House of Commons
CANADA

# Standing Committee on Finance

FINA • NUMBER 007 • 2nd SESSION • 39th PARLIAMENT

**EVIDENCE**

## Wednesday, November 28, 2007

## Chair

**Mr. Rob Merrifield**

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● (1535)

[*English*]

**The Chair (Mr. Rob Merrifield (Yellowhead, CPC)):** We'll start our meeting at this time. We have enough members here and our witnesses are in place. The clock suggests that we should have started a couple of minutes earlier, so let's get started.

I do not see Michael Bach. Perhaps we will start with the second witness, David Powell, president and CEO of the Canadian Finance and Leasing Association.

We thank you for coming and being here. I'll introduce the rest of the panel as I yield the floor to you.

We have a very tight timeline today. We have votes, so I just want to let the committee know that we will be interrupted. We're hoping to cut our panels a little tighter and to be completed by the time of the vote.

With that, we will yield the floor to you. Five minutes, please.

**Mr. David Powell (President and Chief Executive Officer, Canadian Finance and Leasing Association):** Thank you, Mr. Chairman.

We titled our submission to the committee “Reinforcing the Foundations for Growth and Prosperity”. For us the formula is clear: more investment in people and assets leads to economic growth, and economic growth raises the standard of living of all Canadians.

First let me describe briefly what our industry does and the role it plays in Canada's prosperity agenda. The core of what we do is asset-based financing. After the banks and credit unions, our members are the largest providers of debt financing to Canadian businesses and consumers. Our focus is financing specific assets—essentially equipment and vehicles. Our industry has over $106 billion worth of financing in Canada today, an amount that has doubled over the last seven years.

Our members lease everything from aircraft to big rig trucks, cars, recreational vehicles, photocopiers, office equipment, and the printing presses you see in corner printing shops.

Our key message is that the very nature of what we do targets productive assets. The growth in leasing is not a tax-driven phenomenon but efficiency-driven.

So how does our industry specifically fit in the national prosperity agenda? How about the fact that our industry contributed 8% of the total increase in living standards of Canadians over the period of 1992 to 2002, the most recent period studied by an independent economic research firm that does work for the Department of Finance as well. This first-of-its-kind research demonstrated that our industry has a significant impact on raising the standard of living of all Canadians. Specifically, the study found that the “rise in asset-based financing from 1992 to 2002 improved living standards in Canada by 2.3%”.

We asked two noted economists to review this research, Dr. Jack Mintz, then head of the C. D. Howe Institute, and Jim Stanford, chief economist of the Canadian Auto Workers Union. Both of them reviewed the research and supported its conclusions. Dr. Mintz said that the industry “contributes a disproportionate share to higher living standards”.

So we're here today because we believe our industry is an important part of Canada's productivity, economic growth, and national prosperity. We'd like to share with you five messages as you proceed with your work.

The first message is that the public and private sectors must, in our view, concentrate their efforts on growing the economy. The demographics are clear: Canada is getting older and the workforce is getting smaller. How can fewer people generate more wealth to support more people and services? It's through improved productivity.

To do so, Canada must have a highly educated workforce, an efficient public infrastructure, and productive capital assets. A highly educated workforce is mobile and will go where the jobs are. To keep the jobs here, we need efficient infrastructure and capital assets.

Our second message is that investment in equipment is key to greater efficiency and enhanced productivity in today's more competitive marketplace. The appreciation of the Canadian dollar has forced some sectors of the Canadian economy, notably those that depend on export markets, to invest more heavily in machinery and equipment over the last five or six years. Productivity in the manufacturing export sector has seen a cumulative increase of nearly 11% since 2001. New equipment has allowed manufacturers to boost output while reducing factory hours. The high dollar has forced these trade-oriented sectors in Canada to work smarter; domestically focused sectors have not followed suit.

Our third message is that we should enhance the positive strengths of the competitive marketplace in Canada. When I ask my colleagues south of the border what motivates their customers to acquire new equipment to make their businesses more efficient, it comes down to essentially one thing: it's competition, a question of looking over their shoulders at their competition in Florida or Texas or California. If they don't equip themselves with the smartest people and the best equipment, they're not going to be able to compete.

The U.S. experience shows that a competitive national marketplace stimulates innovation, investment, and productivity across the domestic economy. This is a greater motivating force for investment in innovation than any number of complicated government financial incentives. Efforts to encourage more competition in Canada have been less successful, with too many entrenched interests not wanting them to succeed. Government policy still inhibits capital investment, and Canadian companies too often seem slower to invest than their foreign competitors.

Our fourth message is that the federal government should lead a national coalition for growth and prosperity serving as a catalyst and its champion. This is our primary message.

We should focus tax policy on investments and productive assets. Tax policy is critical to capital investment. The government should be congratulated for encouraging capital investment in its 2006 and 2007 budgets. We applaud the intent to provide a more favourable climate for businesses to accelerate or increase their investment in machinery and equipment.

Thank you.

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

We'll now move on to the Canadian Health Food Association, to Penelope Marrett, president and CEO.

The floor is yours, five minutes.

[*Translation*]

**Ms. Penelope Marrett (President and Chief Executive Officer, Canadian Health Food Association):** Thank you.

My name is Penelope Marrett. I am the President and Chief Executive Officer of the Canadian Health Food Association, the CHFA.

The CHFA is Canada's largest trade association representing the natural and organic products industry.

[*English*]

The Canadian Health Food Association, also known as CHFA, is Canada's largest trade association, representing the whole supply chain—growers, manufacturers, retailers, importers, distributors, consultants, and other associations involved in a variety of subsectors in the industry, including supplements, vitamins, herbals, homeopathic medicines, sports nutrition and organic foods, health and beauty aids, and other organic products.

Natural health products have become increasingly popular as Canadians look for better ways to manage their health. In fact, over 75% of Canadians purchased natural health products in 2005 according to an Ipsos Reid survey. This industry is currently valued at over $2.5 billion, and it is growing. The Canadian organic food industry for its part is one of the fastest-growing sectors in Canadian agriculture, growing at the rate of 20% last year, and boasting sales of $1 billion in 2006. We are very excited about the prospects of our industry as more and more Canadians are seeing the benefits associated with the usage of natural health products and organic foods.

Our industry, though, currently faces important challenges. As the demand continues to expand for these types of products, CHFA believes the government needs to take specific steps to address industry and consumer needs. We ask that the government enable a tax framework that promotes citizens' health while stimulating industry growth.

But first, we'd like to commend the government on its recent announcement to reduce the corporate tax rate for small businesses. This is, we believe, an important step in reducing the tax burden on our members, most of whom are small and medium-sized businesses. We ask that the government continue to support our entrepreneurs to allow them to prosper in the Canadian economy and beyond.

We have a number of tax-related recommendations in our brief. We believe these incentives would provide for a stronger framework for our industry. I would like to recommend, on behalf of CHFA and its members, to the committee that these tax-related steps be taken: first, allow for support to farmers for transition from conventional to organic agriculture, and second, allow natural health products to be recognized as medical expense deductions.

Aside from these tax measures, we are also very concerned with the regulation of natural health products and organics in Canada. We would like to see the committee members consider the importance of providing adequate funding for federal government-regulated bodies. CHFA recommends that A-base funding be provided to the natural health products directorate to ensure it has the necessary resources to implement and enforce regulations that affect the more than 40,000 natural health products currently in the Canadian marketplace.

As a result of the new natural health product regulations that came into force in 2004, the NHPD has had to deal with a serious backlog of licence applications. We recommend that additional funding be provided to the directorate to ensure that the backlog is dealt with quickly and sufficiently. Specifically, a greater number of resources are required for a limited amount of time of two to three years to ensure the backlog of some 20,000 applications are reviewed and processed.

CHFA also recommends A-base funding to the Canadian Food Inspection Agency to ensure implementation, compliance, and enforcement of the new organic regulations. These regulations will give Canada a competitive edge in food exports and will enable Canada to join more than 40 other countries worldwide that already have regulatory frameworks in place. As Canada moves forward on these initiatives, long-term sustainable funding models must be in place to ensure that regulations have meaning. Funding models that provide certainty to regulatory work should be adopted.

Thank you, members of the committee, for giving us the opportunity to be heard. We hope you will recommend tax measures in the next budget that will help our growing industry. We also hope you will recommend that A-base funding be provided to the regulatory bodies in the federal government responsible for the monitoring of regulations pertaining to natural health products and organic products.

● (1540)

[*Translation*]

Thank you for your attention.

[*English*]

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

We'll now move on to the Canadian Home Builders' Association—Richard Lind, president, who I believe is accompanied by John Kenward.

The floor is yours for five minutes.

**Mr. Richard Lind (President, Canadian Home Builders' Association):** Yes, thank you very much, Mr. Chair.

I am president of the Canadian Home Builders' Association, and I am also a builder in Nova Scotia. As you indicated, I have with me the association's chief operating officer, John Kenward.

The CHBA has made its written submission to the committee and have also updated it to reflect the further 1% reduction in the GST. We have provided copies of our submission supporting housing affordability and choice, as well as copies of an updated edition of our supporting document, *The Canadian Housing Industry – Performance and Trends.*

The focus of my remarks will be specifically on the submission supporting housing affordability and choice, but I would like to start with a little bit of context.

CHBA does acknowledge the actions of the federal government in several areas, specifically the further reduction of 1% in the GST, which, with the earlier 1% reduction, certainly greatly helps housing affordability across Canada. Further, we do acknowledge that the government has met its commitment on the GST and has illustrated its support for home ownership across Canada.

CHBA also recognizes the government's efforts to address the skilled trades shortages, particularly its new labour market investment strategy and its actions with regard to immigration policy. CHBA also welcomes the federal government commitment to the infrastructure funding, and the industry continues to be pleased with its working partnership with Canada Mortgage and Housing Corporation.

We note that CMHC's value goes far beyond mortgage insurance. Its value is especially significant in technical research, market analysis, information distribution, and project demonstration, particularly in energy efficiency and environmental concerns.

The Canadian Home Builders' Association's pre-budget submission raises five central matters: one, the need to adjust the GST rebate thresholds for new homebuyers; two, the need to expand the definition of a substantial renovation; three, the need to tackle the underground economy head on, which means replacing the contract payment reporting system now in effect and currently grossly ineffective, and also requiring that all businesses have a federal business number; four, the need to reform tax measures for rental housing investment, particularly to examine the zero-rating of investment in housing, rental housing production, and also to re-examine the definition and application of the capital gains tax deferments; and five, the need to monitor federal infrastructure investment to make sure that it does go to the areas of greatest interest to the government and to Canadians—clean air, clean water, clean land, and efficient roads and transit.

I would like to take a couple of those and go into a bit more detail.

With respect to the GST rebate for new homeowner purchases, we emphasize that this input is nowhere near the promise that was made 16 years ago, and housing prices have increased enormously over the past 16 years. For example, in Toronto in 1991, 65% of new home purchasers qualified for the full rebate; and in 2007, only 20%. This situation is common in the large centres such as Vancouver, Toronto, and Calgary, but it's also a serious situation in many smaller centres such as Abbotsford, Ottawa, Montreal, St. Catharines, and Halifax.

