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Chair

Mr. James Rajotte

Standing Committee on Finance

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Order, please.

This is the 57th meeting of the Standing Committee on Finance. Pursuant to the order of reference of Wednesday, October 7, 2009, we have before us Bill C-51, an act to implement certain provisions of the budget tabled in Parliament on January 27, 2009, and to implement other measures.

We have a two-hour session today. For the first hour we have the Honourable Jim Flaherty, the Minister of Finance, and for the second hour we have officials from the Department of Finance.

Minister, we have time for an opening statement. I believe you have up to 15 minutes, and then we'll have questions from members.

Thank you for being with us here today. You may begin your opening statement at any time.

Hon. Jim Flaherty (Minister of Finance): Thank you, Chair. I'll make my comments as brief as possible to allow time for the questions from committee members of course.

First of all, let me applaud you, Chair, and all of the finance committee members for your work over the past several weeks in travelling coast to coast to coast as part of your pre-budget consultations. I know hundreds of people and organizations want to make presentations to you, and the work you're doing is very important to help inform the next budget.

We have introduced online pre-budget consultations as well, as you know, in past years.

I look forward to receiving the report of the committee with respect to your extensive pre-budget consultations.

[*Translation*]

I have always believed that Canadians should be able to participate more in the federal budget process. In addition to my consultations as Minister of Finance, the prebudget consultations held by the Standing Committee on Finance give Canadians an opportunity to be heard.

[*English*]

What's more, recommendations flowing from your hearings always inform and influence the final budget document. I urge the committee to continue your consultations, as I look forward to reviewing the findings.

[*Translation*]

Earlier, I asked the Committee to study and quickly pass Bill C-51, An Act to implement certain provisions of the budget tabled in Parliament on January 27, 2009 and to implement other measures.

[*English*]

The Economic Recovery Act is an important component of Canada's economic action plan, legislating not only key provisions from Budget 2009 but other important initiatives as well. The Economic Recovery Act is but one part of our government's comprehensive response to the global economic crisis, a crisis that has impacted the world since it began a little over a year ago, a downturn that did not originate in Canada but that, in spite of our relatively strong economic fundamentals, has impacted us nonetheless.

As RBC economist Patricia Croft noted, and I quote:

> ...this is not a made-in-Canada recession. This started outside of our borders, but because we're a small open economy, we've been caught up in the economic turbulence.... ...I do think there's reasons to be hopeful, and I think there's a great story to tell about Canada in that we may come out of this recession much stronger than our global counterparts.

Our government, like this legislation, is focused on the economy. While we have recently seen tentative and early signs of early economic recovery both domestically and abroad, such signs are simply that—tentative and early. Recent positive economic data from the housing and job markets are undeniably encouraging. BMO economist Douglas Porter has remarked that "...the domestic side of Canada's economy is flaring back faster than anyone could believe possible".

But that should not lull Canadians into believing we are out of the woods yet. For too many families in too many parts of Canada, unemployment remains all too real.

● (1535)

[*Translation*]

Even though Canada is in a good position to emerge from the recession relatively stronger than most other developed economies, as the Prime Minister has pointed out, we were drawn into events which occurred beyond our borders during this recession, and we are going to continue feeling the effect of those events, especially the ones that took place in the United States, our biggest trading partner.

[*English*]

The road to recovery will not be clear and straight, but bumpy, with sharp turns along the way, especially if we take our eyes off the road. As the G-20 leaders stated in their communiqué following the most recent G-20 summit in Pittsburgh, "A sense of normalcy should not lead to complacency. The process of recovery and repair remains incomplete.... We cannot rest until the global economy is restored to full health...."

So our job is not done, neither here nor abroad. We must stay on track. We must work to assure a strong and sustained recovery domestically; we must support the international recovery efforts; we must continue to implement Canada's economic action plan.

[*Translation*]

That is precisely what we are doing with the Economic Recovery Act.

[*English*]

Through this act, we are cutting taxes for individuals and businesses to grow the economy by implementing the first-time homebuyers' tax credit, by making the working income tax benefit more generous for modest and low-income Canadians, by extending tax deferrals to assist Canadian farmers in dealing with extreme weather conditions, by relaxing tariffs on temporarily imported shipping containers, and by implementing the job-creating home renovation tax credit.

