and their private equity, those with fat defined benefit pensions, including politicized bureaucrats, and, of course, the self-promoters who we've heard far too much from already.

Who loses? It's the 70% of Canadians responsible for their own retirement, those with thinly defined benefit pensions and small businesses, the source of most Canadian jobs and productivity. Ultimately 95% of us will lose, as our wealth continues its shift to the uber-rich and to the south.

A wrong decision here mimics the Avro Arrow fiasco, which threw away an innovative Canadian product. Facts were deliberately destroyed, along with that superb machine. Political lies don't stand the test of time. Politicians again satisfied a greedy military industrial complex through the death of a strong Canadian aerospace industry. The Arrow died. Was it good for Canada? Hardly.

Canada has evolved an innovative business structure that democratizes our capital markets and helps citizens like me ensure their own retirement. I have seen no facts that show a need to kill income trusts. I see private equity already picking at the meat of our income trust bones.

To Jack Layton and Judy, my family helped found the CCF and supported the NDP for 67 years.

Judy, we met on January 29, and you'd shown me some courtesy and quit playing with your BlackBerry. You agreed to convince me of the logic of the current NDP position. I received nothing, nothing but babble about bank machines, and Ponzi schemes, and little Miss Urquhart all in a row.

Judy, Canadians think for themselves. You should try it. The NDP needs to rethink its position. This proposal targets hard-working Canadians for the benefit of all those fat cats. This is as clear a case of those fat cats eating the mice as this country has ever seen. Tommy Douglas is spinning in his grave to see NDPers like you acting like fat cats.

Don't listen to Manulife's Dominic D'Alessandro. His $75 million in stock and options gained $3.5 million on November 1. He'd personally pay millions more in taxes if Manulife was a trust. Mr. D is no mouse. He's about as concerned about Canadians as I am concerned about how he's going to manage to live on his obscene retirement pile.

Jack and Judy, are you worried about corporate accountability? I am too. I support a full public inquiry into this smelly proposal and into accounting, or I fully support grandfathering all existing trusts, without growth constraints, until the issue is honestly and fully studied.

Judy, you're running up the hill against the principles our party was based on. Get out of bed with the mouthpiece and give us back our party. The NDP does not have a choice.

Jack Layton, tear down the bill or the NDP will come tumbling down.

Thank you.

● (1225)

The Chair: Thank you, sir.

We continue with Jim Kinnear of Pengrowth Corporation. Welcome, sir.

Mr. Jim Kinnear (President and Chief Executive Officer, Pengrowth Corporation): Thank you, Mr. Chairman.

Indeed, I'm the chair of Pengrowth Energy Trust and, as many of you know, one of the founders of this whole energy trust sector some 18 years ago. We're here this morning to explain why we believe the energy trusts are different.

Mr. Chairman, the energy royalty trust is fundamentally different from REITs and from existing businesses that may have restructured themselves as income trusts, perhaps to obtain premium market valuations. The differences include a long history, the substantial ongoing capital requirements of the sector, and an active business model that is of strategic importance to all Canadians, including significant new capital fundraising within the sector. It has promoted growth, efficiency, innovation, productivity, and minimal environmental impact.

In fact, the royalty trust industry in Canada has become a pivotal part of the Canadian oil and gas industry over the past two decades. Our business model was only undertaken after careful consultations with the Department of Finance, supported by a series of tax rulings that have provided the discipline and framework for our industry over the past 20 years.

Mr. Chairman, energy royalty trusts are highly efficient facilitators of the movement of capital within the oil and gas industry, enhancing productivity and the ultimate recovery of our mature fields. We reward the exploration success of our junior oil and gas companies—as a matter of fact, we've even spawned new exploration companies—and have acquired mature assets from the majors and super-majors. That has freed up capital for other large infrastructure projects, such as the oil sands and the Mackenzie Valley Pipeline, among others.