● (1545)

With regard to government action to tackle the underground economy, the Canadian Home Builders' Association continues to be disappointed with the lack of effort on the part of the Canada Revenue Agency in this matter.

With regard to the rental housing market, private investment in this area is not meeting projected requirements, simply because the federal tax regime is biased against private investment in rental housing production.

Thank you, Mr. Chair. I hope I have stayed within my five-minute allowance.

**The Chair:** You're actually a little over, but that's okay. We've seen worse.

We'll move on now to the Canadian Association for Community Living.

Michael Bach, you're at the table, so we'll hear your five minutes, starting now.

**Mr. Michael Bach (Executive Vice-President, Canadian Association for Community Living):** Thank you, Mr. Chair.

My apologies to the committee for being late, but I was stopped by Global media when I came in because of a very distressing case of a woman with an intellectual disability being assaulted on Wheel-Trans in Toronto today. They were asking for comments on that. In fact, that goes to the core of what I would like to talk about today.

Our mission as an association is to advance the full inclusion and rights of people with intellectual disabilities in Canada. We work very closely with the Council of Canadians with Disabilities, the Canadian Association of Independent Living Centres, and over the last year, 90 other disability organizations across the country that came together to produce this national action plan on disability.

This statement represents a consensus agenda of the disability community. We had the opportunity to present it last week to the Minister of Human Resources and Social Development, the Honourable Monte Solberg, and Minister Flaherty, both of whom attended our End Exclusion event last Thursday.

This agenda lays out four main priorities that our community has identified. Access to needed disability supports—personal attendants, aids, and devices—is the number one priority, along with addressing the poverty of Canadians with disabilities. We recognize that this is the jurisdiction of the provincial-territorial governments, but we call on the Government of Canada to take leadership with provinces and territories to address that issue, as two-thirds of Canadians with disabilities lack one or more needed supports.

The other major area we've come to a consensus on is the need to alleviate poverty. Canadians with disabilities of working age face poverty rates twice the general rate of poverty among Canadians, which is just over 13%. The poverty rate of Canadians with disabilities is about 27%. For people with intellectual disabilities living on their own, over 70%, an astronomical rate, live in poverty.

We think there are some very practical measures the Government of Canada can take within its jurisdiction and within the tax system to begin to take significant steps to address poverty among Canadians. We applaud the steps of the current government to establish the registered disability savings plan, to establish an enabling accessibility fund, and to establish a disability supplement to the working income tax benefit. These are important measures, and I think in implementing them there has been a recognition that much more needs to be done.

The one thing our community is coming together around in this country is refundability of the disability tax credit, and that's what we're calling for. The disability tax credit provides, at its face value, about $6,700. In terms of income tax relief, it provides a value of just over $1,000, approximately, and there are provincial-territorial credits on top of that.

The Department of Finance has said that the purpose of the DTC is horizontal equity so that after disability-related costs, taxpayers pay roughly the same amount of tax. We believe there should be a broader understanding of horizontal equity, meaning that all those who have disability-related costs would be treated equally. Those who currently don't pay tax, the poorest of the poor among Canadians with disabilities, can't take advantage of the disability tax credit.

The organizations you see here, especially the Canadian Association for Community Living and the Council of Canadians with Disabilities, have engaged the Caledon Institute of Social Policy to prepare a costing of what it would mean to make the disability tax credit refundable.

If we did that, we could enable about 650,000 Canadians now living in poverty to take advantage of the refundability. We're suggesting that we take the highest rate of the DTC, which is the supplement in Saskatchewan. That's currently the highest rate, at about $1,700, and that would put $1,700 into the hands of the poorest of the poor among Canadians to address needed disability-related costs that they can't get deducted through the medical expenses tax credit or the disability support deduction.

We think this is a very practical, very focused measure. The costs are significant, and we recognize that, at $1.3 billion, but we have not seen a major investment in disability in this country. Put on the scale of other major transfer programs—OAS/GIS, veterans allowances—for what we recognize as vulnerable Canadians, such as children living in poverty and also seniors, I think it's time to recognize that Canadians with disabilities are another vulnerable group deserving of the kind of attention that those other vulnerable populations have received.

So we would call on this committee to help us take this recommendation forward, and we think it's a very legitimate role for the federal government. We're not calling for a transfer to provinces. We're calling for a transfer to one of the most vulnerable groups in Canadian society.

● (1550)

Thank you for your time.

**The Chair:** Thank you very much for your presentation.

We'll now move to the Canadian Institute of Actuaries.

Gary Walters, the floor is yours.

**Mr. Gary Walters (Vice-Chair, Member Services Council, Canadian Institute of Actuaries):** Mr. Chairman and members of the committee, on behalf of the Canadian Institute of Actuaries I'd like to thank you for the opportunity to appear and to provide input to this year's pre-budget hearings.

Too few Canadians are saving too little to generate adequate retirement income. Your committee invited feedback on the tax system needed for Canada to ensure a prosperous future. In our view, a healthy private pension system is a crucial component of such a future. The tax system is instrumental in facilitating and encouraging retirement savings, and most importantly company pension plans.

In particular, I am here to talk about defined benefit pension plans. These have seen significant decline in the past decade or more, and we strongly believe that saving and improving them is essential for millions of Canadians. Allowing their continued erosion weakens the whole pension system.

Before picking up on the tax-focused recommendations included in our written submission, who are actuaries and why are they interested? Actuaries are business professionals who are trained to analyze the financial consequences of risk. Much of our work involves the design and pricing of insurance, pension, health, and other benefit programs along with the modelling, measurement, and management of financial risk. In serving the public interest, Canada's actuaries have a history of contributing to key public policies.

The future of defined benefit pension plans is at risk. Committee members have no doubt seen news reports that a growing number of companies are converting their defined benefit plans to defined contribution plans. From a public policy perspective this is most unfortunate, given that defined benefit plans provide some certainty to plan members' retirement incomes. A move to defined contribution plans creates uncertainty and makes the plan member responsible for the investment risk and increasing longevity risk. Individual Canadians then face the very real risk that their retirement incomes will run out before they do.

A number of issues have contributed to the shift away from defined benefit plans. For example, court decisions and regulatory changes around surplus ownership have created unanticipated costs and uncertainties for pension plan sponsors.

Funding a pension plan is essentially a very long-term exercise. Short-term fluctuations can be quite significant—witness the recent declines in equity returns that have turned around in just the past 12 months. The long term is much more predictable; however, tax rules that take a very short-term view and limit the buildup of surplus have been a contributing factor to recent deficits and plan sponsor uncertainty. They have limited the ability of plans to maintain consistent contribution levels by using surpluses in good investment years to fund shortfalls in bad investment years.

The institute has designed a 10-point prescription for Canada's ailing pension system, a copy of which is attached to our submission. Three of the points call for changes to tax legislation that would help secure benefits and reduce uncertainty in the defined benefit field.

We believe higher levels of pension plan funding are required to improve the security of member benefits. A target solvency margin that recognizes the volatility of pension plans and their assets would establish a risk-based approach to plan funding contributions.

We recommend that a task force be set up with representation from pension regulators, the Department of Finance, and the institute to review the research and establish a target solvency margin framework. We also recommend that the Income Tax Act and regulations be amended to facilitate the concept of a target solvency margin and permit contributions to fund pension plans up to this higher level.

We believe many plan sponsors would be willing to fund defined benefit plans more securely if they knew they could access surpluses that might arise from their excess contributions. A pension security trust is an innovative way to facilitate this improvement and the concept of the target solvency margin.

Basically, it's a side fund owned and funded by the plan sponsor. Solvency deficiency and other payments beyond normal contributions would be placed in the pension security trust. If subsequent valuations showed that some of the assets in the pension security trust were not required, the excess funds could be released back to the plan sponsor.

So we recommend the establishment of a tax-deductible pension security trust under the Income Tax Act and regulations in order to facilitate these pension contributions.

● (1555)

We believe, considering the volatility in pension returns, the current level of allowed surplus in pension plans is too low. Currently plan sponsor contributions must be suspended when the surplus reaches 10% of actuarial liabilities. We therefore recommend the Income Tax Act and regulations be changed to permit a higher surplus before plan sponsor contributions must be suspended.

In summary, Canada's actuaries are convinced that the loss of defined benefit pension plans ultimately hurts working Canadians.

Thank you for your time.

● (1600)

**The Chair:** Thank you very much for your presentation.

Now we'll move on to the Canadian Institute of Chartered Accountants.

Kevin Dancey, the floor is yours.

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

As in previous years, our analysis, comments, and recommendations are contained in a written submission, which was provided to the committee in August. In our remarks today, we wish to highlight certain areas of that submission that we consider particularly important—debt reduction, sales tax harmonization, and the need for a single corporate tax rate.

Canada's chartered accountants applauded the news that the national debt was reduced by $14.2 billion in the 2006-07 fiscal year and that an additional $10 billion has been committed for debt reduction this year. Despite significant reductions in recent years, the level of federal debt equates to approximately $14,000 for each Canadian, well above provincial debt burdens.

Interest payments currently stand at $34 billion, and based on the government's own estimates, we will not see an appreciable reduction in these yearly amounts over the next five years. Advantage Canada notes that the level of debt charges exceeds combined federal spending on national defence, employment insurance benefits, and international assistance.

We recommend that the government accelerate the pace of future debt reduction beyond that outlined in the economic statement, so that a debt-to-GDP ratio of 20% is reached by or before the 2013-14 fiscal year. In order to achieve this goal, we call for minimum annual debt payments of $5 billion rather than $3 billion.

For the past few years, the CICA has been calling on the federal government to lower corporate taxes as a means to enhance the productivity, competitiveness, and overall growth of the Canadian business sector. Prosperous and growing businesses generate jobs and tax revenue, and that benefits all Canadians.

We were therefore very encouraged by the business tax reductions outlined in the economic statement. The government's commitment to reduce the general corporate tax rate to 15% by 2012 is a positive step.

The question of who bears the burden of corporate income tax is an interesting one. Some would argue that the impact falls only on corporations themselves. That tends to be the political spin, but there is a growing body of evidence that suggests otherwise. Studies show that businesses deal with taxes like any other cost. They either pass them on to consumers in higher prices, force them back onto salary and labour costs by reducing wages of employees, or reduce returns for owners and shareholders.

Looking back to 1998, conclusions reached by the finance department supported the economic argument that businesses ultimately do not bear taxes but simply pass them on. Increasingly, there is evidence that corporate tax ultimately falls primarily on labour incomes. A recent study in the U.K. suggests that any increase in corporate tax is passed on in the form of lower wages. Another study in the U.S. conducted last year confirms that wages are significantly responsive to corporate tax rates.