Before continuing, I should point out the blatantly obvious. The HRTC has proven very successful. In raw numbers, even as the overall economy contracted, the volume of home renovation investment increased 2.2% in the second quarter of 2009, 9% on an annual basis. Indeed, a survey conducted for RBC Royal Bank and released last week revealed that almost half of Canadians renovating have done even more renovations than planned because of the home renovation tax credit.

As Bernice Dunsby, the RBC senior manager of home equity financing, noted, and I quote, "Did the HRTC accelerate Canadians' decisions to undertake renovations? I definitely think it did, especially those who may have been sitting on the fence."

On a more anecdotal basis, it has become among the clearest signs to everyday Canadians that the economic action plan is directly impacting and benefiting their local economies. In the words of an *Ottawa Citizen* editorial, the HRTC has "...turned out to be effective and smart.... Even the quietest streets roar with hammers and saws. The result is brand new decks, roofs, driveways, and brickwork.... This is keeping construction workers employed who, in turn, spend money that keeps others employed. Home centres and hardware stores are humming." This was exactly the right thing to do.

[*Translation*]

We are also strengthening the Canada Pension Plan in order to give Canadians greater flexibility in the way they live, work and enjoy retirement.

[*English*]

Included in these important reforms is the removal of a requirement for individuals to stop working or reduce earnings for two months in order to take up CPP. The reforms also allow more low-earning years to be excluded from the pension calculation.

I note, of course, that the CPP is a jointly managed federal-provincial plan, and neither level of government can unilaterally alter it. The reforms laid out in this legislation were unanimously agreed to and made public by federal, provincial, and territorial governments this past May as part of the mandated triennial review of the plan.

[*Translation*]

We are fostering global cooperation by giving low-income countries a stronger voice in the International Monetary Fund, and we are increasing Canada's commitment to debt reduction.

[*English*]

We are both improving government transparency and delivering on a 2008 election platform commitment through a new requirement for all federal departments and crown corporations to prepare and publish quarterly financial reports. We are, after decades of neglect under previous federal governments, finally ending the decades-long crown share saga to benefit the people of Nova Scotia.

In the words of the newly elected NDP premier of Nova Scotia, Darrell Dexter, and I quote, "Nova Scotia is seeing progress on the Crown share file.... I congratulate the federal government for moving forward to seal the deal. This is good for Nova Scotia, and good for Canada."

● (1540)

[*Translation*]

We are supporting public broadcasting by increasing the borrowing power of the CBC/Radio-Canada in order to ensure the corporation's survival. These are only some of the main elements of the Economic Recovery Act.

I firmly believe that this important bill deserves the committee's support.

[*English*]

I am confident that through this legislation and the larger economic action plan, our government is helping provide the stability needed to ensure Canada maintains and builds on its current economic strengths as this global recession transforms into a global recovery. As the IMF and other economists have consistently declared, Canada is better positioned than most countries to weather the economic crisis. Indeed, we are forecast to have the strongest recovery in all the G-7 for 2010.

While we should take some comfort in such forecasts, we cannot use them to invite complacent self-satisfaction or inaction. Economic forecasts, as we all know, are just that: they are forecasts, although educated ones. They carry no guarantees or certainty. We cannot rely on forecasts of future prosperity alone to bring us that prosperity.

[*Translation*]

Inaction is not an option, and little political games are an insult to the people who elected us to represent them. The right thing to do for Canadians, in fact the only thing to do, is to move forward.

[*English*]

Move forward with Canada's economic action plan, forward with this legislation, and forward with the recovery. Only this will help build a stronger future for all Canadians.

[*Translation*]

The stakes are too high and the recovery too fragile to act otherwise. On that note, I am prepared to answer the committee's question.

[*English*]

Thank you, Mr. Chairman.

The Chair: Thank you very much, Minister, for your opening statement. We will now start with questions from members.

Mr. McCallum, for seven minutes.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair, and thank you, Minister, for being with us this afternoon.

I appreciate your kind words about the work of this committee, so my first question relates to that in the context of the main plank of your pension reform, which was to raise the maximum allowable surplus from 10% to 25%. The problem in doing this now is that the horse is out of the door, in the sense that with deficits of 20% to 33% for most of our pension plans, the fact that you can have a surplus greater than 10% is at best a moot point.