Trusts are in the forefront of CO2 injection and other technologies that will not only increase the recovery and productivity, but also minimize the environmental impact of the energy industry and the substantial capital requirements for Canada's mature oil and gas industry, including the pipeline and the oil sands, going forward.

The vast amount of capital required for the development of our oil and gas industry is generally not available in the Canadian marketplace, and we must compete for that capital in the U.S. and elsewhere. Capital will seek the highest return at the lowest risk. It doesn't have to come to Canada.

The playing field will not be levelled by the government's proposals. The information that has been presented to this committee is clear, conclusive, and compelling. There is no tax leakage associated with energy royalty trusts compared with traditional Canadian oil and gas companies. Royalty trust unitholders will pay approximately $1.8 billion in current income and withholding taxes on $8 billion of cash distributions in 2006, generating more than 30% of the tax revenue collected from Canadian public oil and gas entities while representing only 16% of the revenue. Indeed, we estimate that the government will lose approximately $1 billion a year in tax revenues if energy royalty trusts are forced to convert back to a corporate structure.

Why is this? The application of a 31.5% tax at the trust level in four years, with no deductions available, is inconsistent with the taxation of oil and gas corporations that are based on net earnings. They have significant deductions, and we all know they pay very low levels of cash taxes. Combined federal and provincial taxes on corporations last year were at 32.1%; the net effective marginal tax rate in the oil and gas industry is only 6.7%. Now, the companies can declare dividends, but as you know, in the oil and gas industry they do not pay significant amounts of dividends.

Taxes imposed upon energy royalty trust distributions are based on cashflow, and cashflow is approximately twice the level of earnings. Distributions are now about 80% of cashflow, relative to a very low level of payout of earnings as corporations.

So cash taxes for the major independents in Canada average about 5% of EBITDA, compared with 18% for the trust industry, and substantially more taxes are paid on a proportionate basis by investors in the royalty trust industry.

We talked earlier about the MLP example in the United States. In 1986 and 1987, considerable review was conducted by the House of Representatives and the Senate in the United States. They found that they exempted REITs and energy trusts, and they exempted energy royalty vehicles because of the security of supply issue and because they were an established vehicle for raising capital in a capital-intensive business. Mr. Chairman, I would submit the same applies here in Canada. Energy-related vehicles were exempted and allowed to pass through income.

We believe there's a clear and compelling case for grandfathering Canadian energy royalty trusts, and we encourage you to make that recommendation to the government.

● (1230)

I hope my presentation today opens the door to work together on this very important issue. Thanks for your attention. I look forward to any questions the committee might have.

Thank you.

The Chair: Thank you, Mr. Kinnear.

We will continue with the C.D. Howe Institute representative, Finn Poschmann.

Welcome, Mr. Poschmann, over to you.

Mr. Finn Poschmann (Director of Research, C.D. Howe Institute): Thank you, Mr. Chairman. Thanks to the committee for inviting me back. It is always a pleasure to be here.

Today's topic is a fraught one, so it is important, as always, to mention that although I am working in my capacity as research director of the C.D. Howe Institute, I am speaking for myself and not necessarily the institute or its board of directors or its members, many of whom may have quite different views on income trusts.

The trust issue is a fraud. It is a little problem that grew. It was a problem that was flagged in the report of the Technical Committee on Business Taxation, a committee that reported nine years ago, having been struck by a previous finance minister and chaired by Jack Mintz.

The issue, as everyone knows, is that investors, especially tax-exempt such as pension funds and individuals through other RRSP holdings and non-resident investors, are attracted to income trusts because of their ability to use debt, or leverage, to eliminate Canadian income tax liability at the corporate level.

The technical committee highlighted potential problems with the growth of trusts and partnerships model and went on to discuss solutions employed elsewhere. The technical committee's central recommendation was a neutral tax policy toward corporate capital structures, as would be possible through a corporate distributions tax, not very different with respect to trusts from the mechanism put forward recently by the current government.