Closer to home, the Institute for Competitiveness and Prosperity puts it in relatively simple terms: corporations don't pay taxes, people do. The evidence is clear. High business taxes reduce wages for employees, and this is particularly true in small open economies like Canada's.

Reducing corporate taxes should be a bipartisan issue. Many countries around the world on all sides of the political spectrum are coming to this realization and aggressively reducing corporate taxes. Canada cannot be left behind. Accordingly, we'd like to see a faster action aimed at moving the corporate tax rate in line with the lower small business rate. In short, we would like to see faster, deeper cuts.

A single rate would bring much-needed simplification to the tax system by eliminating the rules currently needed to differentiate between large and small business income. Moreover, there is evidence that reducing the corporate rate could actually increase corporate tax revenues. Finance should ensure it models the true costs, if any, of further tax cuts. This would increase the effectiveness of the government's fiscal management.

Our submission also calls on the federal government to renew its efforts to make sales tax harmonization a reality across Canada. The economic statement notes that provincial sales tax harmonization would substantially improve our business tax competitiveness. We urge the government to move aggressively to provide the financial incentives necessary to complete this process.

Finally, the government must continually monitor capital cost allowance rates to ensure that they correspond to the economic life of the asset, which will encourage investment.

● (1605)

The combination of lower corporate taxes, sales tax harmonization, and appropriate CCA rates would greatly assist Canadian businesses, particularly manufacturing businesses, in dealing with a stronger Canadian dollar and the productivity challenge they face. It would also directly incent businesses to become global champions, with their head offices in Canada, which is a key priority.

Mr. Chairman, this concludes our comments in support of our written submission.

Thank you for the opportunity to speak to you today.

**The Chair:** Thank you very much for your presentation.

We'll move on to the Railway Association of Canada.

Bruce Burrows, vice-president of public affairs and public relations, the floor is yours, for five minutes.

**Mr. Bruce Burrows (Vice-President, Public Affairs and Government Relations, Railway Association of Canada):** Good afternoon. *Bonjour.*

The Railway Association of Canada, or RAC for short, is pleased to have the opportunity to submit the views of its membership regarding measures that the Government of Canada must take to improve the competitiveness of Canada's rail system and the economy as a whole.

Railways are an important part of the Canadian economy, moving approximately 65% of toll freight to domestic and international markets, employing more than 35,000 people, and paying more than $1 billion in taxes. The RAC represents some 60 freight, passenger, short-line, and regional railways—virtually all of the railway system in Canada.

The RAC has reviewed the questions pertaining to Canada's tax system, as outlined by this committee. Though the RAC will concentrate on tax issues specific to the Canadian rail industry, we believe Canada's tax system must be internationally competitive, encourage investment and savings, and attract foreign investment. In particular, the RAC would like to see the Canadian tax system reflect the Government of Canada's overall public policy to improve air quality and protect the environment. Such a tax system will better enable rail to make investments that will yield significant public benefits. Railways enjoy an intrinsic fuel efficiency and emissions profile advantage over the other transport modes.

Let me speak specifically to the issue of capital cost allowance for rail rolling stock. The rail industry is highly capital intensive. Canada's railways are spending over $2 billion in order to maintain their infrastructure and ensure they can move their goods in a safe and cost-effective manner. The RAC supports the recommendation of the standing committee in their 2006 pre-budget report to complete a comprehensive review of CCA rates to determine three things: the extent to which similar asset classes are equitably treated, whether Canada's rates are comparable with those of other countries, and whether these rates reflect their useful life. Further, the RAC supports the recommendation of the Standing Committee on Finance to permit rail equipment that reduces noise pollution and vibration to be reduced at a faster rate than their useful life.

It's also important to note that the House of Commons Standing Committee on Industry made similar recommendations. They were very supportive of moving rolling stock rates to over 30%. The current CCA rate for rolling stock is just 15%. It takes 20 years for any new piece of rolling stock to be fully depreciated. The current CCA rate is not in line with similar asset classes, such as truck tractors and other modes, which are all in the 30% to 25% range.

Railways are also in direct competition with U.S. roads. Containers arriving from Asia can be moved by U.S. or Canadian routes. The depreciation rate for rolling stock in the U.S. is approximately 30%. As such, U.S. roads can fully depreciate their rolling stock in eight years, versus twenty years for Canadian railways. This puts us at a significant disadvantage.

In fact let's look at a few statistics. RailPower Technologies, which is based in Montreal and uses state-of-the-art technology developed in Canada, manufactures hybrid locomotives. They reduce emissions by 80% to 90%, including GHGs, and they can save up to 150,000 litres of fuel per year per locomotive. RailPower is Canada's own.

The current CCA rate does not reflect the useful life of rail rolling stock. Locomotives contain a great deal of electronic systems, which are replaced or upgraded every three years. Every system and component under the hood is replaced in three to eight years. The RAC has undertaken a cost-benefit analysis of increasing the CCA rate for rail rolling stock to at least 30%. With $400 million in spending every year, it's estimated that the fiscal cost to the government will be in the range of $5 million to $6 million in year one, moving up to $20 million to $25 million on a fully phased in basis. This is very modest.

The benefits of increasing the CCA rate would accrue, not only to Canadian rail companies, but supply and component companies, which would increase production to meet the industry's new spending requirements.

As outlined above, the current 15% CCA rate for rail must be increased to at least 30%. This would be very much in line with their useful life, be comparable with other assets, and ensure that we are internationally competitive.

Technological change is sweeping every facet of our industry. Our prime focus here today is to emphasize the need to finally modernize the CCA tax treatment of rail equipment in Canada. This will attract the additional investment needed to address our environmental and innovation challenges.

Thank you very much for allowing the RAC to appear before you today. It should be noted that the RAC has also outlined some further recommendations to the committee.

I'd be pleased to answer any questions you may have.

● (1610)

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

We will now move to the question and answer part of the meeting. We were going to do five minutes....

Go ahead.

[*Translation*]

**Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ):** A point of order, Mr. Chair.

I would like my motion that appears under the heading "Committee Business" at point 2 of the Orders of the Day to be dealt with immediately. I would like it to be discussed immediately and put to a vote right away. Otherwise, there will not be the time to do so because there are a number of votes in the Chamber this evening. So I am asking you to move there directly so that the motion that I have tabled can be debated.

[*English*]

**The Chair:** I won't accept that as a point of order.

We'll now move to the questioning for five minutes.

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** We have no problem with that, Mr. Chairman. If there's no debate, we have no problem with it.

**The Chair:** I realize the issue. I'm not going to allow a motion on the table. I talked to the mover about this earlier.

Are you going to start with your questioning?

Mr. Telegdi, you have five minutes.

**Mr. Massimo Pacetti:** This is on the point of order, Mr. Chairman. It's because all the slots have been moved.

**The Chair:** You cannot move a motion on a point of order.

**Mr. Massimo Pacetti:** We're not moving a motion.

**The Chair:** I believe that's—

[*Translation*]

**Mr. Paul Crête:** I have asked for the motion be dealt with now. My point of order was about dealing with the motion now.

[*English*]

**The Chair:** You're moving it, isn't that right?

I'm not accepting that.

Mr. Telegdi, you have five minutes. Go ahead.

**Hon. Andrew Telegdi (Kitchener—Waterloo, Lib.):** Thank you, Mr. Chair.

My question is to Mr. Lind.

Mr. Lind, what kind of impact is the sub-prime mortgage situation south of the border having on the housing industry locally?

**Mr. Richard Lind:** The impact is secondary; from what we're seeing, it's in the way it affects people's attitude towards investment.

The other aspect, and what we're watching very carefully, is whether we may see some of that kind of sub-prime activity taking place here in Canada, which would affect the investment regime here.

I would ask John Kenward to speak specifically to some of the numbers on that.

**Mr. John Kenward (Chief Operating Officer, Canadian Home Builders' Association):** Mr. Chair, we're very fortunate in Canada not to be going through the experience they've had in the United States with the sub-prime market. At the moment there is no evidence that we are faced with such a problem. Nevertheless, the Canadian Home Builders' Association believes that with a more competitive mortgage insurance market, which we endorse, conditions should be placed on the guarantee that government provides to mortgage insurers, conditions that would very much limit if not prohibit the emergence of sub-prime activity in Canada.

**Hon. Andrew Telegdi:** Mr. Lind, you're from Nova Scotia. In Ontario there is also a big concern about the lack of skilled trades in the construction industry. Do you have any idea what kind of cost that has for the industry?

**Mr. Richard Lind:** Mr. Chair, it's not only in Nova Scotia and Ontario but across the country that the lack of skilled trades is affecting house prices.

For example, in Alberta the lack of skilled trades means that most houses have to sit for several weeks, even several months, while the various trades become available to do the next phase of construction. Having a house sit waiting for the trades to be available means that there are significant increased costs in carrying that project for the additional time. There are severe effects to the homebuyer because of this lack of skilled trades to keep the production moving along efficiently.

● (1615)

**Hon. Andrew Telegdi:** That gets to my final question, which is about the affordability index as well as about what it means to the supply of rental housing; that is, the affordability index to buy housing and the impact on rental housing.

**Mr. Richard Lind:** John, could I ask you to address that specifically, through the chair?

**Mr. John Kenward:** Mr. Chair, one of the matters that Mr. Lind raised in his presentation was the need for reforms to Canada's tax regime for private rental investment. We're not measuring up to projected requirements in this country, and therefore, in relation to the entire issue of housing affordability and the opportunity for people to find accommodation that they can reasonably afford, this is definitely a very serious problem. As you know, rental markets are very tight in many places across the country.

So it's certainly an issue of housing affordability. It becomes a related issue with respect to the entire question of how we go about helping those in housing need across the country, as well.

**The Chair:** Thank you.

Mr. Crête.

[*Translation*]

**Mr. Paul Crête:** Thank you, Mr. Chair.

I have a question for Mr. Burrows of the Railway Association of Canada.

In your first recommendation, you say: "Increase the capital cost allowance rate for rail rolling stock to at least 30%."

Mr. Burrows, am I to understand that you want the government to adopt, as quickly as possible, the recommendations contained in the unanimous report of the Standing Committee on Industry, Science and Technology which was tabled last February and which included this specific recommendation? If so, why should we adopt them as quickly as possible?

[*English*]

**Mr. Bruce Burrows:** Yes, I'm fully supportive of that measure.

[*Translation*]

**Mr. Paul Crête:** And for what reason?

[*English*]

**Mr. Bruce Burrows:** For the reasons I outlined. As I said in the brief, the Standing Committee on Finance and the industry committee in the past have both supported a minimum 30% capital cost allowance rate for rail rolling stock on the basis of supporting investment in new green technology and supporting the innovation imperative at large for new and more efficient technology.

[*Translation*]

**Mr. Paul Crête:** Thank you, Mr. Burrows.

My other question goes to Mr. Bach.

In my constituency, there is a lady called Nathalie Gamache who has a severely disabled child. She has written a book about it. She or her husband have this child in their arms for 18 hours a day. At the moment, it seems that existing tax credits for people with a disability are insufficient for the support they may require.

