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## Standing Committee on Finance

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**Thursday, March 1, 2007**

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**Chair**

**Mr. Brian Pallister**

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## Standing Committee on Finance

Thursday, March 1, 2007

•(1105)

[English]

**The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)):** We will commence.

Welcome to our new members to committee. It's nice to see you again.

[Translation]

It's a very great pleasure for me to be back here.

[English]

Pursuant to the Order of Reference of Tuesday, January 30, 2007, we have before us Bill C-40.

[Translation]

An Act to amend the Excise Tax Act, the Excise Act, 2001 and the Air Travellers Security Charge Act and to make related amendments to other Acts.

[English]

We have appearing before us today, no stranger to this committee, Madame Diane Ablonczy, Parliamentary Secretary to the Minister of Finance.

I understand that you have some comments to make, Diane, so please proceed.

**Ms. Diane Ablonczy (Parliamentary Secretary to the Minister of Finance):** Thank you, Mr. Chairman.

This is my second time representing the minister in front of this committee. It's always a pleasure to wear another hat, so to speak.

The purpose of this meeting is to discuss Bill C-40, the Sales Tax Amendments Act, 2006. The intent of this bill, I'm sure you all know, is to implement measures aimed at increasing the fairness, efficiency, and ease of compliance in administration of the sales tax system. The Minister of Finance spoke in the House when he tabled this bill. He said:

Canada's New Government is committed to reducing taxes and eliminating red tape. We believe this will make our economy stronger and that it will give a competitive advantage for Canada.

The bill we're discussing today reflects that commitment. We want to make sure that our tax system is fair for all taxpayers, and with Bill C-40 we are moving in that direction. I will outline how we are doing that in a moment, but first I'd like to take a moment to make a few remarks about Canada's new government improving the fairness of Canada's tax system in general.

We believe that like charity, tax fairness begins at home. That's the approach we took in Budget 2006, a budget that delivers real results to individuals and families. It did so in a focused and fiscally responsible way. We started by lowering the GST to 6%. We also delivered broad-based personal income tax relief combined with targeted tax cuts, cuts that over two years will provide almost \$2 billion in tax relief for individual Canadians. That, of course, is more than the last four Canadian budgets combined.

These cuts, Mr. Chairman, will remove about 655,000 low-income Canadians from the tax rolls altogether. That is good news for over half a million Canadians and their families. As a result, Canadians will have even greater opportunity to keep more of their hard-earned dollars so they can invest in the things that matter most to them and their families.

In recognition of the Canadian entrepreneurial spirit, and the fact that it helps drive our economy, Budget 2006 also delivered on the government's promise to reduce business income taxes. This action will create an environment for jobs and growth, which in turn will make Canada's tax system more internationally competitive. But this new government has not and will not rest on those laurels. We recognize there is more work to be done.

In October, the finance minister announced a tax fairness plan for Canadians. The plan will restore balance and fairness to the federal tax system. It will protect Canada's long-term economic future and ensure that the tax burden is not unfairly shifted onto the backs of hard-working individuals and their families.

The plan increases the age credit amount, and for the first time ever in Canada, seniors will be able to split their pension income.

We didn't stop there, Mr. Chairman. Along with this fall's economic and fiscal update, the Minister of Finance, before this committee, released *Advantage Canada: Building a Strong Economy for Canadians*. This is a long-term, national economic plan designed to make Canada a true world economic leader.

Among other initiatives, this comprehensive plan will further improve tax fairness by featuring a reduction in taxes for all Canadians.

Getting to the substance of Bill C-40 before us, the bill complements the initiatives I've just outlined.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** Mr. Chair, a point of order.

I appreciate that the parliamentary secretary has a speech. When I was parliamentary secretary I too had speeches.

**The Chair:** I recall that.

**Hon. John McKay:** You will recollect as well, Mr. Chairman, that I generally didn't inflict my colleagues with the canned speech from the minister, and we went directly to business. I'm inviting all members to ask the honourable member to simply skip the speech and get to business.

• (1110)

**The Chair:** Actually, Mr. McKay, you don't have a point of order.

Madam Ablonczy, I would appreciate it if you would continue your remarks now, please.

**Ms. Diane Ablonczy:** Mr. Chairman, Bill C-40 complements the measures I've just outlined by increasing the fairness of the sales tax system. It increases fairness for many individuals with special needs, it increases fairness for charitable organizations, and it eases compliance for a wide range of businesses and other organizations.

Let me illustrate for the committee how Bill C-40 will help meet the government's goals of ensuring fairness in Canada's tax system.

The GST/HST measures contained in the first part of this bill are principally aimed at improving the operation of the GST/HST. These proposed measures will also ensure that the sales tax legislation is in accordance with the policy intent when the law pertaining to these measures was first introduced.

In some cases, adjustments have been made to the legislation as originally proposed in response to representation from tax and business communities. This illustrates the importance this new government attaches to the consultation process. Time, I'm sure the honourable member who just spoke will be glad to hear, does not permit me today to outline everything in this comprehensive bill.

**Some hon. members:** Hear, hear!

**Ms. Diane Ablonczy:** So what I would like to do now is touch on the key measures in this bill and then open the floor, of course, to questions and discussion.

First, there is little doubt that Canadians want to have an affordable health care system that is there for them when they need it. To this end, Bill C-40 proposes to continue GST/HST exemption for speech language pathology services indefinitely. It also exempts health-related services rendered in the practice of the profession of social work.

Mr. Chairman, this new government is also sensitive to the special needs of persons with disabilities. As you may know, the existing GST/HST rebate for specially equipped vehicles applies only to purchases and importations of new vehicles. The proposed amendment in Bill C-40 will allow purchasers and importers of used motor vehicles that are specially equipped for persons with disabilities to receive a rebate of the GST/HST paid on the portion of the purchase that is attributable to the special equipment.

Canada's new government recognizes the important contribution made by small businesses to our economy, and we want to provide them with an environment that will allow them to grow and prosper. Bill C-40 responds to these needs, introducing measures that will ease their compliance with the sales tax legislation. For example, the scope of certain rules has been expanded to remove unintended

impediments to the use of provisions that could exempt businesses from the GST/HST. This bill also proposes amendments to the legislation to better accommodate special import arrangements between businesses in certain situations where goods and services are supplied outside Canada to a Canadian customer. These amendments and others contained in Bill C-40 reflect policy initiatives to improve the application of the GST/HST. This will ease compliance requirements for Canadian businesses and allow them to flourish, Mr. Chairman.

Turning now to excise measures, the second part of Bill C-40 contains measures to implement minor refinements to the Excise Act, 2001, related to tobacco and alcohol. These proposals will improve the operation of the act and more accurately reflect current industry and administrative practices.

One such example is a proposed modification of the exemption of excise duty for small wine producers to take into account that smaller wine licensees may not have their own packaging facilities or equipment. The proposed amendments also permit wine that is packaged on behalf of a wine licensee to be covered by the duty exemption. This proposed amendment will simplify administration and compliance for small wine producers and allow them to concentrate their efforts on producing and promoting their excellent Canadian products.

As I mentioned, this bill also proposes amendments related to the taxation of tobacco products. Bill C-40 proposes to extend the requirements so that the origin of all tobacco products be identified, including those for sale at duty-free shops or for export. This ensures consistency with the Framework Convention on Tobacco Control, an international treaty on tobacco control sponsored by the World Health Organization.