Clearly the government's decision was ultimately the right one, if late in coming and not revamping the system as much as circumstances might warrant, but it was generally the right choice. Here is why.

The impetus to choose a particular capital structure is a market distortion, and that means costs as well as benefits. Some benefits accrue to income trust unitholders, especially non-residents and tax exempts whose investments are exposed to less corporate income tax than others. The costs, however, are more diffuse and arise from the constraints the trust model imposes on a business of capital structure.

An income trust cannot grow organically through retained earnings; it can only grow by going back to capital markets, reissuing new trust units, or by borrowing. These are legitimate options, and trusts use them. However, those options are also costly. They have constraints such as that issue in new units is diluted to existing holders. Issuing new debt is costly because it raises the business's total carrying costs by raising total risk, and that also limits payouts to all unitholders. Again, those are costs that may have offsetting benefits, but do they?

For instance, do income trusts have special governance features that make them more responsive to unitholders' interests? No. Unlike common shareholders, unitholders' rights are defined only within a trust indenture, which may be written by the trustees themselves and exist entirely outside the corporate law framework.

Do income trusts, which are generally thought to be bound to a fixed stream of distributions to unitholders, do a better job of holding managers to account for financial performance? No. The board of directors of a common-share corporation could just as easily instruct management to implement a fixed, high-dividend payout policy or to leverage the business to ensure management did not overbuild in its own interests. The trust model is unnecessary for exerting that sort of management discipline.

Do income trusts bring special characteristics to capital markets, so the overall market performs better? Now, that is interesting. Real estate investment trusts, for example, make it possible for retail investors to round out their portfolios with diversified investments in commercial real estate that would not otherwise be available to them. The trust, of course, or the business benefits from its ability to attract retail investors who would not otherwise be investing in those companies.

When it comes to ordinary business income trusts, matters are different. The risks and assets they bring to the retail marketplace are no different from those available through ordinary corporate structures. Their governance does not offer an improvement over corporations. The constraints imposed by required distributions do not improve management performance in any way that could not be generated or achieved in a common-share corporation. Yet, as I explained, the trust model imposes constraints on capital structure.

The constraints imply clear costs but do not deliver clear benefits. That is why, on balance, a neutral tax policy with respect to corporate form is the right policy. The reason is that there is nothing special about trusts that would warrant tax favouritism. As I've suggested and written elsewhere, more business tax policy changes are warranted. For example, upstream taxes paid on distributions to pensions and RRSPs should be refunded to unitholders and shareholders, so that pensioners do not end up bearing more than their fair share of corporate tax. That would be an extension of current policy, not a reversal of it.

Thank you.

● (1235)

The Chair: Thank you, sir.

Thank you all for your presentations.

We will now move to questions. Due to the constraints of time, we will do four-minute rounds.

We will begin with Mr. Thibault.

Hon. Robert Thibault: *Merci, monsieur le président.*

Thank you all for coming.

I'd like to start with Mr. Marshall. Mr. Marshall, did you receive investment advice prior to making the decision to go into income trusts?

Mr. Dave Marshall: No, sir.

Hon. Robert Thibault: You didn't work with a broker?

Mr. Dave Marshall: No, sir.

● (1240)

Hon. Robert Thibault: Did you increase your position in income trusts after the promise of the Prime Minister?

Mr. Dave Marshall: No, I didn't.

Hon. Robert Thibault: You didn't at that time.

When you heard the Prime Minister's commitment, did you believe that he would maintain his commitment and not tax income trusts?

Mr. Dave Marshall: I certainly did.

Hon. Robert Thibault: Do you trust the Minister of Finance and the Prime Minister to manage the economy on which you depend now for your revenues and your income?

Mr. Dave Marshall: No, as a matter of fact, I think they'll probably start to say that income trusts are the cause of greenhouse gases. That'll be the next excuse.