Are you in favour of an additional tax credit for spouses who must look after someone with a very severe disability, in the same spirit as the recently-created registered disability savings plan, but specifically for situations like the one that Ms. Gamache and her family are experiencing? Would a measure like that be of interest to you? Are present tax credits enough for extreme cases like hers?

[*English*]

**Mr. Michael Bach:** Yes, I absolutely agree. One thing we've learned as a community as we've tried to move forward with a disability and family support agenda in this country is that there's so much to be done. We find that when we put the full agenda on the table, people go, “Oh my gosh, this is just too much.” We're trying to narrow it down and do some pieces one at a time.

There's no question that families are being driven into poverty in this country; families who have children with significant disabilities are twice as likely to be living in poverty, and twice as likely to run out of money for food in a month. We've made families the front line of care for Canadians with disabilities and for seniors.

When we talk about funded disability supports, people with disabilities get their supports funded and served by community agencies. Only 20% to 25% of people with disabilities get all their needs met by community services, and 75% to 80% of supports in this country are provided directly by families. The cost to women primarily is extraordinary. They're not in the labour market. They don't have income security in their future years and they're much more likely to live in poverty. They're much more likely to have lower health status than other women.

There is no question that we need to work on both sides of this equation. Help create a floor that's going to have 100% more Canadians with disabilities begin to get out of poverty and begin to provide families with an opportunity to participate in the labour market while they care for their child or family member. Also, to significantly increase the infirm and caregiver credits and allowances in the tax system is one way to go.

We believe another possible measure is to provide some recognition in the Canada Pension Plan to women who have stayed out of the labour market their entire lives to do front-line care for family members with disabilities.

● (1620)

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

We'll now move on to Mr. Del Mastro.

You have five minutes.

[*Translation*]

**Mr. Paul Crête:** Are my five minutes up already?

[*English*]

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

I just wanted to start by thanking all of today's witnesses for their comments and also for their submissions to the finance committee.

I wish I had time to ask questions of you all, but I don't. I'm going to zero in on a couple of you only, but understand that all of your recommendations will be considered by the committee.

Mr. Burrows, I look at the rail industry in two ways. It's serving the need of reducing congestion on roads and providing safe transportation. It's also environmentally the right way to move freight, at least in the quantities the rail industry is moving it. I know the rail industry is constantly building its overall capacity and it's certainly an industry that's not without competition.

You mentioned CCA rates for rolling stock. Would changes in our CCA rates result in significant investment here in Canada?

**Mr. Bruce Burrows:** Yes, it would. It would most likely result in at least another $400 million of investment. In fact those are the base numbers that we use to calculate the tax impact that I mentioned, starting at $5 million a year, working up to $25 million a year.

So yes, it would be significant in both locomotives and rolling stock. And as I answered Mr. Crête's question, that would help address the environmental agenda. It would also allow us to be competitive with both our U.S. rail competitors and the other modes in Canada.

**Mr. Dean Del Mastro:** Would it have a safety benefit as well?

**Mr. Bruce Burrows:** No doubt, because whenever we have the most modern equipment in use, that's a benefit for safety. Safety can always be better, and that's a prime—probably number one—objective for the industry, to be in the safest mode. We are the safest part of the rail industry in North America here in Canada, but that doesn't mean we stop focusing on that objective.

So yes, it would certainly help.

**Mr. Dean Del Mastro:** Thank you.

Mr. Dancey, thank you for appearing before the committee again. I enjoyed listening to your comments. I think the Institute of Chartered Accountants has some good advice for government.

You spoke about the HST, and I was going to ask a question as to whether or not the Canadian Institute of Chartered Accountants had a position on interprovincial trade barriers.

**Mr. Kevin Dancey:** I guess anything that makes labour or capital or services flow more freely across borders is always a good thing. I think all you have to do when you do that is just make sure you have the right standards. What can often happen when you break down various trade barriers is that you get a race to the bottom in terms of standards. So you just have to make sure you have the appropriate standards.

For us that's not a particular issue, because CAs have the same standard across Canada. But in certain areas, you really just have to make sure you have the right standards.

**Mr. Dean Del Mastro:** Thank you.

I had the opportunity to take a number of economics and accounting courses at university, and often I will bring up the point that a lower tax rate doesn't mean lower government revenue. That's often misunderstood by some of the members of the committee.

Could you just take a moment to perhaps get into that a little deeper and explain why lower rates don't necessarily mean lower revenue for government?

**Mr. Kevin Dancey:** Basically, there are two things I will talk about. One is that the combination of lower tax rates, sales tax harmonization, etc., really incents businesses to grow. When they grow they create jobs, they create value, they earn money. They are more incented to have their head offices here in Canada as opposed to outside Canada, so there's that incentive.

Also, when you get into the technical areas of tax planning, you hear a lot about transfer pricing in the sense that there are various fees charged around the world to perhaps shift profits from country A to country B. If you're in a country with a very low tax rate, you tend to get more income coming in than expenses being charged to that area.

● (1625)

**Mr. Dean Del Mastro:** Thank you very much.

Thank you, Mr. Chair.

**The Chair:** Mr. Mulcair, you have five minutes.

[*Translation*]

**Mr. Thomas Mulcair (Outremont, NDP):** Thank you, Mr. Chair.

My first question is for Mr. Powell. At the bottom of the first page of his document, in the next-to-last paragraph, he says this:

> Too often, tax policy and regulation freeze industry in patterns reflecting yesterday's economy, inhibiting investment and innovation that greater competition would unleash. Whether through complacency or short-term vision, government policy still inhibits capital investment and Canadian companies too often seem slower to invest in their foreign competitors.

Could Mr. Powell give us examples of what he is referring to here?

**Mr. David Powell:** Yes. Thank you for asking the question.

An example is having policies that apply across the country. We frequently come up against trade barriers between provinces. A federal-provincial committee has been working to design measures for consumers. In all those years, Canadian governments, provincial and federal, have not managed to come up with a single definition.

In these conditions, an entrepreneur wanting to do business across the country has to deal with varying requirements and contracts. This means higher prices, which inevitably have to be passed on to the consumer; otherwise, our members have no reason to be in business. In our document, we are asking that, as a priority, the federal government act as a catalyst to start a debate across the country on productivity and the need to find more intelligent and productive ways of working.

**Mr. Thomas Mulcair:** With the rise in our dollar, the strength of the oil industry is causing an imbalance. Since the Second World War, for sixty years, the Canadian manufacturing sector has grown and provided well-paid jobs. Now it is shrinking because it is caught in a vicious circle.

The Conservative government prides itself on providing tax cuts for business, but an operation in manufacturing, in forestry or in agriculture that is making no profits because of the strength of the dollar gets no benefit from the tax cuts. At the same time, the oil industry is getting the reductions too while generating huge profits, which in itself hastens the destabilization in our economy.

If I understand you correctly, you think that the government would be wrong to design fiscal policies specifically to help manufacturing and forestry which are now in crisis because of the strength of the dollar. You share a little of the Conservative government's vision in that you want to apply the rules to everyone and tell yourself that a free market is going to magically produce solutions for everything.

But we think that the government must be proactive instead. Do you not think that manufacturing and forestry need help and that they could benefit from a targeted government initiative? Or do you think that that would be "freezing industry in patterns reflecting yesterday's economy"?

[*English*]

**Mr. David Powell:** I'll answer you in English, just to be more precise.

One element we've come to believe is that a competitive marketplace is a very important component in terms of inciting companies to become more efficient and more productive. Take a sector like the automotive sector. The automotive sector goes through serious challenges—it's going through a serious challenge right now—but the fact that Canada, that Ontario, produces 20% of the automobiles in North America is due to the fact that the industry and its workers, the unions, have seized on an ability to become more productive. They've become more skilled. As skilled labour, they're supporting much higher salaries.

Our argument is that one challenge Canada faces is that we don't have a competitive enough marketplace to incite Canadian companies to become more efficient and productive. If you look at the study just produced two weeks ago by Statistics Canada, it talks about foreign-owned companies operating in Canada. What do you see? You see this:

> The plants of foreign-controlled firms are generally larger, have a higher labour productivity, pay more per worker, and have a higher percentage of their employment in white-collar workers...than are domestic-controlled firms. ... A comparison of the extent and impact of innovation activity of domestic- and foreign-controlled firms shows that foreign-controlled firms innovate in all sectors more frequently than do Canadian-owned companies in almost all size categories.

I put that down to the competitive pressures.

● (1630)

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

That ends the question and answer part of our meeting.

I would ask the witnesses—I'm going to inform the committee that normally we break as we bring another panel of witnesses, but we're not going to do that—to retreat from the table. I thank you for your testimony.

We will bring the other panellists forward. We will start immediately with our first panellist, because our time is very tight. We have votes that will interrupt the committee's normal flow.

Just to let you know, Mr. Crête, we will be dealing with the motion right after we're done with the panellists and the questioning.

We have, from the Canadian Association of Fire Chiefs, Rick Larabie, fire chief of the Ottawa region.

The floor is yours for five minutes. Thank you very much.

**Mr. Rick Larabie (Fire Chief, Ottawa Region, Canadian Association of Fire Chiefs):** Thank you, Mr. Chair.

My name is Rick Larabie, and I'm the fire chief here in Ottawa. I am with you today, however, in my capacity as a member of the National Government Relations Committee of the Canadian Association of Fire Chiefs. On behalf of the association and the almost 1,000 fire chiefs who comprise our membership, thank you for providing this opportunity to present our pre-budget views.

Underlying this brief is our thesis that a prosperous society needs more than just financial security. The fire services regard safety as an inalienable right of all Canadians and a key to national prosperity. An overwhelming 97.7% of our survey respondents said that the federal government has a significant role to play in ensuring that all Canadians receive a basic level of protection against fire and other perils.

The previous standing committee posed three specific questions on various aspects of the federal tax system. Our responses to the committee's questions numbers one and three provide recommendations as to how the taxation system can be used as a tool to improve the safety of Canadians and thus enhance the prosperity. Corporate taxation is not a fire service issue. Therefore, this brief did not address question number two.

The committee's first question was whether changes made to taxes, fees, and other charges should be broadly based or targeted. From our perspective, the safety of citizens and of the fire services personnel who protect them can best be addressed through targeted approaches. We then go on to describe how the tax system can be used to encourage the installation of automatic sprinkler systems in existing non-residential buildings and existing residential high-rise buildings. The tax system can also be used to provide the owners of low-rise residential structures with a tax incentive to install such systems in these buildings.

The third question deals with issues surrounding the personal income tax system. Our major recommendation in this regard is that volunteer firefighters and their officers should be entitled to a personal income tax credit. Of the 3,492 fire departments in Canada, 3,184—which is about 91%—are volunteer departments. Of the firefighting personnel in Canada, 84,314—that's 78%—are volunteers. The volunteer component is facing severe problems relating to recruiting and retaining the personnel required to protect the citizens of their communities.