But I would remind you, Minister, that this committee, in the pre-budget hearings of 2007, made precisely this same recommendation to you, that in Budget 2007 you raise this maximum surplus from 10% to 25%. Had you done it then, prior to the crisis, it might have had an impact, because the crisis had not yet happened and pension plans were in much better shape.

Would you acknowledge that it was unfortunate you did not follow this committee's advice and raise that pension surplus in 2007, before the horse had left the barn?

Hon. Jim Flaherty: As you know, Mr. McCallum, no one, including all the economists in Canada, predicted that we were going to have a recession, much less a deep recession, much less a global recession. The consultations that were led by my parliamentary secretary heard a great deal about this particular issue this year, and the result is the step we've taken. There has been some improvement in the conditions of insolvency ratios of pension plans because of the improvement in equity markets this year, as you know.

Hon. John McCallum: But I think, at least with the benefit of hindsight, if it was good policy today, it would have been good policy in 2007, and we'd be better off had you followed that advice.

My next question is about the punishing increases in payroll tax, employment insurance premiums post-2011, that you announced in your fiscal update. According to Dale Orr, these amount to $1,200 in additional tax for a two-earner family and a $9,000 additional cost for a small business with 10 employees.

I have a double-barrelled question on this issue. One is a question of semantics. I don't think you could deny that this is a tax hike, so that would be my question. Whether it's imposed through some automatic mechanism or not, it's still a tax hike, and you would have the authority, if you so chose, to have an additional year of EI premium freezes, for example.

My second part of the question is, given the fragile state of the economy, given that the Governor of the Bank of Canada, who was here this morning, has downgraded his forecast for the outer years, partly because of the strong dollar, do you really think the economy can absorb such abrupt and large increases in the payroll tax as you have imposed in your fiscal update?

● (1545)

Hon. Jim Flaherty: Well, first of all, let's be clear: the EI premiums for employers and employees have been frozen for two years as part of the economic action plan. That is a direct stimulus to the economy; that's money staying in the economy, staying in the hands of employers and employees. This is a temporary measure, as are a number of other measures, including infrastructure stimulus spending in the economic action plan. This will end. This was always the plan. This was clear in the economic action plan, which I presented in the House on January 27. This is nothing new.

The House also approved the creation of a board to set EI premium levels. This is to take it away from the politicians. As you know, there was a lot of questioning, to put it politely, about EI surpluses and the way they were dealt with by the previous government. So we are going to have the board go ahead, as authorized by Parliament, and set the EI rates once we're beyond the stimulus period, the economic action plan period of two years.

Hon. John McCallum: Okay, but I don't think you deny that you have the authority, should you desire to use it, to extend that freeze for one more year. Then we would have less abrupt increases in payroll taxes, and that presumably would be helpful for employment.

I'll come to my third question, and probably my last.

We had the Governor of the Bank of Canada here this morning, and he confirmed the factual statement that in the second quarter of 2009, three G-7 countries had positive growth. Those were France, Germany, and Japan. Canada, among the G-7 countries, not only had negative growth, but the most negative growth among the remaining four countries.

So I asked Mr. Carney, how can you possibly say that, out of the G-7, Canada will lead the way out of recession in the G-7 when three countries have already factually escaped from recession and at the same time Canada remains in recession. It's a fact, and I don't think it can be denied, that the leaders of the G-7 to get out of recession are France, Germany, and Japan, because they have already done so.

So how can you continually repeat this idea that Canada will lead the G-7 out of recession when three of the G-7 countries have already done so and Canada has not?

Hon. Jim Flaherty: It's because we entered the recession later.

Hon. John McCallum: But that doesn't answer the question. I asked how can you say that Canada will lead the G-7 out of recession. You must admit that this is a factually incorrect statement when three countries have already gotten out of recession before us as a matter of fact.

Hon. Jim Flaherty: I think when the IMF and others look at this, what they see is Canada entering the recession later than other countries and then having the fiscal foundation to exit in a strong position.

Hon. John McCallum: So you agree with me that we did not lead the G-7 out of recession.

Hon. Jim Flaherty: I agree with you that some of the countries had positive GDP growth in the second quarter.

Hon. John McCallum: Okay. Thank you very much.

The Chair: Thank you, Mr. McCallum.

We have Monsieur Laforest, *pour cinq minutes*.

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Thank you, Mr. Chair.