Hon. Robert Thibault: Based on the information that's been given to date on the movement on income trusts, and on the actions of the Prime Minister and the Minister of Finance, do you foresee reduced revenues in income for you and your spouse?

Mr. Dave Marshall: Definitely, because they're going to allow 31.5%. Some of these income trusts that exist today may be reverting back to a corporation, maybe tomorrow or next month. This isn't something that is going to happen in four years' time; this is something that could happen right now. I suspect that between now and four years from now, it's going to be at least 30% of our income.

Hon. Robert Thibault: How much of that 31% of your income will you be recovering from the income splitting allowed for you and your wife?

Mr. Dave Marshall: I didn't figure that out really, but we're not going to be getting the tax credit because a lot of our investments are in RIFs and RRSPs. We do have some in the non-sheltered one, but in our sheltered ones there's a fair amount, and we're going to be losing there.

As far as the splitting is concerned, probably there will be some, but I can't really think it would be that much, not in comparison to the losses we're sustaining right now.

Hon. Robert Thibault: Do you have any idea? Will it be a 20% net loss at the end of the day? Is that what you're having to plan with?

Mr. Dave Marshall: Yes, it could be in that area.

Hon. Robert Thibault: Mr. Francis, I would ask you the same questions. Did you increase your participation in income trusts after the promise of the Prime Minister?

Mr. Don Francis: No, I didn't, actually. I'm a well-diversified investor. I thought for about 30 seconds that, gee, that's a good promise. Then I thought, no, I don't trust this guy, and I actually went the other way. Even still, I did lose significantly.

Hon. Robert Thibault: We heard from two witnesses this morning who thought about their losses in the investments and their family's losses. I've been advised by them that they did trust and did increase their participation, as did a number of Canadians. If you listen to the witnesses we've heard, there's some very good information that income trusts are not necessarily the vehicle for all business activities, but that they do go very well in certain sectors. The Governor of the Bank of Canada responded that we hear of energy trusts and we hear of REITs that are good for that sector.

Mr. Kinnear, one of the things that people do point out—and we heard some of that this morning—is that there are concerns with some of the organizations or corporations that had gone into trusts as to the accounting, as to the auditing, as to the reporting procedures, and that there had been very drastic actions taken on the income trust sector with $30 billion lost to Canadians, taken out of their retirement income, out of their savings. Could you explain to me the magnitude of the changes in reporting accounting, or were there any?

The Chair: No, Mr. Thibault, you're done. Thank you.

[*Translation*]

We now continue with Mr. Paquette.

You have four minutes, sir.

Mr. Pierre Paquette: My question is for Mr. Kinnear.

You heard what Ms. Urquhart had to say. In her opinion, most, if not all, income trusts distribute more revenue than performance funds, without investing in business maintenance and development. Occasionally, they even borrow money to ensure higher returns.

With respect to the energy royalty trust industry, you say that, as with all trusts, distributions will be based on cash flow, and that cash flow is approximately twice the level of net earnings.

Can you explain to me why energy or royalty trusts do not pose a threat to productivity and growth?

● (1245)

Mr. Jim Kinnear: The industry has grown considerably in the past several years. Unit funds have been invested in the market, allowing the industry to expand and to buy and develop new properties. A prudent approach has been taken and it's important to maintain a careful balance for industry investors. There have been major developments in mature properties. These developments have been fairly prudent, but nevertheless more extensive that those of other companies that have invested in these properties.

This year, we purchased a property called Carson Creek from Exxon Mobile. We are doing some seismic exploration with a view to drilling a well on this property in the very near future. Investment in the growing energy sector is encouraged.

Mr. Pierre Paquette: Mr. Poschmann, you say that you agree with the government's decision. When the Governor of the Bank of Canada, Mr. Dodge, testified before the committee, he had this to say:

> [...] 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.

In your opinion, overall, do income trusts pose a problem in terms of economic productivity, or can they indeed be somewhat relevant in certain sectors? Mr. Kinnear mentioned the development of mature deposits

[*English*]

The Chair: Thank you.