Without measures to encourage volunteers, municipalities will face either diminished protection or increased taxation, neither of which will enhance their prosperity. Previous versions of this committee have shown themselves to be in favour of additional financial recognition for the work performed by the volunteer fire service.

In its report tabled in the House last December during the previous session of Parliament, the standing committee wrote the following:

> The Committee believes that volunteers—and the hours of service they give—are important to the fabric of our nation. In some cases, such as emergency service workers, they provide essential services that otherwise would not be performed, or that would be performed by municipalities and funded by higher tax rates. Volunteer service is, in our view, an activity that deserves recognition.

In the previous Parliament, when the standing committee decided to kill Bill C-273, it said:

> Whereas the Committee is generally supportive of the intent of Bill C-273 and feels that those who provide volunteer emergency services should be recognized by the federal government through the tax system, there are unresolved questions.

Therefore, the Canadian Association of Fire Chiefs again recommends that a personal income tax credit be made available to volunteer fire services personnel.

We have provided the standing committee and the finance minister with comprehensive documentation on this issue, and we find it difficult to understand the government's continued intransigence. A major problem facing volunteer fire departments is the hardship experienced by employers, especially those in smaller and family-owned firms, when their employees respond to calls. Accordingly, we have recommended a tax credit for the employers of volunteer firefighters in recognition of the business losses these employers face.

● (1635)

Your kind attention to our concerns is deeply appreciated.

Thank you.

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

We'll now move on to the Canadian Urban Transit Association, and Bernard D'Amours.

**Mr. Bernard D'Amours (Director, Public Affairs, Canadian Urban Transit Association):** Thank you, Mr. Chairman.

[*Translation*]

A solid urban transportation network is vitally important for quality of life, for economic development and for a healthy environment, all of which are of great concern to Canadians.

More and more Canadians are recognizing that an investment in a safe and efficient public transportation system means an investment in our economy and our future prosperity.

[*English*]

Highlights of a 2006 Ipsos Reid poll conducted for CUTA are contained in our written submission, which you may wish to review at a later time. However, I will point out now that according to the results, it is evident that many Canadians are concerned that governments are not striking the right balance to meet their communities' transit infrastructure needs.

It is clear that you as a committee have selected several questions related to the balance of taxation and support of various types of public good provided by countries. CUTA would like to directly address this area of study as it relates to public transit.

[*Translation*]

It is worth noting that Canada is the only G8 country without a federal policy for predictable, long-term transit investment. This situation prevents Canadian transit systems from achieving their full potential, and it must be addressed.

[*English*]

As finance committee members, you are no doubt aware that a new national transit strategy has been proposed by the Big City Mayors Caucus of the Federation of Canadian Municipalities. Together with FCM, CUTA is urging its implementation by the federal government. Implementing a strategy such as this will be beneficial to all Canadians. It will provide an opportunity to maintain, renew, and expand transit services across Canada; it will provide federal tax incentives for individuals who choose transit; and it will ensure that transit operations are more effective and efficient, among other things.

I cannot reiterate enough just how urgently new investment is needed. Canadian transit ridership grew by more than 10% in the first half of this decade. Many transit systems are serving more riders than ever, while also facing the need to rehabilitate and replace aging infrastructure. Communities nationwide are counting on revitalizing expanded transit systems to help tackle major challenges such as climate change, air pollution, escalating congestion, and the needs of a growing and aging population.

The public transit industry is supportive of federal programs that fund local infrastructure, such as the gas tax fund, and the building Canada fund; however, more investment is needed.

● (1640)

[*Translation*]

Initiatives like the recently-passed public transit fund and the public transit capital trust provide valuable assistance, but they do not guarantee long-term financial certainty.

[*English*]

Canada's transit systems need stronger leadership from the federal government in order to build an effective long-term transit plan.

In order to entice more and more Canadians to use public transit, it is important to offer more incentives for transit users. Through policy and taxation the federal government can provide incentives that make transit a more attractive choice for Canadians. CUTA supports the new personal income tax credit for transit passes, but much more can be done.

One example that CUTA and its partners, including FCM, have pursued for more than a decade is tax-exempt status for employer-provided transit benefits. In Canada, public transit accounts for approximately 11% of work-related travel. CUTA is again calling on the government to support tax law changes to allow this initiative as a non-taxable benefit.

On behalf of CUTA's members, I would like to thank the committee for today's opportunity.

**The Chair:** Thank you very much for being on time, and for your presentation.

Next we have Richard Monk from the Certified Management Accountants of Canada.

**Mr. Richard Monk (Chair, Certified Management Accountants of Canada):** Good afternoon, Mr. Chairman, distinguished committee members, and fellow presenters.

I am pleased to be here with you today to represent Certified Management Accountants of Canada. CMA Canada is pleased that the committee is considering how to design a tax system that would ensure the prosperity and productivity of individual Canadians and businesses. We have followed your lead. Our submission makes six recommendations focusing on improving Canada’s productivity record, because we believe productivity growth is paramount to improving the living standards of Canadians.

If we're going to ensure that Canadians are in the top rank of living standards globally and that we have the necessary resources available to invest in areas that improve our quality of life, Canada's productivity performance must be improved. Therefore we focus on the three key drivers of productivity—namely, people, physical capital, and innovation.

Education and training play an essential role in driving productivity. We believe that measures need to be taken both at the highest level of education and at the most basic level.

With regard to post-secondary education, we would like to see the government build on its budget 2007 initiative for promoting Canada as a destination of choice for top scholars from around the world. We ask you to consider the idea of a Canadian brand of scholarship program aimed specifically at attracting to Canada the best and the brightest students in the world. Yes, we already participate in the Canada-U.S. Fulbright program, but why not launch a fully Canadian brand of international student scholarship? And once they are here, let's make it easier to encourage gifted foreign students to stay in Canada after they graduate.

Having regard to training, the most basic literacy skills are essential to Canadians' standard of living. Poor literacy skills act as a drag on productivity growth. We would like to see the federal government examine a wide range of policy instruments that promote the acquisition of basic literacy and numeracy skills. This could range from investing directly in such programs, to using the tax system to introduce a tax system change for employers that would provide a credit for approved training expenditures.

Research demonstrates that there is a close link between investing in information and communications technology, or ICT, and increased productivity. Budget 2007 introduced a positive measure with the accelerated capital cost allowance on machinery and equipment acquired by businesses and manufacturing and processing. We would like to see the government build on this initiative by introducing a dedicated ICT adoption tax credit targeted specifically at small and medium-sized enterprises. Such businesses can become Canada's next international success story. An ICT adoption tax credit was recommended by the telecommunications policy review panel, and we believe it has great merit.

In addition, the government said in budget 2007 that it is committed to moving forward with the five provinces that have not yet harmonized their sales tax regimes with the GST. We strongly support this initiative and look forward to learning the steps that the government will be taking to encourage this to happen.

We think of the third key driver of productivity, innovation, in pretty simple terms. It really means doing things smarter. Innovation is reinforced by investing in human and physical capital as well as by encouraging competitive markets and protecting intellectual property rights.

Another key public policy measure to encourage innovation is the scientific research and experimental development tax credit. The SR and ED program is well known in the business community. While this program is generally recognized as being generous, Canada continues to underperform in business research and development.

One change to the program that we think would encourage greater investment in R and D by our business community is to extend the refundability provisions currently available only to the smaller businesses to claimants of all sizes. An alternative is to permit larger claimants to offset the tax credit against other government levies, such as the EI premium. The objective is to have our larger companies, with significant resources, make better use of the program, and thereby help drive greater innovation in Canada.

Our second proposal is to boost innovation to combat the counterfeiting and piracy of intellectual property. Your colleagues on the public safety committee and the industry committee made several excellent recommendations earlier this year to protect holders of IP rights. I am pleased that the government has replied favourably to these two committees. We believe an important contribution to this work could be made if you were to recommend that adequate resources be made available to those departments and agencies that are on the front lines of the fight against IP piracy.

Mr. Chairman, we thank you and your colleagues for your interest, and look forward to responding to any questions you might have.

● (1645)

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

We'll now move on to the Direct Sellers Association of Canada, Ross Creber, president.

The floor is yours for five minutes.

**Mr. Ross Creber (President, Direct Sellers Association of Canada):** Thank you, Mr. Chairman.

Mr. Chairman, honourable members, on behalf of the fifty member companies of the Direct Sellers Association and 600,000 independent sales contractors or direct sellers across Canada, I want to thank you for the opportunity to participate in this consultation.

Direct selling companies and the independent sales contractors market a wide variety of products and services directly to the consumer, usually in the consumers' homes rather than in traditional retail establishments. The industry's combined labour force earns an estimated $966 million in income, of which $772 million was paid for in bonuses and commissions to these independent direct sellers, based on retail sales of $1.96 billion.

The DSA applauds the federal government for the further reduction of the GST as an important step in getting money back into the pockets of Canadians. We also applaud the personal and business income tax reductions announced in the finance minister's October economic statement. These reductions are necessary to promote economic growth, job creation, and international competitiveness.

The direct selling industry is a vital part of the small business sector in Canada, investing in entrepreneurial and human capital. The direct selling industry has a tremendous capacity to create jobs and to promote entrepreneurial activity amongst Canadians. We also provide accessible business opportunities with little or no investment, usually less than about $500, that is open to all Canadians, without restriction with respect to gender, age, education, knowledge, or previous experience. This business opportunity is accessible to all men and women everywhere in Canada, whether they live in urban, suburban, or rural communities.

While the DSA applauds the government for its reduction in the GST rate, there is one GST-related issue that we believe needs to be addressed—namely, the discrimination that currently exists with the goods and services direct sellers mechanism.

The direct sellers mechanism is based on pre-collection by the direct selling companies of GST or HST on the suggested retail price. It removes a considerable burden from both the independent sales contractors and the Canadian Revenue Agency. Without the direct selling mechanism, independent sales contractors would have to be GST-registered and collect and remit the tax to CRA. The direct sellers mechanism eliminates that step, resulting in administrative efficiencies and a cashflow advantage to the government, with no underground economy with respect to the goods and services tax in the direct selling industry.

While the GST direct sellers mechanism is operating in a positive fashion, it discriminates against the 20% to 25% of the industry operating as independent sales agents, who are currently excluded from the mechanism.

I want to emphasize to the committee that this amendment would be revenue-neutral. The government would continue to receive “tax at the max” with no risk, and there would be no cost to the federal government.

The DSA has had positive discussions with the Department of Finance and the Minister of Finance's office in order to find a straightforward technical amendment so that the direct sellers mechanism applies throughout the industry without discrimination. We believe all parties are in agreement on how to correct this shortcoming, and of course, Mr. Chairman, we would greatly welcome an endorsement by this committee that the government should proceed with this amendment.

Mr. Chairman, the Direct Sellers Association and its member companies appreciate the opportunity to participate in the pre-budget consultation process. As always, we are prepared to provide our support to the government to help it achieve its goals.

Thank you.