Thank you, Mr. Minister

I remind you that Bloc Québécois MPs rejected your last budget. We voted against the budget because it failed significantly to meet the needs of Quebec and Quebeckers in general. I'm thinking in particular of the very big chunk of that budget that was allocated to the auto industry in Ontario and the fact that there was absolutely nothing for manufacturing industries in Quebec. That is why we voted against that budget.

However, there is a home renovation tax credit in Bill C-51. In that regard, we are very happy to see in the bill a component of the plan the Bloc Québécois presented to you, namely the home renovation tax credit. We are happy with that aspect of the bill.

I would like to come back to your remarks. You talked about the Broadcasting Act in relation to the CBC. You say that you will be increasing the CBC's borrowing power from $25 million to $220 million.

In 2007, a unanimous recommendation from the heritage committee intended to support the CBC and give it a clearer picture of what lay ahead from a financial standpoint, called for the Government of Canada and the CBC to sign a seven-year memorandum of agreement. The agreement would have ensured the future of the CBC in terms of investment and development.

Why did you reject the unanimous proposal from the heritage committee and opt instead to increase its borrowing power?

● (1550)

Hon. Jim Flaherty: I thank the member for his question.

[*English*]

Choices have to be made by governments, of course, in budgeting, and priorities have to be set.

With respect to the CBC, we are supporting them by giving them greater ability to borrow going forward. We're also supporting them to the tune of about $1.1 billion per year of Canadian taxpayers' money supporting CBC/Radio-Canada. This is a very substantial subsidy by the people of Canada in support of CBC and Radio-Canada, which we are maintaining.

[*Translation*]

Mr. Jean-Yves Laforest: I remind you that the CBC, being only one public radio and television broadcasting corporation, receives less than public broadcasters in many other countries that provide a great deal more support for their broadcasting corporations.

I'm going to move on to another subject. In Bill C-51, you talk about agreements concerning member countries of the IMF, which means international agreements. However, there is another international dimension raised by the OECD, which has released a list of countries that foster tax avoidance, or tax havens. The list specifically mentions Panama, with which Canada is currently negotiating a free-trade agreement.

Does it not strike you that by endeavouring to sign such an agreement, you are once again supporting tax avoidance and making Panama one of the tax havens that enable Canadian and Quebec citizens to hide money from the taxman and earn profits from that money elsewhere than here in Canada? In my opinion, it's a little, perhaps a lot, immoral to support a free-trade agreement with a country blacklisted by the OECD.

[*English*]

Hon. Jim Flaherty: In the area of taxation, for some time now the Government of Canada has not entered into taxation agreements with countries that will not share information with us. We have made that a prerequisite of entering into tax agreements.

We are having an increase in the number of taxation information exchange agreements being entered into by the Government of Canada. I just signed one recently with the Netherlands Antilles on behalf of our government.

I take your point, Mr. Laforest, about the importance of the countries following the G-20 mandate, which is clear, to refrain from encouraging tax havens. The key to that is ensuring an exchange of information. We've seen some significant progress on this, I must say, since the G-20 discussions on the subject this past year.

● (1555)

The Chair: You have a minute left, Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: On the subject of harmonization of the GST, Mr. Minister, you know that Quebec was the first province to harmonize its tax with the GST. Do you intend to drop your demand that the Government of Quebec stop collecting its own sales tax itself? Do you intend to drop that demand?

[*English*]

Hon. Jim Flaherty: I'm not sure I follow the question. Could you repeat it to me?

I've had discussions with Quebec about harmonization.

[*Translation*]

Mr. Jean-Yves Laforest: In the case of harmonization of the GST with the Quebec sales tax, the QST, at the very beginning of the dispute, you demanded that the Government of Quebec stop collecting its sales tax itself. You described that as a condition. Do you plan to drop that demand?

[*English*]

Hon. Jim Flaherty: The discussions I have had with the Minister of Finance in Quebec, Mr. Bachand, most recently last week, are an effort on his part and mine, on behalf of our governments, to see whether we can come to an agreement about how we could achieve full harmonization of the sales tax of Quebec and the GST of Canada, in a harmonized way similar to what is being accomplished with Ontario and British Columbia. Our officials are continuing the discussions, further to the discussion the minister and I had last week.

The Chair: *Merci, monsieur Laforest.*

We'll go to Monsieur Mulcair, *s'il vous plaît*.

[*Translation*]

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

Mr. Minister, good morning and thank you for being here with us today.