I would encourage committee members to take note of the fact that they must leave time for the witnesses to respond to their questions.

Mr. Dykstra.

Mr. Rick Dykstra (St. Catharines, CPC): I appreciate that heads-up. It means a lot.

To Mr. Poschmann, and perhaps through to the finance folks who are here with us today, one of the things we've heard over the last number of hours of discussion and debate on this issue is that the department loosely, or maybe on purpose, forgot to mention RRSPs or capital gains as income in this whole mix.

Is that a fair point? Is that a fair assessment?

Mr. Finn Poschmann: I wouldn't want to answer on behalf of the department, but I think it's fairly reasonable to assume that some folks on staff understand how RRSPs work.

Now, the key point to make is that this committee has been repeatedly told that various estimates have not taken into account the downstream taxes paid on withdrawals for RRSPs. That's simply nonsense on stilts. The committee is being misled on that score.

The money flowing into RRSPs is deductible in the first place. If you do a present-value calculation, you have to allow for both. If you don't do that, then you're simply wrong.

So as I said, it's simply nonsensical to not allow for the fact that the income flowing is deductible in the first place when you talk about the taxes paid on downstream income.

Mr. Rick Dykstra: If one of the ministry guys wants to respond, perhaps it could be quick. I don't have much time.

Mr. Denis Normand: I don't have much more to say beyond what Mr. Poschmann said.

As indicated before, we take in our estimates—we're doing budgetary estimates. When you're looking at a full life cycle, you have to do the kind of calculation that Finn Poschmann raised.

The other aspect you have to assume is that tax exempts are holding the shares when there's a conversion, because that's normally when there's a bump in value of the business.

● (1250)

Mr. Rick Dykstra: Thank you.

One thing you mentioned right at the beginning of your presentation, Mr. Poschmann, was that nine years ago this was brought forward by the former finance minister. It was noted as an issue that needed to be raised. What was done at that time, from your perspective?

Mr. Finn Poschmann: With respect to the taxation of income trusts, very little specifically. There was a change in the thin cap rules later on that would have been helpful if they were extended to trusts and partnerships, as the committee recommended, but there was nothing directly on that score.

Mr. Rick Dykstra: Ms. Urquhart, one thing you stated in your last presentation was that when you borrow money to pay an investment return above earnings, it is commonly referred to as a "plansi" scheme. Would you expand on that?

Mrs. Dianne Urquhart: I think I meant Ponzi. If I said "plansi"—maybe that's an interpretation problem.

Mr. Rick Dykstra: If you could clarify that, it would be great.

Mrs. Dianne Urquhart: A Ponzi scheme, as we traditionally know it, is usually conducted by a rogue person who goes to the public and says he can pay you 12%, so you'll invest your $50,000, and then he'll go out and find other investors. He doesn't have the means to produce the 12% himself. Perhaps he has it in the bank at 4%. He'll get the extra 8% by collecting it from a new investor and paying it out to you.

It is our view that a substantial proportion of the business income trusts, and to a degree the energy trusts as well, have such a scheme. The only difference is that it has been orchestrated by the investment banks and the industry executives in a more reputable way.

The Chair: Thank you.

Madam Wasylycia-Leis now.

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

There is a lot to say.

First, let me respond quickly to Don Francis, to say that I don't think it really matters who is related to Tommy Douglas. It certainly doesn't matter to me. I'm trying to do my job and speak up for Canadians everywhere, especially hard-working Canadians who want us to make the best decision in terms of good public policy. Tommy Douglas was a guy who ran balanced budgets for 17 years. He would have been the first to see this huge loss of revenue. Just like those following him, Gary Doer and Lorne Calvert, are doing today, he would have spoken in favour of the government's final decision and dealing with this runaway corporate gravy train, not in support of a flip-flop and a broken promise.