Of course, committee members probably do not need to be reminded that this bill comes about as a result of extensive consultation with the alcohol and tobacco industries. The proposals in this bill are therefore expected to be received favourably by industry.

• (1115)

Part 3 of the bill contains measures pertaining to the air travellers security charge. The charge, as members know, was implemented following the events of September 11, 2001. Among other technical measures, Bill C-40 proposes that the charge not apply to air travel that is donated by an air carrier to a registered charity that arranges free flights for individuals as part of carrying out its charitable purposes. This would include, for example, flights made for medical purposes.

In closing, Mr. Chairman, the amendments proposed in Bill C-40 are intended to maintain a fair and efficient sales tax system. For businesses, this bill also promotes ease of compliance and administration. Moreover, the business community supports the introduction of this bill as it represents improvements to the administration and efficiency of the tax system.

I now welcome the questions that are burning in the minds of my colleagues on this committee and welcome the officials from the Department of Finance who have joined us here today to clarify any technical questions you may have about the bill.

Thank you very much, Mr. Chairman.

**The Chair:** Thank you, Madam Ablonczy, for your presentation, a fine one at that.

We move now to questions, and we'll begin with Mr. Pacetti for six minutes.

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** Thank you. "A fine one at that"—I'm not sure where you get that from, but anyway, I have just a quick question.

In January 2007, we had "Legislative Proposal", "Draft Regulation" and "Explanatory Notes" relating to the excise tax. I'm wondering, what is this compared to Bill C-40? What is this document here versus Bill C-40?

**Mr. Pierre Mercille (Chief, GST Legislation, Sales Tax Division, Tax Policy Branch, Department of Finance):** The proposals of January 2007 are proposals that were announced after the bill was tabled. The proposals in January are aimed mainly at financial institutions—

**Mr. Massimo Pacetti:** Sorry?

**Mr. Pierre Mercille:** They are mainly aimed at the financial sector industry, so these amendments are not included in this bill because they were finalized at a later time than this bill was put together.

**Mr. Massimo Pacetti:** Okay, so the January proposed amendments will come forward in a couple of months. Is that it? Through another bill?

**Mr. Pierre Mercille:** Usually, the process for announcing GST amendments is to have a news release, like the one you have, and to announce a proposed amendment, and usually we let some time—

**Mr. Massimo Pacetti:** No, I understand. How much time are we looking at? Is it six months or...?

**Mr. Pierre Mercille:** I'm not in a position to answer that.

**Ms. Diane Ablonczy:** I think, Mr. Pacetti, the consultation process is usually at least six months. These are posted on the website. Stakeholders can give input, and then the legislation is drafted pursuant to the consultation.

**Mr. Massimo Pacetti:** Okay. It's just to find out the timeline. Thank you.

Thank you, Mr. Chairman.

**The Chair:** Mr. Paquette, you may continue for six minutes.

[*Translation*]

**Mr. Pierre Paquette (Joliette, BQ):** Mention was made of social workers. I would image that psychologists are exempted from having to pay the GST. I have to admit that I'm not very familiar with one-on-one consultations with social workers. In Quebec, social workers usually work with groups, not individuals. It must be rare for a person to seek treatment from a social worker. I'm curious to know more about this situation.

**Mr. Pierre Mercille:** The amendment was sought by the Canadian Association of Social Workers. More and more social workers are in private practice. It's a matter of dealing with this new reality. In many instances, social workers dispense services that are very similar to those dispensed by psychologists.

**Mr. Pierre Paquette:** The members of the College of Psychologists will be none too pleased. Have they been consulted?

**Mr. Pierre Mercille:** No. They are already GST exempt.

**Mr. Pierre Paquette:** Elsewhere, I'm very interested in the subject of industrial hemp. Until very recently, tobacco was grown in the Lanaudière region. Tobacco fields could be turned over to industrial hemp crops. Pilot projects are currently under way. As mentioned in the briefing materials, industrial hemp has many uses. In fact, 99.99% of the plant can be used.

The use of industrial hemp for agricultural purposes is discussed at length in the briefing materials that we received, notably its use as pet food or feed for wild birds. I'd like to know if the proposed amendments will apply to all forms of tax relief on supplies and importations of grain, seeds or mature hemp stalks, even ones intended for industrial use. For example, door mouldings can now be manufactured from industrial hemp.

Under the circumstances, will seeds, mature stalks and importations of grain qualify for the proposed tax relief?

• (1120)

**Mr. Pierre Mercille:** Changes were announced primarily in light of the high number of zero-rated agricultural inputs. Thus, farmers won't have to pay GST immediately and then recover the tax later through the input tax credit mechanism.

Farmers consider certain products to be inputs and we were asked if these products could be zero rated much like other agricultural inputs are exempt.

**Mr. Pierre Paquette:** Will these amendments apply to industrial hemp that could be used to make paper, for example? Since the forestry industry in Quebec is in the midst of a serious crisis, this product could be used to manufacture papermaking pulp.

**Mr. Pierre Mercille:** The grain in this instance is clearly for growing hemp. To my knowledge, no conditions have been placed either on the buyer or on how the product will ultimately be used. Often, the person selling the product has no idea of how the product will be used.

**Mr. Pierre Paquette:** That's what I wanted to know. Thank you.

The Air Travellers Security Charge is being lowered. Exactly what change is being proposed here? Wouldn't it simply have been better to eliminate the charge, as we have been requesting since it was first introduced?

[English]

**Ms. Diane Ablonczy:** As a matter of policy, of course, both the former government and the present government recognize that increased security is a sad reality of modern life. I don't think there is any intention that it would be a good move to totally eliminate the air security charge.

[Translation]

**Mr. Pierre Paquette:** I have nothing further.

[English]

**The Chair:** Merci, Monsieur.

We continue now with Mr. Dykstra.

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

I certainly want to compliment Ms. Ablonczy on her presentation. Although some in the room wanted to cut it short, I certainly enjoyed all of it, and I appreciate the double duty that you're doing on behalf of the committee this morning.

One of the things you mentioned was the aspect of how this addresses persons with disabilities and the benefits it brings. Could you expand on that a little bit in terms of how it's important to make sure that's in the bill this time?

**Ms. Diane Ablonczy:** As the committee heard in our pre-budget consultations, families with children with disabilities and individuals with disabilities face a number of economic challenges as a result. What this bill does is move towards addressing some of those economic challenges, so that people who need special equipment, for example, have a broader range of tax relief available to them. These are measures that have been asked for, for some time. I think most people applaud their being in the bill. On the purchase of equipment, especially vans and other specially equipped vehicles, the portion that is made necessary because of disability will now be exempted. These and other moves I think will help those kinds of individuals.

I don't know whether the officials have more specifics to comment on, but those are the main measures.

**Mr. Rick Dykstra:** That's good.

I did have a little bit more of a specific question. This bill will actually allow the revenue minister the authority to accept late-filed new housing rebate applications. Could you just expand on that, in terms of what that means?

**Mr. Pierre Mercille:** The new measure that is in there is to give discretion to the minister to accept late-filed new housing rebates for owner-built homes. Basically, in the case of owner-built homes, while the deadline is two years to file your claim, since the person is building their own, sometimes they occupy the house and they continue to improve the house, and at some point later in the period there could be sickness in the family or all sorts of things that could prevent them from meeting the two-year deadline. In the past there have been some remission orders that have been provided under the Financial Administration Act for situations of this type, and it was thought that it would be more appropriate if the Minister of National Revenue could use a discretion instead of going through the regulatory process of the remission orders.