● (1650)

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

We'll move back up the list to the Canadian Real Estate Association. Pierre Beauchamp has now joined us at the table.

The floor is yours, for five minutes.

**Mr. Pierre Beauchamp (Chief Executive Officer, Canadian Real Estate Association):** Thank you, Mr. Chairman.

On behalf of the 95,000 members of our association who are realtors in this country, I wish to thank you for allowing us to present before your committee today.

Our members, Mr. Chairman, are small business people who are involved in their community and contribute to both the life and the economy of that community. Our association also owns, as many of you would know, the familiar MLS and Realtor trademarks. These are marks that are used by our members and indicate their strict adherence to our code of ethics.

[*Translation*]

In our pre-budget submission document already submitted to you, we list several specific recommendations that have tremendous economic and social benefit. These include establishing a comprehensive federal housing strategy, raising the borrowing limit for individuals under the home buyers' plan, allowing deferral of capital gains tax and recaptured capital costs for real property investments, and action to address what can only be described as an aboriginal housing crisis.

[*English*]

Mr. Chairman, we believe Canada can never fully achieve its economic potential unless its citizens have access to suitable housing. The way to do that is with the development of a federal housing strategy. A federal strategy would tie all existing and new initiatives together, and emphasize that housing and shelter are national priorities that are beyond any jurisdictional debate.

That federal housing strategy should outline the government's plan to combat homelessness, provide assistance to those in housing need, maintain national housing standards, and promote home ownership as the preferred option for most Canadians.

Any federal housing strategy should also include support for the national homebuyers plan. It is a true government policy success story that combines savings for a home with savings for retirement. We're asking that the borrowing limits under the plan be raised for the first time in 15 years, just to cover the rate of inflation.

A federal housing strategy would also spell out how the government's proposed first nations market housing fund can help to ease the aboriginal housing crisis.

Mr. Chairman, I'd like to also highlight a specific tax policy recommendation that would improve the prosperity and productivity of both citizens and businesses. This is our proposal for the rollover of capital gains tax to encourage reinvestment in Canadian communities.

We are talking about investments by ordinary Canadians. These are our neighbours. They are people who invest in duplexes, other types of rental housing, and small commercial properties. From time to time, some would like to sell and reinvest either in another community or in a different type of property, but they are not selling because they're trying to avoid the tax penalty known as the “lock-in” effect.

[*Translation*]

Our proposal would make the federal government an active and effective partner in the regeneration and intensification of urban neighbourhoods. It would help generate more affordable rental housing. It would not be limited to housing rentals, but would apply to all small-scale investments generating both social and economic benefits.

Some think that capital gains tax deferrals only benefit the wealthy.

[*English*]

Research prepared for our association has produced some interesting evidence showing that, in fact, the opposite is true. For example, recent data obtained from Statistics Canada shows that in 2005, two-thirds of all taxpayers reporting real property gains had an annual net income of $50,000 or less. These are the small-scale middle-class investors at the centre of our proposal.

Mr. Chairman, the capital gains tax deferral issue also remains an unfulfilled campaign promise. Canadians know that complex files such as these require careful analysis, consideration, and, most importantly, the clear support of all parties, particularly in the context of a minority Parliament. We urge you to recommend that it be a priority item for next year's federal budget.

Thank you very much, Mr. Chairman.

● (1655)

**The Chair:** Thank you for your testimony.

We'll now move on to the Heart and Stroke Foundation of Canada, and Sally Brown.

Sally, you used to be a regular at the health committee. Are you lost...?

**Voices:** Oh, oh!

**Ms. Sally Brown (Chief Executive Officer, Heart and Stroke Foundation of Canada):** I thought maybe *you* were lost, Mr. Chair.

**The Chair:** Maybe we're both lost.

All right, you have five minutes.

● (1700)

**Ms. Sally Brown:** The Heart and Stroke Foundation is one of Canada's leading health charities, investing some $60 million a year in peer-reviewed health research and stroke research and actively engaging in every community to promote healthy living. It is a proud lead partner in the development of the heart health strategy and action plan for Canada, at the request of Minister Clement.

You have our brief, and I'll be much briefer today. I will begin with how we believe the federal government can help address obesity through tax policy and targeted infrastructure investments. I will finish with our recommendation on how it can better support donor investments in health research.

Mr. Chair, you know from your former leadership of the health committee how serious, daunting, and potentially expensive the obesity epidemic will be if we don't seriously begin to address it now. The mechanisms we're suggesting in our brief for the federal government to help address this epidemic are not new: tax policy and targeted infrastructure funds.

In terms of tax policy, the federal government has used this mechanism effectively to promote health in the past. Perhaps most notable has been its use to disincent and reduce smoking in Canada. The government's recent introduction of the children's fitness tax credit is another example. So too is the tax deduction for the purchase of public transit passes. In terms of infrastructure funds, this has been a popular tool by several federal governments to incent provincial and municipal investments where gaps have been identified and needs have to be dealt with.

We are asking the federal government to once again use tax policies and infrastructure investments to enhance health. Let me be a bit more specific. For the overweight and obese, which includes some 60% of us, tax policy provides an incentive to support needed behavioural change. Research has demonstrated that foods that are health-promoting are considerably more expensive than low-nutrient, energy-dense foods. As one step, we would suggest that the government revisit the current application of the GST on foods to ensure that it is applied in a manner that facilitates healthy eating. While overall GST reductions are helpful, more selective reductions will have a greater health impact.

Improving access to physical activities, such as equipment, can help encourage Canadians to engage in physical activity more. Tax policy can provide an economic incentive for consumers to make the healthier choice. It's particularly relevant to Canadians of lower socio-economic status, where affordability is more of a barrier. To that end we recommend that the government improve the children's fitness tax credit for children and youth in the various ways that we have outlined in our brief, and that it remove the GST from products that promote physical activity, such as exercise equipment, bikes, skates, hockey gear, and other sports equipment.

Another important measure of addressing obesity is to create a dedicated infrastructure fund that can facilitate physical activity. Numerous studies have found a relationship between the design of our communities and obesity levels. Specifically, these studies have demonstrated that individuals living in communities that are more walkable, more easy to cycle in, are more likely to reach recommended levels of physical activity, and thus are more likely to be at a healthy weight.

The federal government has a role to play in facilitating the development of this type of health-promoting infrastructure, such as sidewalks, bike lanes, parks, and recreation centres. We thus urge the federal government, following along the report of the Standing Committee on Health on healthy weights for healthy kids, to dedicate a specific percentage of existing infrastructure funds—not new funds, existing infrastructure funds—towards the development of infrastructure that promotes physical activity. Our brief outlines those funds that could be targeted.

Tax policies and infrastructure are obviously not the only ways in which we can address obesity, but they are important when combined with other measures.

Finally, let me turn to how the federal government can better support donor investments in health research. About five years ago, the federal government recognized its responsibility to fund the indirect as well as the direct costs of research. The federal government's indirect costs of research program was the new mechanism chosen to meet this responsibility and fill this need. However, this program does not cover health charity funded research, even though by health charities' investing to the tune of some $200 million a year we are meeting a need and filling a gap that the federal government would otherwise need to fill. This is counterproductive to the program.

I should add, Mr. Chair, that I'm not here to ask for that money for the health charities. I'm here to ask that the money be given to the 13 Canadian universities and their affiliated teaching hospitals to which 80% to 90% of our money goes.

Canadian donors cannot be expected to pay these costs. They already contribute to university overheads through their taxes. This is a government role. Currently the program means that charities are at risk of being double taxed.

Thank you, Mr. Chair, for this opportunity.

**The Chair:** Thank you.

We'll now move on to the National Aboriginal Achievement Foundation, and Roberta Jamieson, president and CEO.

Go ahead, for five minutes.

**Chief Roberta Jamieson (President and Chief Executive Officer, National Aboriginal Achievement Foundation):** Good afternoon.

Greetings to you, Mr. Chair, to all members of the committee, and, through you, to the people of Canada you represent.

I'm here to talk about Canada's future—specifically, that the investment of federal resources to realize the potential of first nations, Inuit, and Métis youth is essential if Canada is to have a prosperous future.

Currently, aboriginal youth are noted for two things: the fastest-growing demographic in the country and the most poorly educated in Canada. The unacceptable gap between high potential and low achievement will not close by itself. Indeed, it will widen and be passed on to the next generation and will be a costly burden for Canada to bear financially, socially, and politically.

According to research done by the Centre for the Study of Living Standards and announced just last week, if we could close the gap between the education of aboriginal children and youth as compared to the Canadian population as a whole, $71 billion would be added to Canada's gross domestic product over the next 10 years. Then, every year after, the increase would be $8.3 billion. Far-reaching economic and social benefits would result, infused into the Canadian economy, and enjoyed by all Canadians.

In this context, the cost of providing aboriginal youth with access to better educational opportunities is a handsome investment in the very near future and one that will reap benefits for generations to come.

There's another important dividend, and that's alleviating the challenge of labour shortage that reduces economic activity. Many thousands of aboriginal children entered kindergarten this year. If these children, and those who follow, are able to have the same educational outcome as other Canadian children, Canada's GDP will increase $21 billion when these children enter the labour market. First nations, Inuit, and Métis could be 7% of Canada's labour force if the gap is closed. Remember that aboriginal people will account for nearly 30% of Canada's annual natural population increase between 2001 and 2017. If we do nothing for these children, the gap will surely widen.

For example, aboriginal individuals 15 and over with degrees increased over the period between 1996 and 2001 from 7.9% to 8.9%. Over the same period, non-aboriginal Canadians with degrees went from 20% to 21.8%. While more aboriginal youth were completing university, the gap between the two groups was widening.

Closing the gap is too complex for the federal government to do alone. I understand that. The federal government is a key leader, but we also need the strong commitment of provincial and territorial governments, aboriginal communities, organizations, professional associations, the private sector, unions, and employers. The National Aboriginal Achievement Foundation provides an essential factor in that equation, indeed the ideal mechanism to apply to the interrelated objectives of ensuring that every first nations, Métis, and Inuit young person is motivated and confident to realize their potential, and that each one who wants to advance is not denied the opportunity for lack of funds.

The foundation already provides more scholarship funding to aboriginal youth than any other agency in Canada outside the federal government, at about $3 million annually, but we can and must do more.

● (1705)

And we get results. We measure the impact of everything we do. We have a monitoring and tracking system, with the best database in the country on aboriginal post-secondary students. Our results demonstrate we are making a meaningful difference, so far providing to 7,000 recipients more than $27 million in financial assistance.

We are a registered charity with an eminent and professional board, and we are publicly accountable.

We receive money from corporate donors, aboriginal and other organizations; from the federal, provincial, and territorial governments; and from individuals. And we can and do leverage the contributions of one to achieve matching contributions from others.

We consider ourselves much more than another competitor for the federal dollar. Having demonstrated that we improve the return on investment in education of first nations, Inuit, and Métis youth, in closing we ask that this House committee on finance recommend that the government use the foundation's capabilities to convert problems into solutions for post-secondary education and training for aboriginal youth to help meet Canada's labour needs.