I want you to know, Don, that I haven't changed my mind. I've studied the issues. I don't think any critique will make you happy. We have the experts here, and that is what we have to rely on. We have good people like Dianne Urquhart. We have the C.D. Howe Institute. We have financial officials. We have every single premier and finance minister in this country, from all parties.

What I'd like to do is focus on two things. One is Dianne Urquhart's position around dealing with the question of deferred taxes and the impact on tax leakage. We need further clarification, because it keeps coming up.

Second, Mr. Poschmann, I appreciate what you said. I want to ask you this, because we'll deal with this later as we try to develop a report. It seems to me that an income tax credit, which is something that Mr. Mintz has favoured, is not helpful. It will cost a huge amount of money, probably $2.6 billion. I'm wondering if in fact this is a serious position on the part of C.D. Howe.

Perhaps Dianne, and then Mr. Poschmann.

Mrs. Dianne Urquhart: The proposed tax credit attempts to pay back the corporate business taxes to the people who own the corporations in their RRSPs. It's attempting to have both corporations and business tax, not withholding taxes in the form of business taxes. In my opinion, we're essentially reversing where we are on the income trust tax plan. It's also contrary to the treatment of master limited partnerships in the United States. They go the opposite way. When master limited partnerships are owned in an IRA, the shareholder has to pay a tax in order that they are not unfairly advantaged relative to the corporation. So I don't support the tax credit proposed.

If anything were done at all, it would be done the other way. It would be to find some way of record keeping for the dividends and the post-2011 distributions and give it the preferential tax treatment. That way there is less leakage to the government and it would achieve the same end. That's a policy decision.

● (1255)

Ms. Judy Wasylycia-Leis: Mr. Poschmann.

Mr. Finn Poschmann: The simple point is that in taxable accounts the dividend tax credit mechanism, as it exists, achieves good integration between corporate and personal taxes. It is imperfectly achieved within the tax-exempts, where common shares are not entitled to the gross-up and tax credit mechanism. Redressing that, as we talked about, is a way of being more neutral with respect to the treatment of holdings within pension funds. Yes, it would cost a certain amount of money. The way, however, to fund that over time is to ensure that the credit paid out lines up with the tax collected by the upstream corporation.

The Chair: Thank you very much, madam.

We move now to the unfortunate lightning rounds that we have to use to give every member possible a chance to have an exchange with you. We'll move to two-minute rounds.

Mr. McKay.

Hon. John McKay: I didn't think I'd ever sit in a committee where the NDP complimented the C.D. Howe Institute.

Some hon. members: Oh, oh!

The Chair: Duly noted.

Hon. John McKay: These are strange bedfellows.

Mr. Francis was referencing a document that has been all blanked out. I want to ask the Finance officials directly, yes or no, will you provide that document to the committee? Bear in mind the injunction of our chair that it's a very short answer, yes or no.

Mr. Brian Ernewein: Mr. Chairman, I believe the question was answered previously with the letter from the deputy minister to the chair of—

Hon. John McKay: This is taking time.

Mr. Brian Ernewein: I'm verifying the date, February 6. I'm saying that advice to this government or the previous governments was not something that we're proposing to—

Hon. John McKay: I take it that's a no.

Mr. Kinnear, your industry and maybe even your business itself have been described this morning as nothing more than a glorified Ponzi scheme. Could you respond to that?

Mr. Jim Kinnear: Thank you.

Mr. Chair, the business that we have is based on sound fundamental principles. We invest in high-quality oil and gas fields in western Canada and also off the east coast of Canada. Our fund has been in business for over 18 years. As I mentioned earlier, we've consistently operated with the tax rulings from CRA with respect to the operation of this fund. It's been prudently financed. We receive cashflow from those properties on a monthly basis. We both pay distributions to our unitholders, cash distributions on a monthly basis, and we reinvest in property development in the sector.