•(1125)

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

My other question relates to the permit regarding wine licences and providing samples without payment of duty. Of course, I'm from down in the Niagara region, where we have probably the best of what we have in the country in terms of making wine and producing. This obviously hits home for me, and I'd love to hear how this is going to benefit the wine industry, for sure in Niagara but also across the country.

**Mr. Carlos Achadinha (Chief, Alcohol, Tobacco and Excise Legislation, Sales Tax Division, Tax Policy Branch, Department of Finance):** Under the previous excise framework, there was an administrative practice whereby samples were allowed to be provided to customers on a duty-free basis. The intent of this provision here is simply to carry that forward and provide an explicit legislative basis in the new excise framework.

**Mr. Rick Dykstra:** So really this is addressing the reduction in the excise tax on wine, which we passed in the 2006-07 budget.

**Mr. Carlos Achadinha:** It's more so just a matter of continuing a practice from previously. Part of what happened with the excise framework was that a new framework was announced for the application of excise duties to alcohol products, including wine. Under the old framework, it was an administrative practice that their samples were not subject to duty. This is a matter of just putting it in the legislation, making it explicitly clear legislatively that those samples will not be subject to duty.

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

Any time you guys want to come down to wine country, you're more than welcome.

**The Chair:** We move now to Mr. Christopherson.

**Mr. David Christopherson (Hamilton Centre, NDP):** Thank you very much, Chair.

Good morning, and thank you for your presentation.

It's our understanding that, for the most part, we don't have too controversial a bill here, that mostly it's housekeeping. It's introducing quite a number of changes, but they're small and hopefully positive, for the most part. At this point, we're not seeing this as anything to get ourselves all twisted up about. In fact, if everything holds up, this should be a fairly smooth process.

However, I do have a couple of questions. Obviously there's the concern we've raised around ATMs and the fees being charged to citizens. Any time we see something here, as we're noting, that gives to a bank a benefit that doesn't exist right now in some fashion, then we'd at least like a clarification.

Now, I think I understand exactly what's happening, but let me just briefly read what we have and then you can comment. I would quote to you, from the summary of the bill, the following:

Business Arrangements: provides transitional GST/HST relief on the initial asset transfer by a foreign bank that restructures its Canadian subsidiary into a Canadian branch;

Can somebody give that to me in ordinary language, please, so that I know exactly what's happening there?

**Mr. Pierre Mercille:** Sure.

There was a change to the Bank Act. Before, a foreign bank that wanted to operate in Canada had to incorporate a company, incorporate the bank, to operate as a full person, basically. Since the change to the Bank Act, foreign banks have been entitled to operate as a branch.

Basically, the legal person is still the foreign bank; they have only a branch in Canada. Before, they were not allowed to operate as a branch in Canada. Now they're allowed to. Maybe when they came to Canada the first time the bank could have chosen to operate as a branch and not necessarily as a subsidiary of the foreign bank. To do that now, what could have happened is that when transferring assets from....

Let's say they want to close the subsidiary and just operate as a branch. There would be a sale of assets. Usually when there's a sale of assets, there's GST applying. Under the GST we have rules that basically allow for a rollover of transactions when there's the sale of a business. But in this situation, where you receive representation, the existing rule would not apply in every case.

So basically we put in place a transitional measure. For a certain period of time, the foreign bank can use the new rollover provision to avoid payment of tax on the restructuring of their operations.

• (1130)

**Mr. David Christopherson:** I *think* I got that.

Is there any resulting impact at all on the domestic banks as a result of this? Are there any consequential changes that affect how they're governed as a result of this change?

**Mr. Pierre Mercille:** Not with this amendment. The rule is that the recipient has to be an authorized foreign bank under the Bank Act.

**Mr. David Christopherson:** Okay.

To the parliamentary secretary, I would assume that the Canadian domestics aren't raising any major concerns about this in terms of any unfair competitive advantage being given to foreign banks?

**Ms. Diane Ablonczy:** No, they're not. This is very simple. If a foreign bank wants to operate as a branch instead of a subsidiary, which they were forced to do before, it just doesn't trigger any tax consequences. So it's simply a fairness measure; it's not a competition measure.

**Mr. David Christopherson:** Right, and that was our sense, but I wanted to make sure of that.

But I do want to ask one question of the parliamentary secretary, and this is very much policy-related. We're going to all this trouble to make sure the banks are treated fairly, and yet we're still putting GST on books and other literacy things and a whole host of other issues. Can you give us a reason why, if you've taken the time to make sure that foreign banks are being treated fairly, you didn't take a little more time to make sure that other Canadians are being treated fairly?

**Ms. Diane Ablonczy:** The member will know this is an issue that comes up many times during the pre-budget consultation on an ongoing basis every year. Your party has been particularly vigorous on this issue. I'm assuming you will all continue to be so. You will

know that there are arguments both ways in the simplicity of the system, the consistency of the system, the fairness of the system, the difficulty of administering certain exceptions and not others. So those are all policy considerations that will continue to be debated. I know because you'll make sure they are.

**Mr. David Christopherson:** I appreciate that, but nonetheless, it needs to be noted that your government did take the time to make sure the banks are being treated fairly and there are those other issues and there's still no action on those, and they are elements of fairness. Some of those are personal hygiene issues and other matters that really should be cleaned up, and at some point the government should live up to its words when it talks about these things.

There was already a question on the air travellers security charge, but notes are indicating to us that there are concerns about the fees themselves and should they be there. You've addressed that, but Canada's taxes in this regard are higher than those of other countries. Is there some particular reason why it costs us more to provide air security for Canadians than other countries?

**Ms. Diane Ablonczy:** I don't know if the officials have anything to add, but it's a simple matter of size. We have the second largest country in the world. We have more airports than most countries. The infrastructure needs are much, much higher, so the costs are higher.

**Mr. David Christopherson:** It would be interesting, Chair, over the years to get the Auditor General's take on the money that was raised, how it was raised, what was done with it, and then how effective those systems have been.

The other thing I just wanted to ask, if I've got time, and I know I'm running out quickly, was on the Nova Scotia bill, the part for the changes to address Nova Scotia issues. It was passed in 2001.

Has Parliament introduced any changes prior to this? The time lag is what I'm looking at. It's over half a decade between when a province made a move and then there needs to be a reciprocal move on the federal side, but we're just doing it now. Was it introduced earlier and didn't get through, or does it normally take this long between provincial action and then reciprocal federal action?

**Mr. Pierre Mercille:** You're talking about the Nova Scotia new housing rebate?

• (1135)

**Mr. David Christopherson:** With the housing, yes.

**Mr. Pierre Mercille:** It's a little bit particular in this case, because the policy decision on the amount and who gets the Nova Scotia housing rebate is a provincial decision. When the province harmonized to the HST system, the legislation itself was in the federal act, so there are always a certain number of dealings between the provincial and the federal government.

These measures, I believe, have been amended. I think they were originally announced in 2001. I believe they were amended in 2002, to the person who could actually qualify.

We were not consulted on their announcement, and basically when they announce something, from taking it and putting it into legislation, sometimes there's further policy development to be done at a smaller level, but this still takes time. But this was put forward in 2002 as a news release by the government.