I would like to begin with a subject which is addressed in Bill C-51 and which you have talked about as an aside to our meeting today, and that is better protection of pensions. You announced today a series of measures that seek to achieve what the NDP has been calling for for a very long time.

Can you give me a rough idea of the percentage of pensions that will be affected by the changes you are proposing?

[*English*]

Hon. Jim Flaherty: Thank you for the question. It depends on which amendments. As you know, the federal government regulates about 10% of pension plans in Canada—the federal jurisdiction corporations like telecommunications, the airlines, the banks, and so on. Most of these changes would affect only those pension plans, except the tax changes. The government does intend to increase the pension surplus threshold under the Income Tax Act to 25% from 10%. That will apply to both federally and provincially regulated defined benefit plans.

[*Translation*]

Mr. Thomas Mulcair: We can agree that these are changes which are moving in the right direction, but is it your government's intention to undertake a more comprehensive examination of the entire issue? You are absolutely correct when you say that only 10% of pensions are paid by the federal government, but I am going to mention a case that will show you why we believe the federal government can play a bigger role. In Quebec, 90% of people deal with credit unions, Mouvement Desjardins and others, and not with chartered banks. However, the Canada Deposit Insurance Corporation guarantees deposits in credit unions as well as in chartered banks. It's the same system of guarantees.

Would it be possible to create a pension protection scheme that the provinces would have the option of joining, a bit like what is already being done with deposit insurance?

[*English*]

Hon. Jim Flaherty: Not specifically that idea, but the broader area of protection, yes.

We started these discussions on a federal-provincial-territorial basis as finance ministers. When we met in Saskatoon last December, I had invited, with the consent of the other ministers at that time, Claude Lamoureux and Jack Mintz to come and speak to the ministers about pension issues. We've had further discussions since then, at our spring meeting. We're meeting again in December in Whitehorse.

In the meantime, we agreed to have a research group work on these broader subjects, and I'm told we will have that report in time for our meeting in December. So I look forward to having that discussion with my colleague, Minister Bachand, from Quebec, and with my other colleagues in the broader sphere.

We've taken some steps in the federal framework here in what we've announced today as a result of the consultations done by my parliamentary secretary.

● (1600)

[*Translation*]

Mr. Thomas Mulcair: The Whitehorse meeting is actually part of the subjects being discussed by this committee. At the request of Mr. Menzies, instead of putting more emphasis on it during this fall's hearing, it was decided to wait until December so that there would be no duplication.

Is there reason to hope that after the Whitehorse meeting, when Parliament returns, after Christmas, you will table—perhaps during the spring session—more comprehensive legislation on pensions in light of what is learned from the expert report you will be getting in Whitehorse?

[*English*]

Hon. Jim Flaherty: I'm certainly willing to do that if I have the consent of my colleagues in the provinces and territories.

I'd just add that this is a complex issue. This is not an issue that's given to easy answers. It takes a lot of work; it's complicated. It's difficult for people and for parliamentarians and all of us to deal with all the facets in some sort of comprehensive way, which is what we're attempting to do.

[*Translation*]

Mr. Thomas Mulcair: That's why I said that this was an area in which it was easy to cross party lines. We all have the same interest. We don't always take the same approach, but we all have an interest in ensuring that there is cross-generational fairness, in other words that we look after those who built and continue to build our country.

As we wrap up this first section of our conversation, Mr. Minister, I would like to know if you intend to look at the possibility of increasing Canada Pension Plan payments to all eligible senior citizens. If you do, how much would the increase be and are you willing to consider an increase in the contributions paid by people who are currently working? You know as I do that many senior citizens in Canada today live below the poverty line. Do you plan to look at that issue?

[*English*]

Hon. Jim Flaherty: The governance of the CPP, as you know, Mr. Mulcair, is joint governance between the federal government and the provinces. We only act in concert, in agreement, when we make changes with respect to the CPP, so I'm not in a position to unilaterally do any of those things.

To respond to your question, Alberta, British Columbia, Ontario, and Nova Scotia, at least those four provinces, have all done some substantial work on possible additional pension entitlements. It was because of some of that work that we're doing the broader research work now that Professor Mintz is chairing. So there are some ideas out there that will be forthcoming. We know they've done some innovative things in Australia, for example. Some of the reviews of some of those innovative things are not positive, but there are some ideas that are out there on pension reform that we will certainly examine. I expect that the research work would be made public.