The interesting thing there is that a number of the major companies now, instead of reinvesting—and there are huge amounts of capital required for our business going forward—are buying back shares. A number of the major multinationals are buying back their securities, whereas we are both making distributions to our unitholders and also making prudent capital investments. We're a world leader in Alberta in CO2 pilot-scale plants. We had one in Swan Hills last year, 22% owned. We had one this year at Judy Creek. We're very active in coalbed methane, new technology to acquire additional amounts of natural gas. We're a leader in enhanced oil recovery in our Judy Creek operations—

The Chair: I'm sorry to cut you off, Mr. Kinnear, but I must.

Thank you, sir.

Monsieur St-Cyr.

[*Translation*]

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

I have a question for Mr. Poschmann. The government has decided to tax income trusts, but the issue of real estate investment trusts has yet to be settled, in my view. Why would real estate investment trusts be tax exempt? If we believe on principle that the corporate structure should not be influenced by taxation, why shouldn't real estate investment trusts be taxed? Since you support the government's position, what is the rationale for this decision?

[*English*]

Mr. Finn Poschmann: *Merci, monsieur.*

Merci, monsieur le président.

The simple answer is that the REIT is a little bit different in the sense that it's a passive investment vehicle. It simply did not come into existence in the same way as the modern business trust, or energy trust for that matter.

[*Translation*]

Mr. Thierry St-Cyr: I understand, but if they had been taxed much like other income trusts, what impact would this decision have had on their industry?

● (1300)

[*English*]

Mr. Finn Poschmann: I would have to respond outside the committee framework on that. Thank you.

[*Translation*]

Mr. Thierry St-Cyr: I see.

Perhaps Finance Department officials can enlighten me on this matter. Why do the government's proposals not apply to real estate investment trusts?

[*English*]

Mr. Brian Ernewein: I believe the considerations mentioned by Mr. Poschmann are relevant. It has also been noted that real estate investment trusts have largely obtained recognition internationally. The government of the day made changes explicitly for the purpose of facilitating real estate investment trusts in 1994, I believe. Together with the international norm that seemed to be developing and entrenching itself, that led to the decision to not apply the proposals to that sector.

The Chair: We will conclude with Mr. Wallace.

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

Mr. Poschmann, one of the reasons these meetings were convened was to talk about the extension of a tax holiday from four years to ten years. I didn't hear anything in your remarks about whether this committee should consider such an extension. Do you have any opinion on this?

Mr. Finn Poschmann: The honeymoon period, if that's the right phrase, is very much an exercise in line drawing and judgment. I don't think there's any way around that. The four-year period is a reasonable adjustment frame for corporations or affected trusts to rearrange their affairs. To let it drag on would let the problem fester unnecessarily.

If you think about the old capital allowance rules where you only got to claim 50% appreciation in the first year an asset was acquired, why not 49% or 51%? As I said, it's an exercise in line drawing and not everyone's going to be happy with it.

Mr. Mike Wallace: I appreciate that.

We've heard from 28 delegations, not including government members but including the finance minister. The vast majority, based on the circles I've made, have been in favour of the decision that has been made. Some who have come before us have been directly affected as either sellers or owners of income trusts.

Mr. Poschmann, should I be listening to Mr. D'Alessandro, the executive officer for Manulife; David Dodge from the Bank of Canada; Jeffrey Olin from Desjardins Securities; Kevin Hibbert from Standard & Poor's; or Kevin Dancey from the Canadian Institute of Chartered Accountants? We've heard from the National Pensioners and Senior Citizens Federation, someone who studies at the University of Toronto, and at least 11 members of finance from across the country, to name a few. Ms. Urquhart has been here a couple of times.

Do you not think they are right?

The Chair: Thank you, Mr. Wallace.

I believe that was a rhetorical question, Mr. Poschmann.

On behalf of the committee, I sincerely thank you all for the time you've taken to be with us today.

We are recessing for a brief moment, and then we will engage in further discussion in camera.

[*Proceedings continue in camera*]

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