**The Chair:** Thank you very much.

Colleagues, having no amendments and seeing no other urgent indications of a desire to enter into discussion, we will proceed now to clause-by-clause.

(Clauses 2 to 157 agreed to on division)

**The Chair:** Shall the short title carry?

**Some hon. members:** On division.

**Some hon. members:** Agreed.

**The Chair:** Shall the title carry?

**Some hon. members:** On division.

**Some hon. members:** Agreed.

**The Chair:** Shall the bill carry?

**Some hon. members:** Agreed.

**The Chair:** Shall the chair report the bill to the House?

**Some hon. members:** Agreed.

**Some hon. members:** On division.

**The Chair:** Thank you very much to our witnesses.

I will now invite Mr. Baker and other guests to come forward from the Canada Revenue Agency so that we can deal with, pursuant to Standing Order 81(5), supplementary estimates (B) for the fiscal year ending March 31, 2007, vote 1b under Canada Revenue Agency, which was referred to the committee on Thursday, February 22, 2007.

We're going to give Revenue Canada officials a few minutes to arrive because we're ahead of schedule.

We'll move immediately to an in camera session. I'll ask the cameras to be shut off now, please.

*[Proceedings continue in camera]*

• (1220)

*[Public proceedings resume]*

We'll recommence.

To our guests, thank you for your patience. We are glad to see you again.

Pursuant to Standing Order 81(5), supplementary estimates (B) for the fiscal year ending March 31, 2007, we are dealing with vote 1b under the Canada Revenue Agency, referred to the committee on Thursday, February 22, 2007.

The chair invites Mr. Baker, the deputy commissioner and chief operating officer of the Canada Revenue Agency, to make a presentation, sir.

• (1225)

**Mr. William Baker (Deputy Commissioner and Chief Operating Officer, Canada Revenue Agency):** Thank you, Mr. Chair.

I will be brief in my remarks in order to provide as much time to members of the committee as possible for questions.

First, I'm joined by Jim Ralston, our chief financial officer, and Mary Jane Jackson, our deputy assistant commissioner, the number two in that branch.

Hopefully we will be able to answer any questions you have today.

This is with regard to supplementary estimates (B), where we're seeking a net appropriation increase of \$35.4 million. This is comprised of a few pieces.

There's some \$30.6 million related to the 2006 federal budget. Those are the costs we incur whenever there are changes in credits or rates, in order to get the information out to Canadians to adjust our systems, forms, and what have you.

There is also a \$13.9 million amount for a significant project that this committee has been briefed on, in the context of the agency's five-year review, which is the corporate tax administration for Ontario. This is a very important piece of work to bring Ontario into a corporate tax agreement, so that the Canada Revenue Agency will be administering taxes for both the province and the federal government with respect to corporations in Ontario. This is the preliminary work to allow us to be ready for January 1, 2009.

There is also an amount of \$9.3 million related to our role in administering the Canada-U.S. softwood lumber agreement. As you know, there are a number of financial arrangements and records associated with the companies involved, and we are administering those.

There is also an amount of \$5.9 million relating to interprovincial tax avoidance by corporations. This is some additional investment we're making to address a legitimate interest on the part of provinces to make sure they're getting their fair share of provincial tax. In particular, provinces such as British Columbia are concerned that people may be trying to shift income into a lower-tax province, such as Alberta, to avoid giving B.C. the fair contribution to the fisc.

I should say that when you add all those up, it's considerably more than \$35.4 million, but we have an offset in the agency of \$24.3 million, related to money that's already in our budget for the offshore trust initiative. This enabling legislation has not yet been passed, so we're not proceeding in that regard yet and can reduce the net requirement to \$35.4 million.

With that, Mr. Chair, I'll conclude by saying that we'd be pleased to take questions from any members of the committee.

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

We'll begin with Mr. Pacetti.

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

Thank you for coming before us, Mr. Baker, and congratulations on your new nomination or posting. I think you'll do a good job.

I'm going to get straight to it. The amount that worries me the most is this \$30.6 million that's funding to address the legislative and policy initiatives, arising from the 2006 federal budget and also for the GST rate reduction.

If I recall, when you appeared before us—and I think Finance officials also appeared before us—we were told that the costs were going to be minimal, at maybe \$5 million or \$10 million tops, in terms of storing all these gimmicks or small-time tax deduction relief, whatever you want to call it, by the current government in the last budget.

Here we are at \$30.6 million; it makes no sense.

You've still got a ways to go, because you haven't adopted them in processing the tax returns for 2006. That's only going to happen now in the months of March and April. Where is this going to end?

I'm going to quote somebody in your department who testified:

...our current estimates are about \$10 million to implement the GST reduction over two years. That's on a reduction of approximately \$10 billion, which is the \$5 billion projection of the lower tax rate for Canadians...

Where is this going to end? It's \$30 million to adopt measly dollars for *Monsieur et Madame Tout-le-monde*. Is this an open throttle and never-ending? I don't know how to ask the question. Can you help me on this?

**Mr. William Baker:** Mr. Chair, there are two things. I'll give you a bit more detail, breaking out the \$30 million.

The money is being requested in the current fiscal year because of course for us to be ready for the tax year, we have to invest many months in advance, in particular in terms of our information systems, but as well in training. We have to adjust our guides for people filing taxes. We have to make sure that the people on the phones and taking inquiries are able to respond.

The \$30 million is for many items that were contained in the 2006 federal budget. There were, of course, matters related to income tax relief for individuals. There were matters relating to the T1, as well as to the trust account system. We had measures related to personal tax credits. These include the Canada employment credit, the textbook tax credit, the tax credit for public transit passes, and the children's fitness tax credit. There is also incremental funding that was sought for processing validation and adjustment of claims, public inquiries for technical rulings and interpretations—

• (1230)

**Mr. Massimo Pacetti:** Yes, Mr. Baker. I have no issues with that. I understand all the gimmicks that had to be implemented. But you have come before a parliamentary committee, and this is a problem I have time and time again. You know that we're going to ask you about the \$30.6 million, but there's no detail. I'm going solely on the information I had previously, which was \$10 million over a two-year period.

So now you're coming with \$30 million, and it's nice that you can list all those criteria. You can list all the nice, gimmicky deductions. I know it was going to cost money, but at the time, we were told it was going to cost \$10 million over two years. Now we're at \$30 million and we're not any further ahead.

**Mr. William Baker:** I certainly wasn't present when any figure of \$10 million came up. My understanding was that was the cost related to the adjustment to the GST.

This figure of \$30 million is for all the measures that were announced in the 2006 federal budget, and frankly, the GST is a relatively small part of that.

**Mr. Massimo Pacetti:** Well, if you can provide us with some details, I wouldn't have to ask the question. I'd be happy to vote for these supplementary estimates, but as it is, I have a difficult time voting for them.

**Mr. William Baker:** Sure. Well, certainly, if I may—

**Mr. Massimo Pacetti:** I have another question, before my time runs out. It's a quick question.

Concerning your point on the funding to implement the national initiative to address interprovincial tax avoidance, how does that address Quebec? Is there a mechanism there for Quebec as well, or are you just talking about the western provinces?

**Mr. William Baker:** No. The measures related to the provincial income allocation would be for those provinces primarily with which we have corporate tax collection agreements, to make sure we're doing the right thing to ensure the proper allocation. So this would generally not affect Quebec, and it would not affect Alberta or Ontario on corporate tax, because they are not signatories to the agreement.