[*Translation*]

Mr. Thomas Mulcair: Having a single information or data base will benefit everyone.

Thank you, Mr. Minister.

Thank you, Mr. Chair.

[*English*]

The Chair: Merci, Monsieur Mulcair.

We'll go to Mr. Menzies, please.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair, and thank you, Minister, for joining us here today.

If I can go a little farther even than the governor did this morning, we asked for his input to this committee on what his role was in the last year, his role and Canada's role, if you will, in dealing with this worldwide recession.

I know you've been a very strong advocate of making sure that countries don't ramp up their protectionism. We are a trading nation, there's no doubt about that. We are an exporting nation, and we need to encourage open trade. This portion of Bill C-51 that deals with the reduction of tariffs for temporarily imported shipping containers— could you elaborate on that and perhaps some of the other tariff reduction initiatives that you've taken or that you intend?

● (1605)

Hon. Jim Flaherty: Thank you, Mr. Menzies.

I've heard many of the discussions at G-20 meetings and G-7 meetings in the past year. It's common for everyone to talk about protectionism and avoiding protectionism. Unfortunately, we don't always see evidence of that, and sometimes we see some evidence to the contrary. Canada is exemplary in this way. Not only have we not been erecting barriers to trade, but we have been eliminating tariffs. In the budget this year we eliminated tariffs on a range of machinery and equipment, and this was legislated in the first budget bill this year. That was hailed by the Canadian Manufacturers and Exporters as an incredible move to make our exports more globally competitive.

Similarly, we're removing some other tariffs in this legislation that is before your committee. We also published draft regulations—I think they were published on Saturday last—with respect to the shipping industry as well and tariffs in that regard. The direction we're going as a government is toward the elimination of tariffs, which are, at the end of the day, barriers to trade.

Mr. Ted Menzies: Thank you. It's very important.

I believe, Ms. Block, I will pass it on to you. I think you have an important question too.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you very much.

Thank you, Minister Flaherty, for being here today. As a new member of the finance committee I have certainly appreciated participating in the pre-budget consultations, and I've come to appreciate the many hours of work that go into preparing for our budgets.

The issue of pensions and pension security has been gaining increased attention, especially in the past few weeks. I know I've received many calls from constituents in my riding. I do know that our Conservative government has been hard at work on this issue, and indeed was working on it long before it was on the radar screen of many in the opposition.

Bill C-51 and the important reforms to the Canada Pension Plan included in it are one demonstration of that. I'm wondering if you could share some of the feedback you have heard in response to these important reforms and then also speak to how our Conservative government has addressed the larger issues surrounding pensions in Canada.

Hon. Jim Flaherty: Well, certainly the feedback with respect to the previous pension changes from the triennial review of the Canada Pension Plan changes has been positive. People want to have more flexibility with respect to when they retire and have access to Canada Pension Plan benefits. That's a consistent theme.

In the changes we announced today, we are enhancing protection for plan members, we are reducing funding volatility for defined benefit plans, we are making it easier for participants to negotiate changes to their pension arrangements, we are improving the framework for defined contribution plans and for negotiated contribution plans, and we are modernizing the rule for investments made by pension plans.

Let me give you one example of why this matters. The solvency workout procedures that we're putting forward today, for example, deal with a situation we had to deal with in practice with Air Canada earlier this year. I think there were five unions, and Air Canada was in a position such that it probably would not have been able to continue to function if the pension issues were not resolved. In an ad hoc way, I asked former Justice Farley of the Superior Court of Ontario, who had dealt with the Air Canada bankruptcy previously, to act as a mediator, and he did, with the five unions and the management of Air Canada. They were able to work out, along with representatives of the pensioners of Air Canada, a solvency arrangement so that Air Canada would have more time to top up the pension plan. That was successful; the airline has continued to operate.

We're going to institutionalize that process—or that's the plan—in the new proposed changes, so that we hopefully will see the process followed when pension plans get into some difficulty and so that we don't have operating companies that could continue to operate were it not for the challenge they have in topping up their pension plans.

At the same time, this ought not to be done without the consent of the representatives of the workers, whether they're unionized or non-unionized, and the pensioners as well. We have that process built into the new proposals.

● (1610)

The Chair: Thank you.