Finally, we ask the committee to recommend to the Minister of Finance and to Parliament that the foundation be utilized by the Government of Canada as a means of assuring that every aboriginal student who is accepted for post-secondary studies has the means to realize their dream.

I'd like to say thank you very much for the opportunity to present a written submission, which you all have, and to speak here today.

*Nia:wen kowa*.

**The Chair:** Thank you very much for coming and presenting.

We now will move on to our last presenter, from Philanthropic Foundations Canada, Hilary Pearson, president.

The floor is yours for five minutes.

**Ms. Hilary Pearson (President, Philanthropic Foundations Canada):** Thank you, Mr. Chair.

I'm conscious of the fact that as last witness, I'd better get a move on. I'm sure you want to ask some questions, so I'll be fast.

Thank you for your invitation to comment on the tax measures that ensure the prosperity and productivity of residents and businesses in Canada.

Our submission addresses your first question: What criteria do you believe guides federal decisions about the changes that should be made to taxes, and about whether they should be broadly based or targeted to a specific group of residents or sectors?

[*Translation*]

The volunteer sector in which we work contributes significantly to our economy. In fact, it represents almost 8% of our GNP and employs more than 1.5 million people. The specific mission of our association is to foster a social and regulatory environment that encourages philanthropic participation, and to assist Canadian communities in realizing their full potential.

[*English*]

We believe that philanthropy illustrates the benefit of using targeted tax measures. Our first recommendation to you is to continue to expand the use of such targeted tax incentives to promote individual giving to Canadian charities.

An important criterion for employing targeted tax measures is in those circumstances where there is an identifiable link between the tax measure and the resulting individual actions that would not have been undertaken otherwise. An excellent example is provided by the donor response to the new tax incentives for gifting of assets to charities. We want to thank this committee, and the government, for endorsing the elimination of the capital gains tax on gifts to foundations and charities. This is a cost-effective and targeted way of increasing individual giving to our communities, giving that would not have occurred as much or as quickly without it.

We believe the government could introduce further targeted incentives, as done by governments in other jurisdictions such as the United Kingdom and the U.S., to provide indirect flows of private capital to the sector, in addition to direct flows though grants and contributions. Therefore, our second recommendation is to encourage the government to launch an examination of targeted tax measures to increase the flow of investment capital from private sources to the charitable sector.

A comprehensive examination of how to promote greater indirect flows of finance to small organizations operating in the non-profit sector is long overdue. We think it would be very valuable to conduct an external review of instruments in use in other sectors and jurisdictions to support such investment. Such instruments would include tax credits, dedicated lending instruments, and intermediary organizations to support the capital needs of charities.

One of the most important challenges to productivity that is faced by the Canadian non-profit sector is limited access by organizations to investment capital. Charities need debt finance and investment capital to finance their facilities, to bridge finance the acquisition of equipment, and to invest in soft capital such as business plans. That capital simply isn't there.

The federal government could help to bridge this gap and increase non-profit productivity by reviewing its tax incentives and the regulatory framework that enables and encourages the creation of community finance instruments. Grants and gifts alone cannot provide sufficient funding, particularly as we look into the future and see an increasing need for social and labour market services for an aging and declining population, a smaller group of contributing taxpayers, and new inflows of immigrants who need integration into the shrinking workforce. We urge the government to proactively initiate measures that will increase capital investment in the non-profit sector.

In other countries, government policy has evolved to support this goal. I want to offer examples from the United Kingdom in particular, which offers an integrated framework of government policies to support community sector financing through increased private sector flows, not government flows. In 2000, the U.K. government did what our government did this past year; it enhanced tax incentives for individual donors by eliminating capital gains tax on donations of assets. They went further, in 2002, by introducing a tax credit for individuals investing in community development finance institutions. These institutions provide financing to businesses operating in disadvantaged areas, or to groups that are disadvantaged in the labour market and that want to establish businesses.

Access to capital and banking services for charities has been facilitated by the government through the Financial Services and Markets Act. Since 2002, U.K. charities have been able to access loans through a charity bank and mezzanine financing program through Venturesome.This is a social investment initiative that provides risk capital and advice to small and medium-sized charities. Both of these structures are supported by grants from charitable foundations, as well as by individual donors. In addition, charities can use a dedicated banking facility to create deposit accounts and access banking services.

Finally, in 2004, the U.K. created a government-backed independent fund called Futurebuilders, to offer access to loan capital for non-profit organizations delivering public services on behalf of government. Most organizations have never borrowed before, so Futurebuilders provides support to ensure that investees have the right financial, managerial, and governance structures to take on a loan and successfully compete for contracts in the public sector.

All of these measures, and others, have been introduced in the U. K. as part of a comprehensive government effort to unleash new sources of private and institutional investment in charities. The U.K. example illustrates what is possible when government and the community work together.

In conclusion, as a priority, we urge the committee to recommend an external review to enhance the flow of private capital to communities and complement the very welcome new tax incentives for individual giving introduced by the government in the past two budgets.

*Merci beaucoup.* Thank you.

● (1710)

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

We'll now move on to the question and answer portion.

We'll start with Mr. Turner, for five minutes.

**Hon. Garth Turner (Halton, Lib.):** Thank you very much.

Thank you to all the witnesses for coming today. We really appreciate hearing your testimony. Thank you.

I'm going to pick on Mr. Beauchamp for a moment.

It's nice to see you again, sir. I want to direct a couple of questions to you, and then my colleague Mr. Regan will be taking the rest of my time.

We have such an accumulation of family net worth in residential real estate. I think we're at historic high levels at the moment. Your industry is now extremely important, for many reasons, in our economy. Can you address the issue of affordability for a minute? Mortgage rates have risen in the last few months, and so have resale home prices.

Are we getting an affordability crunch?

● (1715)

**Mr. Pierre Beauchamp:** Well, if you look at what has happened and the predictions that are made for the future, then by and large, I think, we're looking at a stabilization of the experience that we've seen with respect to prices and with respect to the market itself.

We have experienced in the last year, particularly, a very buoyant situation in Canada. We expect that next year the markets and average prices will possibly be reduced slightly. We simply expect a soft landing as we have predicted already. We do not see a major crunch.

**Hon. Garth Turner:** Let me just come back to that point, because in the United States, obviously, we've had a very serious situation with real estate values. The sub-prime crisis has moved over and brought residential prices down. I think I just heard you say that you might anticipate residential retail real estate prices being slightly lower next year than they are this year.

**Mr. Pierre Beauchamp:** In certain areas, yes, but you can't talk for all markets. You have to remember that the situation in Canada is totally different from what was experienced in the States.

**Hon. Garth Turner:** Yes, I know—so far. You're absolutely right. But my concern is that you're asking for an increase in the homebuyers plan. I understand the reason you're asking for an increase, but you also have a chart here showing that the average down payment as a percentage of the purchase price has declined rather precipitously. We now have somewhere around 90% financing of the average home, presumably a new homebuyer.

If we have any decrease coming in prices, in real estate values, is this not a recipe for disaster for people getting into real estate purchases with 5% down?

**Mr. Pierre Beauchamp:** Well, let's look at what's happening with the homebuyers plan. If you look at its effectiveness since 1992 in Canada, if you look at the experience last year where 53,000 homes were bought in 2006 using that particular plan, you're looking at a plan that enables Canadians not only to get involved in a home, but also at the same time to marry it with their retirement vision.

**Hon. Garth Turner:** No, I understand that. My very specific question was that if prices are going to go down a little bit next year—

**Mr. Pierre Beauchamp:** I don't think you should hang on that in all areas, because if you look at the activity in the markets in the west, for example, and I'm looking at Calgary and Vancouver—

**Hon. Garth Turner:** Yes, well, they're going up forever, we know that.

My point was that if people in my riding are buying houses with 5% down this year, and we may see a slight decrease in the average value of a home next year, they go from 5% equity to zero. Isn't that a concern of the industry?

**Mr. Pierre Beauchamp:** I don't think the decrease would be such as to have impact in that particular area. With respect to our history, next year, in our view, will be the second-largest record on MLS, for example. This year, 2007, will be the top record up to now. Next year we're predicting will be the second-highest.

So we're not looking at markets decreasing here, or values going down, in that fashion—

**Hon. Garth Turner:** I'm sorry, I thought I heard you say that.

All right, Mr. Regan....

**Hon. Geoff Regan (Halifax West, Lib.):** Do I get your last three seconds?

**The Chair:** Yes, Mr. Regan, the time is finished. He swallowed it all, I'm sorry.

Monsieur Crête.

[*Translation*]

**Mr. Paul Crête:** Thank you.

Mr. D'Amours, I want to say that I am an ally of yours, as is the Bloc.

There can be no more sustainable development than mass transit. Cities like Toronto and Montreal are going to have subway systems that will be built domestically, in La Pocatière to be specific, which doubles the bang for the buck.

I would like you to explain your request for more funding effort, namely the $2 billion you mention. In the text, you say that the $2 billion will partly replace the present investment of $1.3 billion.

Could you be more specific?

**Mr. Bernard D'Amours:** Thank you for the question, Mr. Crête.

Yesterday, I arrived in Montreal by train and saw the traffic congestion on the roads. I met the leaders of a number of transit companies in Quebec. These companies, as you have said, have development plans. For transit, a development plan can extend over a decade. Now, what often happens is that government programs last for four or five years.

The Canadian Urban Transit Association is asking for $2 billion per year, and for the money to be available for many years. That is part of our request for a national transit strategy.

● (1720)

**Mr. Paul Crête:** Thank you. it is interesting to see secondary benefits that no one had expected. Subway cars made in La Pocatière could have windows made in the Prelco factory in Rivière-du-Loup. And it will improve the environment in our big cities. It is an interesting project and I thank for you for it.

Mr. Beauchamp, I am quickly going to read the recommendation on the home buyers' plan

> The lack of inflation adjustment is an obvious oversight in the design of the national Home Buyers' Plan. The maximum HBP loan available should immediately be raised to $25,000, and adjusted every five years to account for consumer price inflation.

You were wondering if you had the support of political parties. The Bloc Québécois certainly supports the recommendation, for one. Could you explain the kind of effect that this indexing would have, that is, if the program amount went from $20,000 to $25,000 immediately?

**Mr. Pierre Beauchamp:** If you look at the SIA/MLS system, you will see that the average house price in Canada has gone up by 85% in the period from 1992 to 2006. The consumer price index has gone up by 27% in the same period. If the maximum loan available from the plan were indexed to inflation, it would be more than $25,000 today. So I do not think that it is unreasonable to consider an increase after such a long time. We believe that we have the support of Canadians, and of a number of MPs, but we are asking for your support again. We feel that it is important to make the change now.

**Mr. Paul Crête:** So if I understand correctly, you like coming to see us, but if indexation were built into the act, the problem would solve itself over and over again.