**Mr. Massimo Pacetti:** Yes, but you mentioned that you were making sure that corporations in B.C. did not pay tax in Alberta. So how does that...?

**Mr. William Baker:** Take, for instance, a financial institution. It could be headquartered in one province but have subsidiaries or other activities in another province. It can become fairly complex for our auditors to ensure that, at the end of the day, the proper province is getting the proper amount of revenue from that particular tax entity. So this is designed to strengthen our ability to do the—

**Mr. Massimo Pacetti:** No, I understand. So it would also affect Quebec, would it not, and Ontario?

**Mr. William Baker:** We work with all the provinces on this. Obviously Quebec is involved, because many companies do work across the country. So the short answer to your question is yes, Quebec would be involved.

**Mr. Massimo Pacetti:** That's all I'm looking for.

**Mr. William Baker:** This particular investment is primarily addressed to those provinces with which we have tax collection agreements.

**Mr. Massimo Pacetti:** Just before I let you go, can you provide me with...?

Mr. Chairman, on a point of order—

**The Chair:** No, sorry, no point of order, Mr. Pacetti.

**Mr. Massimo Pacetti:** Yes, there is a point of order. I just want to know if the department will provide us with a breakdown of—

**The Chair:** I was just going to interject and ask that. Thank you, Mr. Pacetti.

Mr. Baker, it struck me that you were about to answer Mr. Pacetti's earlier question in terms of elaborating in somewhat more detail about costs and breakdown, and so on. Would you like to proceed to do that now?

**Mr. William Baker:** Sure.

Without going on at length, there were many measures in the 2006 federal budget that impacted the Canada Revenue Agency. They related to income tax; they related to corporate tax; they related to the GST. They related to a number of new tax credits, several of which I managed to enumerate before the committee, all to say that this is the amount we've identified as required to allow us to serve Canadians properly with these tax changes.

We do have details, and we'd be pleased to provide members of the committee with the breakdown that gets us to the \$30 million related to the federal budget.

I should also point out that whenever we identify amounts required by the Canada Revenue Agency to implement tax measures or anything else, we have to go through quite a rigorous process with the Treasury Board Secretariat and the Department of Finance to ensure that the amounts are fair and reasonable in light of the changes that need to take place. But certainly we will endeavour, with your concurrence, Chair, to provide that breakdown to members of the committee, and we could do that in very short order. It's effectively the sheet I'm looking at right now.

•(1235)

**The Chair:** I'd like to offer the assistance of our staff to have that copied and made available to committee members right now, if that's feasible.

Thank you.

We'll move on now to Mr. Paquette.

[*Translation*]

**Mr. Pierre Paquette:** Is the reference to CSA payments in fact a reference to the \$1,200 taxable benefit that the Conservatives...

[*English*]

**Mr. William Baker:** Absolutely. The 2006 budget is where the universal child care benefit was articulated. Part of it was the cost associated with mounting the universal child care benefit. That's for 2006 overall. For the purposes of supplementary estimates (B), I do not believe there's any additional amount for that tax measure. It was in supplementary estimates (A), so supplementary estimates (B) do not address the universal child care benefit.

[*Translation*]

**Mr. Pierre Paquette:** Mention is made of \$18.5 million for payments to private collection agencies pursuant to section 17.1 of the Financial Administration Act.

How much money do private collection agencies take in on behalf of the Canada Revenue Agency?

**Mr. William Baker:** With the Chair's permission, I'd like to turn the floor over to my colleague.

[*English*]

**Mr. James Ralston (Chief Financial Officer and Assistant Commissioner, Finance and Administration Branch, Canada Revenue Agency):** The amounts for private collection agencies refer to when we took over the duties of collecting student loans. In particular, the program prior to this coming to the agency employed private collection agents. This is still the only situation where we use them. For collecting income tax debts we use our own collectors.

On the amount, the accounting for the loans and the recoveries is still performed by the responsible department, HRSD. We provide a service for getting in touch with the debtors, but we don't collect the money. The money is still remitted to the sponsoring department—

[*Translation*]

**Mr. Pierre Paquette:** What amount are we talking about?

[*English*]

**Mr. James Ralston:** Those amounts would have to be obtained from HRSD. They don't flow through our books, because of the nature of the service we're providing. We're not asked to provide an accounting service, just a collection service.

[*Translation*]

**Mr. Pierre Paquette:** The funding to prepare for, implement and administer the Softwood Lumber Agreement is listed at \$9,292,000. What percentage of this total amount is attributable to preparation and implementation, and what percentage to administration?

Some of the costs are one-time expenses. Once the system is up and running. What do you estimate the cost of administering the agreement will be versus implementation costs?

[*English*]

**Mr. William Baker:** I can only refer to our administrative costs. I do not have figures on additional costs that may be incurred by the Department of International Trade, for instance.

The \$9.3 million that the Canada Revenue Agency is seeking through supplementary estimates (B) is related specifically to those tasks we are charged with administering. These include administering the quota and export charge. We will also collect and administer the new export charge and make disbursements to the provinces—and the charge collected over the course of the application of the agreement.

I should point out that all of the \$9.3 million will be offset by revenue from the export charge, so this is a budgetary matter. The overall impact on the fiscal statement would be zero because there's an offset on that.

• (1240)

[Translation]

**Mr. Pierre Paquette:** I would imagine that next year, the amount will be less than \$9 million. Procedures will be well-oiled, equipment will have been purchased, and so forth.

[English]

**Mr. William Baker:** Mr. Chair, I'll ask my colleague to provide a bit more detail, with your permission.

**Mr. James Ralston:** That is correct. The amounts we're showing at the moment are the up-front costs. There will be some amount required for ongoing maintenance of the activity once it is set up; we're not asking for that ongoing funding in the supplementary estimates. We will have to reflect those either in subsequent main estimates or subsequent years' supplementaries.

[Translation]

**Mr. Pierre Paquette:** Then, we'll see next time how well you have succeeded in reducing program administration costs.

Thank you.

[English]

**The Chair:** For the committee's benefit, we'll need the indulgence of committee members to distribute this, as it is just in English.

[Translation]

I'd like to thank my colleagues from the Bloc for their cooperation.

[English]

These will be distributed now, and they may assist committee members in their further questions.

Mr. Wallace, we'll go over to you.

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

Thank you for coming today. I'm relatively new and I'm trying to get my head around this. There are the main estimates, and then there are the supplementary ones, I guess you'd call it, or supplementary estimates (A), and this is the second set of supplementary estimates, the supplementary estimates (B).

Am I reading it correctly when I see that the department overall is at \$3.5 billion? Where are we in total spending? Am I about right?

**Mr. William Baker:** That is correct. It is roughly \$3.5 billion.

**Mr. Mike Wallace:** In your case, particularly when there are budgets in the year, it throws off a little bit what you may have estimated in your main estimates or in the main budget. I hate the word "estimates"; I like the main budget. Then you're asking for more money throughout the year based on some changes the government has made along the way. Is that an accurate statement?

**Mr. William Baker:** Yes. If I may, Mr. Chair, the budget's coming down when it does frankly happens too late for our purposes of having our budgetary plans set for the coming fiscal year, so once the

budget is announced, we undertake a very thorough exercise of costing. We try as well as we can to get those in on time for supplementary estimates (A). Sometimes things are still evolving. You have a budget statement, but the technical work required to flesh it out may take longer than the deadline required to meet something.