We go now to Mr. McKay, please, for five minutes.

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

Your projections put the increase in debt at about $175 billion over the next four or five years. You say that you will not increase taxes. You say that you will not cut transfers to pensioners or to persons. You say that you will not cut transfers to provinces. That pretty well leaves two things: programs and debt servicing.

Debt servicing is going to carry on the way it carries on. Presumably it's going to increase because of the increased amount of debt, but also because of a real possibility over the next few years of increased costs of servicing that debt.

That leaves program spending. The largest part of program spending is DND. Presumably you're fairly committed to servicing DND at its current levels. Therefore, Minister, your manoeuvring room for an exit plan is rather circumscribed. I'd be interested in knowing, if you could tell us, what your exit plan is for this rather substantial increase in debt.

Hon. Jim Flaherty: First of all, one has to look at what the debt comprises. A little more than half of the deficit this year relates to the economic action plan: infrastructure spending, increased EI availability. The infrastructure spending, as planned, will end at the two-year mark. So we run substantial deficits, relatively speaking, this fiscal year and next fiscal year, but we have built in the exit strategy; that is that this spending ends as of early 2011.

That's the first, important part of the exit strategy. We anticipate, of course, some economic growth. I'd be the first to acknowledge that the economists are all over the map in what they're predicting over the next year or two. Since we started looking at the private sector economists in the Department of Finance, in 1992 or so, we have never, I'm told, seen such a range of opinion. There is no consensus among the private sector economists, which is why we've said we should be able to balance, and intend to balance, the budget in the medium term.

We will have the stimulus spending ending; that's the beginning of the exit strategy. And then, to respond to your question, if we look at the major parts of federal government spending, we have the transfers to the provinces. We're not going to reduce them; they're for health, education, and social services, as you know. It was a tragedy, quite frankly, when the previous Liberal government did that in the 1980s, a tragedy for the people of Canada in terms of health care and education. I know that, because I was on the other end of it as a provincial minister when it was happening in the 1990s.

So there's that. Then there are the transfers to persons. We don't want to reduce those, because they are helping the elderly and children. They're important social programs in the country.

Then we would have about $100 billion of spending on programs. That's a lot of spending. There are about 2,500 programs. That spending has been growing at about 3.3% per annum, and it might, if we did not have adequate economic growth, be necessary to restrain the rate of growth of that spending in the medium term. But we'll have to wait and see what the actual economic growth is. It may not be necessary to do that. If the economic growth and the resulting tax revenues are sufficient, it would not be necessary to do it.

Hon. John McKay: Minister, I just take note that in the previous fiscal year you were actually in debt; you were already in deficit in the last fiscal year. You certainly have accelerated it with the stimulus spending, but it is also accelerated by the fact that you're in revenue meltdown, that your revenues are simply not there, partly because of your own decisions taken in previous fiscal years. So you are a bit of an author of your own misfortune. And while I might agree with you that the economists' predictions are less reliable as one goes further out, I'd take note that the $175 billion of accumulated deficits, as they become debt, are your own projections.

What I'm hearing you say is that, even on your own numbers, you have a $100 billion problem here and you don't really know how you're going to get out from underneath that problem.

● (1615)

Hon. Jim Flaherty: I think I've indicated to you the way in which we could get out of the problem, depending on the size of the problem. That is that we could restrain the rate of growth of program spending, which is very substantial.

You know, we have been through the most difficult economic crisis since the Second World War in the past year. That's certainly the view of the G-20 ministers of finance. Canada has come through this better than most countries, and that's because of the strength of the fiscal foundation here and the fact that we have paid off $50 billion worth of debt in our first few years in government. Canada has been able to manage through this recession better than most other countries in the world. That's been recognized abroad by the IMF, by the World Economic Forum, and by the OECD, and it's a credit to Canadians and Canadian business that we've been able to weather the storm as well as we have.

The Chair: Thank you, Mr. McKay.

We'll go to Monsieur Roy, *s'il vous plaît.*

[*Translation*]

Mr. Jean-Yves Roy (Haute-Gaspésie—La Mitis—Matane—Matapédia, BQ): Thank you, Mr. Chair.

Mr. Minister, last week, I read in a Quebec newspaper that, last year, the federal government invested some $20 billion in the lumber industry. However, your budget documents show that the federal government actually announced that it invested some $80 million in the entire Canadian lumber industry.