**Mr. Pierre Beauchamp:** Yes, that is right.

**Mr. Paul Crête:** Thank you very much for the clarification.

[*English*]

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

[*Translation*]

**Mr. Thomas Mulcair:** Mr. Chair, a point of order on decorum. I wanted to wait until we had finished.

This is twice now that our work has been interrupted by cellphones and other electronic devices in the room. Would you please tell people to turn them off?

[*English*]

**The Chair:** Yes, it's a good point. If there are cellphones in the room, please put them on vibrate or turn them off, one or the other.

Mr. Wallace, for five minutes.

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

Thank you, everyone, for coming. I have only five minutes, and I'm going to try to talk to most of you, albeit very quickly.

I'm going to start with CUTA. I'm from Burlington. I'm actually a big supporter of urban transit, and have been in the past. My colleagues will affirm that. I talk to them about it too often.

I have a fairly quick question: any money from the federal side, your organization is expecting for capital, not for operating?

**Mr. Bernard D'Amours:** Mr. Chair, I want to thank the member for the question.

Yes, what we're asking for right now, $2 billion, is for capital.

**Mr. Mike Wallace:** For capital, not operating.

**Mr. Bernard D'Amours:** Yes.

**Mr. Mike Wallace:** I did a little bit of studying of what the federal government does south of the border, and it's basically capital that they support.

I don't disagree with you on us having a role, as a federal government, on that.

**Mr. Bernard D'Amours:** And I wish to thank the member for his support for public transit. It's very appreciated.

**Mr. Mike Wallace:** No problem.

Just for clarification, Ms. Brown, you're okay with the child fitness tax credit that we've offered, correct? You just want to increase it?

And when you say “all” Canadians, you'd like to see it extended to adults also, then. Is that what you're telling me here?

● (1725)

**Ms. Sally Brown:** No. We think it should be much broader than it is, however, and that there should be other mechanisms targeted to adults to help them also lead a healthier lifestyle.

**Mr. Mike Wallace:** Okay.

Just for my clarification, I had a grocery group come to see me this week, and they told me that a piece of fruit doesn't attract GST, but if it's cut up and put in a tray with other fruit, it attracts GST.

Is that the kind of thing you're talking about?

**Ms. Sally Brown:** That's the kind of thing, yes. If you buy one donut, you pay GST. If you buy six donuts, you don't have to pay GST.

So I think there are some sensitivities around there that we should look at.

**Mr. Mike Wallace:** Okay, I appreciate that.

Mr. Creber, just for my clarification, I think you have to have sales of $60,000 or something before you need a GST number. I think that's the number, off the top of my head.

For the thing you're recommending here, is that to avoid your members getting a GST number? Is that what that is?

**Mr. Ross Creber:** Yes, that's partially the reason. The direct selling companies pre-collect the GST at the time of the sale to the independent direct seller. The direct selling companies then remit the tax to the federal government on behalf of those they collected it from.

**Mr. Mike Wallace:** Okay. I may call on you on that to get more clarification.

Ms. Jamieson, thank you for coming. I think your organization is absolutely fabulous.

Now, there are no numbers in here other than how much money you've given out. What percentage of the money that your foundation generates or gets is from the federal government? I couldn't see that here.

**Chief Roberta Jamieson:** We have public sector funding. The federal government, specifically, has given two endowments to the organization, one of $12 million and one of $10 million. We distribute the interest from that.

On an annual basis, what the Government of Canada gives—I want to give you the figure and I will follow up with the exact figure —in public sector funds for the distribution of scholarships is about half. The private sector also provides funding, as do individual donors as well.

**Mr. Mike Wallace:** Okay. And I want to congratulate you on the work you're doing. Hopefully that will continue.

Ms. Pearson, we had another non-profit fundraising organization here; I forget what the actual organization was called. They talked about the donation of land and having it treated basically...the capital gains issue that we dealt with in terms of other issues.

Do you see, from a foundation point of view, that the land issue is something...in terms of ecological land? Is that a demand? Is that an option you've looked at?

**Ms. Hilary Pearson:** I represent the grant makers, not the fundraisers. My members typically are not in a position to seek gifts from others. Some of my members are certainly involved in the work of the Nature Conservancy, for example, which would very much appreciate, I think, tax incentives for more donations of ecologically sensitive land.

So in general, I think in the non-profit sector that would be much appreciated.

**Mr. Mike Wallace:** Okay.

Mr. Monk, just quickly, you had six items here. The sixth I think we've done with the public safety committee and the industry committee. It was to combat counterfeiting and piracy of intellectual property. I think we implemented that.

Is this something you've written recently, or was it written during the summer, when we asked?

**Mr. Richard Monk:** It was written in August.

**The Chair:** Thank you.

Monsieur Mulcair, very quickly.

[*Translation*]

**Mr. Thomas Mulcair:** Thank you, Mr. Chair.

My first question goes to Ms. Pearson. A colleague from Windsor, Brian Masse, recently proposed that charitable donations should be treated in the same way as political donations are at present for tax purposes. That is, that you get a tax refund of $300 on the first $400 in donations. Of course, we would have to be sure that donations were made only to charities that could provide a similar level of checking. The two clearly go hand in hand. There was good media response, especially an editorial in the *[Editorial Note: inaudible]*, but there was not much resonance nationally.

I wonder if I can achieve some by asking you if you would be in favour of an initiative like that.

[*English*]

**Ms. Hilary Pearson:** I'll answer that in English.

I haven't actually thought about that particular issue. Again, I represent organizations that don't tend to benefit from those kinds of incentives, except in the actual establishment of a foundation. I represent private foundations and some public foundations, largely. So I'll answer in general terms as opposed to speaking specifically on behalf of my members.

Certainly there is an interest in having greater tax incentives for giving. I think incentives are generous, and I have to say that the Department of Finance has many times told us that they believe that the incentives provided now for giving cash, and now assets, are as generous as anywhere in comparable jurisdictions. Certainly in North America, but probably in Europe, as well, they are more generous. Does that mean they're as generous as they could be? No. I think it would certainly be greeted with a lot of enthusiasm if we were to receive a boost in the incentives that are provided.

The message in this brief is that it's not just the giving of cash by individuals in the form of charitable donations that is important to the non-profit sector. In fact, the non-profit sector needs to have access to sources of financing that could take the form of loans or debt capital in some form. The capital market in Canada for charities is seriously underdeveloped.

That's what we would like to see more emphasis on now.

● (1730)

[*Translation*]

**Mr. Thomas Mulcair:** You highlighted it very clearly when you made the comparison with England.

I will end my questions to you with congratulations on the extraordinary quality of the French in your document. You spent a lot of time on it. Congratulations to you as well, for the same reason.

Ms. Jamieson, my next comment goes to you. I made note of your proposal and I am with you on it. You surprised me. I did not know the extent of the gap that you described in your document. I can only assure you that your proposal has been heard on our side of the table and I will do everything in my power to move it forward.

Thank you very much for your presentation. it was very moving. Thank you.

[*English*]

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

Thank you very much to the witnesses for coming in.

We have one motion that Mr. Crête would like to introduce.

I know the bells are ringing. We'll allow five minutes and hopefully we can get this completed.

Mr. Crête.

[*Translation*]

**Mr. Paul Crête:** The motion is clear. I am ready to vote on it.

[*English*]

**The Chair:** We will have debate on the motion.

Mr. Dykstra.

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

I will do my best to not take a lot of time on this. I realize we have a vote, but I think it's pretty important for us on the government side to put our thoughts on the record on this.

Mr. Rajotte is here, as the chair of the industry committee, to show his support for the work that he and the committee he chaired did to bring this report forward. This certainly proves that we are intent on moving forward to help manufacturing and industry in this country. The report indicates the direction we want to take. It also shows, by the actions we've taken in the 2007 budget, that we are intent on doing so.

Let me point out a couple of things. One is that we have tried to work with Mr. Crête to amend the motion to be able to support it. But what we have is a request of the minister that will effectively tie his hands. He will not be able to act promptly.

It's very clear in the report on page 51, when we're talking about the SR and ED tax incentive program, that we are considering moving forward on this. The industry committee moved to consider this. It's incumbent upon us to move forward as quickly but as effectively as we possibly can. It's not responsible to move this motion forward without a true understanding of costs.

I want to quote from one of the last sentences that Mr. Rajotte had in the chair's foreword to the report. It speaks very directly, that “the recommendations presented in its report should be implemented in a timely fashion”.

If there had been an amendment that Mr. Crête supported, we certainly could have supported the motion to be able to speak about a timely fashion in which this could move forward—an allocation of time that made sense for the ministry, the government, and the manufacturing industry. Representatives from that industry were here yesterday and spoke directly to the fact that they didn't want us to move forward and spend funds on something that wasn't going to have a direct benefit and a direct impact on the industry itself.

I'm merely suggesting that if the amendment had been accepted, we would be supporting this, but as the motion now stands we will be abstaining from the vote.

● (1735)

**The Chair:** Do you have an amendment?

**Mr. Rick Dykstra:** I have an amendment, but I understand that Mr. Crête is not prepared to accept it. I'd be happy to read the amendment to the motion, but I've already spoken with Mr. Crête.

**The Chair:** As the chair of the committee, whether Mr. Crête will accept an amendment or not isn't my issue. My issue is whether you are making an amendment. If you are, we'll put it on the table to debate. If you're not, we'll just carry on with debate on the motion.

**Mr. Rick Dykstra:** I'm happy to respond to your request.

My amendment removes the words, “promptly introduce”, and introduces, “act upon the recommendations on” the tax measures in the unanimous report.

That's my amendment.

[*Translation*]

**Mr. Paul Crête:** Fine. Let us vote on the amendment.

[*English*]

**The Chair:** We have an amendment on the table. Does anyone want to speak to the amendment?

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** There have already been discussions. I think we're ready to vote. The report has been hanging around since February 2007.

**The Chair:** I'm going to recognize Mr. Rajotte, who's industry chair, on the amendment—

**Mr. Massimo Pacetti:** Mr. Chairman, you cannot recognize him. There are already four members around the table, plus you, and—

**Mr. Rick Dykstra:** You're not going to recognize the chair of the committee that is actually—

**The Chair:** Mr. Dykstra, this is the question: do we want to hear from the chair of the industry committee on the amendment?

**An hon. member:** No.

**The Chair:** Is that what the committee is saying?

**Mr. Massimo Pacetti:** Mr. Chairman, with all due respect—

**The Chair:** All in favour of listening to the chair of the industry committee?

The clerk has informed me that it has to be a consensus of the committee. I don't see it, regardless of that.

So we'll be voting on the amendment as it was presented by Mr. Dykstra, and then the motion.

(Amendment negatived [See *Minutes of Proceedings*])

(Motion agreed to [See *Minutes of Proceedings*])

**The Chair:** Mr. Crête.

[*Translation*]

**Mr. Paul Crête:** Mr. Chair, there were no votes against. So it is unanimous.

[*English*]

**The Chair:** The meeting is adjourned.

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

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

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