**Mr. Mike Wallace:** Is this a normal process for you, year after year? It doesn't happen just because a Conservative government has been elected, does it?

**Mr. William Baker:** No. To my knowledge, the Canada Revenue Agency has received supplementary estimates, either (A), (B), or both, almost every year.

**Mr. Mike Wallace:** I haven't had a chance to look at the list yet, but is there any money that Mr. Pacetti was talking about? You talked about the Conservative budget, the last government budget that was passed. Is there any money in there from things that they announced in November and things that had changed prior to our taking office, or is it all budget-related?

**Mr. William Baker:** To my knowledge, it's all related to those items I mentioned, which are the federal budget, the agreement with Ontario for corporate income tax, the softwood lumber agreement, and the provincial allocation initiative—but perhaps, Jim, there may be something since then.

**Mr. James Ralston:** I believe there's an amount.... In the latter part of 2005 there was a fiscal statement that announced a reduction and then a rate reduction. That was not a budget, but a fiscal statement; the costs related to that were included in our budget request for 2006.

With the exception of that one amount, all of the rest related to the 2006 budget.

**Mr. Mike Wallace:** Since we're having a budget coming in two weeks, it's reasonable for this committee, whether I'm on it or not, to understand that based on what's announced and assuming it passes, with changes in this year's budget there will be supplementary requirements from the Canada Revenue Agency, which collects the actual money and does the paperwork. A lot of this money goes to whatever those programs may be to advertise to Canadians so that they understand what deductions are available and what changes have been made to the forms; it is also for training people to actually implement those changes, if there are changes.

Is it a reasonable statement to say that we can expect this year after year?

•(1245)

**Mr. William Baker:** I think that's a reasonable assumption. Perhaps I can just point out that it's extremely important that we do this well. If we don't do this well, we, and I dare say you, will hear from your constituents. We hear from the public and we hear from the stakeholders that they don't know what to do. Paying tax is never easy, and the act of completing the annual income tax filing is never easy, even though we try to make it easy. It's extremely important that when people have questions, they get answers. It's extremely important the guides are up to date and that our IT systems match the budget. So you can expect, I think, this to be pretty much an annual exercise.

**Mr. Mike Wallace:** My final question, if I have time.... You're not actually a department; you're a separate agency, but you didn't just come up with these numbers yourself and they weren't not tested out. Could you tell me what actually happens? I didn't understand this. You have to go to the Treasury Board and to Finance for answers on this. Do they review those numbers? What's that process?

**Mr. William Baker:** They do, and I'll ask the person who actually has to do this for us to answer that question, with the chair's permission.

**Mr. James Ralston:** When any measure is announced or contemplated, we will be asked to provide an estimate of what it will cost to implement. What we will do is this. I will get in touch with all my colleagues who run the operations, be it the audit, the processing, or the collections areas. We will ask them, in respect of a particular measure that's being proposed, whether they would envisage a cost to implement it, and we will ask them to declare that cost.

We will assemble that information and then it will go to Treasury Board in what we call our omnibus submission. It's just the jargon we use to describe the budget submission each year. Treasury Board will then scrutinize our numbers and they will decide whether we're making reasonable estimates or not. Once they are satisfied that we've done a competent job of estimating the costs, they would recommend approval of that to the Treasury Board, and ultimately it will then appear in the supplementary estimates.

**The Chair:** Thanks, Mr. Wallace.

Mr. Christopherson.

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

It's good to see you again. You will know from the work of the Auditor General that there have been concerns that she's raised in a specific chapter about supplemental estimates going up significantly in the last few years, as opposed to the years prior. I believe—and I'm going from memory now—it was about 4.5%, on average, in the five years preceding the immediate past five years, to over 10%. I want to know if this is an increase over last year, the dollar value, and if so, by roughly how much.

I see you all struggling, so I'll leave one of you to search that number—

**Mr. William Baker:** Perhaps I have part of the answer. In terms of how this relates to the supplementary estimates that would have been requested last year, we will have to search for that.

I will put these supplementary estimates (B) in perspective of our overall budget. Before supplementary estimates, we were looking at \$3.431 billion, and what's being requested in supplementary estimates (B) is \$35.4 million, so it's whatever percentage that is. It doesn't represent a major amount of our base funding.

**Mr. David Christopherson:** No, that wasn't my point. It wasn't based on the base; it was based on the actual dollar value of last year's supplements.

I'll leave that with you to work on.

Chair, I'm fine having that sent. It's not something I need right this moment, but I am interested, since we're still struggling with that at the public accounts committee.

Now I'd like to deal with the issue of the \$5.878 million going for the funding to implement a national initiative to address inter-provincial tax avoidance by corporations. You touched on it briefly through other questions. How much tax avoidance are you speculating we're losing? How much tax avoidance, I guess, is being successful, would be the question? How much money are we losing?

•(1250)

**Mr. William Baker:** Mr. Chair, I think there are two parts to your question. This particular initiative is not designed to identify tax avoidance, but rather to make sure that individual provinces are getting their proper share. For instance, when we are auditing a large corporation that is doing business in many provinces, it's important that, whichever province you're in—and we're doing that on behalf of the province—they get the proper amount credited to the province—

**Mr. David Christopherson:** I'm sorry. Then the question really is, how much are the provinces losing? Obviously somebody's losing money or you wouldn't make the changes.

**Mr. William Baker:** This is designed to make sure the pie is correctly cut, and—

**Mr. David Christopherson:** Is it not right now?

**Mr. William Baker:** It doesn't make the pie bigger. I do not have the adjustments with me, but they're relatively minor year over year. We collect about \$300 billion a year—actually more than that in total receipts—and we're only talking about a few million dollars a year. If you're a province, a million dollars is a million dollars, and it's important that we can get it right.

**Mr. David Christopherson:** Who was it that said, enough millions of dollars and you're talking real money? Some politician somewhere said something like that.

Why \$5.5 million? It seems like a lot of money for a minor adjustment.

**Mr. William Baker:** This is to set us up to increase our capacity for a long time. The area of provincial income allocation was not a particularly sophisticated part of our audit programs. Provinces have asked that we make investments in this, and this is exactly what this is designed to do.

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

This came out of public accounts also. Along this same line, foreign income, there's a real problem identified by the Auditor General with your agency's ability to identify foreign income taxes owed. One of the examples was that there were absolutely no auditing experts for this kind of taxation in Toronto, and 40% of that dollar value comes through Toronto.

Have you begun to address that yet? If so, what are you doing?

**Mr. William Baker:** Certainly. You're referring, of course, to the latest Auditor General's report—

**Mr. David Christopherson:** I am.

**Mr. William Baker:** —on international tax.

If I could provide a point of clarification, the observation from the Auditor General was that people working in the international tax area of the Canada Revenue Agency have, on average, only two years' experience. I should point out that refers to two years' experience doing international tax work, but they have many, many years experience as auditors working for the Canada Revenue Agency.

International tax is the most sophisticated audit work we do in the agency, and you don't get to do that work until you have cut your teeth doing audits of various-sized corporations and working in tax avoidance and so on. So these are experienced auditors, but only having spent a couple of years—

**Mr. David Christopherson:** I realize, but it's the Auditor General's point that because of the level of expertise required, the fact that you didn't have it in Toronto is a problem. She identified that as a gap.

**Mr. William Baker:** It is.

**Mr. David Christopherson:** Let's not quibble about what the problem is. We can have that battle, if you want, but I think that's been determined; there's a problem. What I was looking for was, what are you doing about it?

**Mr. William Baker:** First of all, that's been a challenge for the agency for a long time in markets like Toronto. People who possess the kinds of skills to do international tax work for the CRA are in tremendous demand by the private sector. They're often recruited from us at a certain point, and we can't do anything about that. What we are doing is we're beefing up our training programs and beefing up the experience of our more junior auditors to get them in a position to be able to do that work and increase our capacity.

I must say, Mr. Chair, there is no magic solution to this. We're dealing with an area in demand and we're dealing with public service wages in a competitive market, and that will always be a challenge for us in places like Toronto.

**Mr. David Christopherson:** I accept the fact that it's a challenge, and the Auditor General has a problem even in her own shop, but

nonetheless, the challenge has to be overcome. We can't leave the situation where we don't have the experts to determine taxation levels, especially if it's being earned elsewhere and it needs to be here in the Canadian economy. All the more important that we identify that money and get it here in Canada.

Thank you, Chair.

• (1255)

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

Dealing with a point I have some sympathy for, what you've said is that as soon as you develop the expertise so that you can score on the people trying to avoid tax, they hire away your big scorers, like small market/big market NHL teams: they take away your people. Or should I argue that they are the defencemen? I don't know which analogy works best.

But is that what you're saying, that the people with the greatest expertise on the side of tax fairness get hired away for that expertise, which then creates a shortage of people who have the ability to ascertain what taxes are really owing at the corporate level, in terms of some of these international or offshore operations?

**Mr. William Baker:** Mr. Chair, I wouldn't want to leave the committee with the impression that there's a mass exodus, but there is a demand for these people. If you were to look at just about any of the major accounting firms, and, for that matter, legal firms in the country, many of their top people who are working in this field, such as transfer pricing, which is a huge specialization, come from the Canada Revenue Agency. They've cut their teeth working for us, and these people can triple their salary going to the private sector.

Fortunately, very few actually do, but when you're dealing with a small group of specialists, every loss is a loss. We're blessed, frankly, that most of our auditors are public servants for the right reasons and they're happy to continue serving, and we bank on that. We're very fortunate.

**The Chair:** Mr. Christopherson alluded to the most recent Auditor General's report. Of course, we're aware that a series of the Auditor General's reports previously have pointed out the same challenge, the same problem. It's worth noting, and I appreciate Mr. Christopherson raising it.

We move to Mr. McCallum now.

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

How much time?

**The Chair:** Very little.

**Hon. John McCallum:** I'd like to focus on this panoply of little tax credits in general and the children's fitness tax credit in particular. In terms of how you determine eligibility for that fitness tax credit, I'm told that really depends on the amount of sweat involved in the activity. Soccer and hockey would clearly qualify, I guess, but violin and piano playing wouldn't. But then you have intermediate cases like ballet or yoga. I'm not sure if those generate sufficient sweat.

My question is how you monitor, control, and enforce that. Does one need to have random checks such that agents from CRA go out and measure the beads of perspiration on the foreheads of the children of the nation? How does one administer such a program.

**The Chair:** The chair should point out that the perspiration level in no way alludes to the fact that Mr. McCallum does work up a sweat running for a smoke break.

**Some hon. members:** Oh, oh!

**The Chair:** Mr. Baker, go ahead please.

**Hon. John McCallum:** I'm probably too old, too.

**Mr. William Baker:** We're continuing to work, as the member might be aware, with the Department of Finance to flesh out all of the parameters around the proper application of the fitness tax credit. I can't provide any more specific details on that today, but certainly if the committee were interested, we'd be pleased to provide information, either in a meeting or offline, with respect to the state of development on that.

We will not be measuring sweat. If we were, I guess our supplementary estimate fee would be considerably higher.

**Hon. John McCallum:** Is this \$4 million for these little tax credits a one-time expenditure, or is it an annual expenditure? Is it going to rise over time?

**Mr. William Baker:** It wouldn't generally rise. Whenever we have a new tax measure, the first year is always higher, because that's when we have to do the reprogramming and so on. After that, to the extent that a new tax credit adds another line to a return or adds another calculation, there is some continued downstream cost, but it's never as great as the first year.

**Hon. John McCallum:** When you get the directive from Finance as to...I still don't really understand how you're going to determine whether, for example, yoga is in or out or ballet is in. Are they going to have a list of a thousand different activities, yes or no, for each of them? Do you go out there and audit to make sure it's truly yoga instead of ballet? How does one administer all that?

**Mr. William Baker:** Mr. Chair, as I said earlier, the specific activities that would qualify are still being worked on with the tax policy folks in the Department of Finance. I can say that we would not audit this type of activity. We would seek to get a determination to clarify which activities qualify, and as long as the taxpayer can provide evidence of payment, that would satisfy us. I can't image us doing much more.

• (1300)

**Hon. John McCallum:** Just to give an example, what if ballet's okay and square dancing isn't? If somebody claims ballet, how do you know it's not really square dancing? Wouldn't you at least have to have random checks?

**Mr. William Baker:** In a situation like that, unless we had information to suggest that the individual was attempting to mislead us or was forging receipts of some sort, we would normally take those on the value for what they're presented.

**Hon. John McCallum:** You must breathe a sigh of relief when you come to broadly based income tax cuts that everybody gets.

Thank you, Mr. Chair.

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

[*Translation*]

Mr. St-Cyr.

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

Earlier, Pierre spoke about payments to private collection agencies pursuant to section 17.1 of the Financial Administration Act. The amount in question totals \$18,503,000.

I believe the money collected by the agencies on behalf of the Canada Revenue Agency does not go to the CRA, but rather to Human Resources Development Canada. At least that's my understanding. Regardless, the money does not end up in the CRA's coffers.

That being said, I would imagine you evaluate the amount of money recovered, if only to ascertain if the process is efficient. Can you tell me if this process is efficient and if so, how efficient? Can you tell me how much money has been collected by these private agencies and turned over the department in question?

[*English*]

**Mr. William Baker:** Perhaps, Mr. Chair, I'll make one comment and then I will ask my colleague, Mr. Ralston, to respond further.

This agreement with the private collection agents is strictly with respect to outstanding student loans. We do not use private collection agents for other types of activity. This is work that was transferred to the Canada Revenue Agency a year or so ago from HRSDC.

Those people get paid as a contingency, so by definition, if they receive a certain amount of money the government would have recovered more than that in terms of receipts. The specific amount I'm quite certain we do not have with us.

I don't know, Jim, if you could provide any more precision on that.

**Mr. James Ralston:** We could find out the amount by inquiring with our colleagues in HRSDC. It's just that, as I said earlier, we have not been asked to do the accounting in this situation. The accounting is still done by the other department. I am quite certain we can obtain the information, but because I don't keep it in my books, I don't have that with me here today. But it's not a question that doesn't have an answer; it does have an answer, and we could obtain the information for you.

[*Translation*]

**Mr. Thierry St-Cyr:** I'm merely trying to get a grasp of the situation. If I understand correctly, handling student loan collections is a new task assigned to CRA.

Why must you call upon private collection agencies to carry out this task? Are you contractually obligated to do so? Is this a regulatory requirement? Do you find it's easier to contract out this work?

[*English*]

**Mr. William Baker:** Mr. Chair, the private collection agencies were already performing this function for Human Resources and Social Development Canada. When the transfer came to the Canada Revenue Agency, which included the people in that department, they were using private collection agents at that time. That practice continues to this point. It would be difficult for me to speculate whether over time that would continue to be a good business practice for the government or whether there may be a point at which we would rely on our own collections workforce. It's too soon to tell.

• (1305)

**The Chair:** For committee members' information, we'll return, of course, in a couple of weeks' time. On Tuesday, March 20, we'll deal with the two private members' bills that have been put off. We got an extension on those previously, one from Mr. McTeague and the other from Mr. Watson. On the 22nd, we'll commence with panels on ATM and electronic payment fee issues.

I would ask committee members and staff to note that we'll need witness suggestions by March 10 at the absolute latest.

Thank you.

We'll continue now with Mr. Wallace.

**Mr. Mike Wallace:** Thank you, Mr. Chairman.

I have two quick questions, just so I completely understand.

My opposition friends have been talking about certain things you've listed here that they didn't like in the budget. I don't bemoan that; I understand they didn't like them. But the budget actually passed. I think it was on a technicality, in a sense that it passed relatively unanimously in the House. But it did pass, and we have to implement it. Would you not agree?

**Mr. William Baker:** Mr. Chair, it goes without saying that we administer acts of Parliament and do our very best to do them justice.

**Mr. Mike Wallace:** I want you to check my math for me. I have seen supplementaries on other committees I've been on. Don't get me wrong, these are big numbers—big numbers—but if I have it right, your gross estimates are \$3.5 billion, rounded up, and 10% of that is about \$315 million. Today you're asking for \$35 million, and by my

math that's about 1% of your total budget. If everybody came to me and told me after a year that there has been a budget change and the difference is only about 1%...

Do you consider that to be a reasonable request, and are you satisfied with your review of the numbers on this?

**The Chair:** We all wait with bated breath.

**Mr. Mike Wallace:** So it was a loaded question, but it made the point.

**Mr. William Baker:** I would just say two simple things.

One is that this is simply to address those matters that are incorporated in the budget or in other government announcements that we're charged with implementing. Are they reasonable? I rely on the system. There's a terrific system of scrutiny. We cannot just go forward and take what we would like in support of budget measures. My colleague, Jim Ralston, described the process with the Treasury Board.

Also, we work with the Department of Finance, because before a budget measure is announced, part of the consideration is the administrative cost of doing it. We have a lot of experience doing this, and I think our record in delivering in accordance with our forecast is really quite good.

**The Chair:** And we're part of that system of scrutiny as well, Mr. Wallace.

**Mr. Mike Wallace:** Thank you, Mr. Chairman.

**The Chair:** We'll go to Mr. Pacetti.

**Mr. Massimo Pacetti:** It's like asking my wife if a 1% increase in the budget is okay. I think she'd correct that as well.

I just want to make a quick comment on your last comment. When we had the Canada Revenue Agency telling us about the estimates and new budget measures, what we were told was that they weren't sure and that this analysis is always done after the budget. Now you turn around and tell us something different. I have a problem with that.

I just want to focus on two quick questions, because my time is limited. For these new budgetary measures for 2006, will the agency have any additional costs for next year?

**Mr. William Baker:** As I mentioned in one of the earlier questions, to the extent that a measure... For instance, if you introduce a new tax credit, that represents some additional workload in perpetuity. If it's an additional line on the return, we need to capture that information, and it adds somewhat to the complexity of the processing system. But it's not as much as in the first year.

**Mr. Massimo Pacetti:** Okay. Only because—and I get back to the GST—when we asked the question regarding GST, your estimates were based on two-year estimates. That's why I'm asking if there's anything in the 2006 budget that's also going to come forward that's going to bite you.

In the moneys already allocated, in the \$2.7 billion, wouldn't we already have appropriated some moneys for the 2006 measures? Because you would have seen these changes come forward, would you not?

• (1310)

**Mr. William Baker:** No. It would be improper and presumptuous for the Canada Revenue Agency to assume budget measures prior to the fact.

**Mr. Massimo Pacetti:** No, but you would have an amount allocated for new measures, would you not? You knew that the tax rate had changed, so you knew there were going to be some additional costs regarding the general tax rate, whether it was changed from 17% down to 16% or 16.5%.

**Mr. William Baker:** To the extent that there were still measures relating to earlier budgets or economic statements, they would have been factored in. But this is dealing with items since last year's federal budget.

**Mr. Massimo Pacetti:** So the \$30.6 million is in addition to some moneys that you've already appropriated in the estimates for the year.

**Mr. William Baker:** Yes, but it wouldn't be double counting in terms of—

**Mr. Massimo Pacetti:** No, I know, but it's in addition to.

**Mr. William Baker:** It's a supplementary estimate, so it's an additional amount on top of what would have been voted as part of our regular budget for 2006-07.

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

**The Chair:** Just to build on Mr. Pacetti's line of questioning and just for clarification for committee members, there is the issue of income splitting for seniors, which the minister has spoken to, and the legislation will be forthcoming, How does the agency deal, then, with something like that? Is that considered in your just-filed estimates, or does that wait until the measure is actually implemented by the House of Commons?

**Mr. William Baker:** That measure comes into effect for this current tax year. So it will be manifest in next year's filings. We are currently doing the preparatory work to determine what the administrative requirements would be to administer the splitting of pension income. That would be reflected, I suspect, in the next omnibus submission to Treasury Board this spring.

**The Chair:** So this committee would see that in the supplementary estimates (A) in the fall, probably.

**Mr. William Baker:** I don't see any reason why it wouldn't be fully represented in the supplementary estimates (A). That's correct.

**The Chair:** No, but the mains have already been released. So they'd come out in the fall, in the supplementary (A) estimates.

**Mr. Massimo Pacetti:** In the spring, he said.

**The Chair:** Oh, you said a year now.

**Mr. William Baker:** No. We would be making a submission to Treasury Board as soon as we could, but it would not be reflected until...

**Mr. James Ralston:** The mains have just been tabled. We didn't have any amounts, with the exception of the universal child care benefit, that were known at the time of the mains to implement 2006 budget items, so that means that if there are ongoing costs related to the 2006 budget.... The supplementary estimates that we're dealing with today deal with the first-year implementation costs. Any additional costs—the tail, as we refer to it—will have to appear in a subsequent supplementary estimate, and ultimately in a subsequent main estimate, but not in 2007-08.

The timing was off.

**Mr. William Baker:** Just again for the sake of the committee, this is a pattern that the committee will see year after year, because of the timing of the budget. You will see any cost associated with implementation of budget measures coming out in supplementaries (A) and, to a lesser extent, supplementaries (B). It depends on how complex the measure is and how quickly we can work it through the system and come up with a figure.

**The Chair:** Thank you.

We will now proceed to the vote.

CANADA REVENUE AGENCY

Department

Vote 1b—Program expenditures.....\$35,407,000

(Vote 1b agreed to on division)

**The Chair:** Shall the chair report vote 1b under Canada Revenue Agency to the House?

**Some hon. members:** Agreed.

**The Chair:** Thank you very much.

Witnesses, all the best.

Committee members, staff, you've earned some time in your ridings to pre-campaign.

Mr. Pacetti, a point of order.

**Mr. Massimo Pacetti:** I'd just like to read in a notice of motion that I will be putting in writing. It will take 30 seconds to read it into the record.

**The Chair:** That's not necessary.

Thank you very much.

We're adjourned.







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