Is it true that the federal government invested $20 billion in the lumber industry last year?

[*English*]

Hon. Jim Flaherty: I would have to check the figures. I'm not directly responsible for that, and I would have to check what was spent in the past year. I don't have that at hand.

[*Translation*]

Mr. Jean-Yves Roy: You say that it's not your responsibility and that you'd have to check, but could it be that the Minister of Finance doesn't know whether the government invested $20 billion in the lumber industry this year?

[*English*]

Hon. Jim Flaherty: I'd be happy to get the accurate figures for you, Mr. Roy.

[*Translation*]

Mr. Jean-Yves Roy: Mr. Minister, could it be that the Minister of Finance doesn't know whether the government invested $20 billion in the lumber industry this year? I'd like to know, Mr. Minister.

[*English*]

Hon. Jim Flaherty: I don't know what the exact figure is. I'll get it for you.

I'm advised by my officials that the minister responsible, of course, is the Minister of International Trade. The figure seems very high and is not likely, so we'll get you the accurate figure.

[*Translation*]

Mr. Jean-Yves Roy: That is highly unlikely. In this instance, Mr. Minister, can you ask your colleague responsible for Canada Economic Development in Quebec, Mr. Lebel, to retract his remarks? On several occasions, he stated publicly that the federal government invested $20 billion in the lumber industry last year. He made that statement as recently as last week in La Pocatière and Rivière-du-Loup. It was repeated and reported by all media outlets in Quebec.

Mr. Minister, such statements are unacceptable when we know full well that the federal government invested $80 million in the lumber industry. These data and these numbers are in your document.

I would like your assurance that this type of behaviour will not be repeated and that this is completely unjustified from a minister who has no financial responsibilities.

[*English*]

Hon. Jim Flaherty: I'm not sure who said what to whom or what was said publicly, and I don't know over how many years this was supposed to be, but I'll get the accurate figures for you.

● (1620)

[*Translation*]

Mr. Jean-Yves Roy: Thank you, Mr. Minister.

I would like to talk to you about another matter, namely tax deferral for some livestock producers in eligible regions following a drought, flood, etc. How many farmers have been able to defer taxes? Looking at the current income of Quebec farmers, almost all of them are in a precarious situation, like those in the rest of Canada. Very few farmers are turning a profit. When it comes down to it, what purpose does it serve to give a tax credit to someone who isn't making a profit?

One of my colleagues here today used to sit on the agriculture committee. How many farmers have been able to use the tax credit that was announced, that is, tax deferral? Climate change is putting some producers in a tough situation.

Once again, it appears that you are unable to give me an answer.

[*English*]

Hon. Jim Flaherty: As you know, we've provided some tax relief with respect to drought this year. I can't tell you how many have taken up the tax credit because I don't look at their tax returns.

[*Translation*]

Mr. Jean-Yves Roy: Can you give me some idea of the amount? How much has it cost the federal government? If farmers aren't making a profit, tax deferral isn't much of a benefit.

[*English*]

Hon. Jim Flaherty: I could ask the Minister of National Revenue for that data on the take-up on the tax credit, if that's available. I'm happy to check on that and get you the information if it's available.

[*Translation*]

Mr. Jean-Yves Roy: Do you plan to extend this measure? The reality is that we're going to be dealing with climate change on a recurring basis. It will be extremely difficult because we will have to adapt agriculture to those changes. Most farmers will not have to pay taxes because of what is going to happen in the years ahead.

Do you plan to extend this measure?

[*English*]

The Chair: Minister, if you want, you can finish your other answer as well and then answer that question.

Hon. Jim Flaherty: Yes.

We have not started to make budget decisions yet.

[*Translation*]

Mr. Jean-Yves Roy: Thank you.

[*English*]

The Chair: Okay, *merci*.

We'll go to Mr. Dechert, please.

Mr. Bob Dechert (Mississauga—Erindale, CPC): Thank you, Mr. Chair.

Mr. Minister, thank you for your time this afternoon.

Minister, as you know, this committee has spent the last several weeks travelling across the country consulting with Canadians with respect to their many suggestions and thoughts regarding the government's 2010 budget.

I can tell you that in every city we visited, we heard multiple groups representing labour, business, social service agencies, and arts guilds praise the enhancements of the working income tax benefit included in Budget 2009. I wonder if you could explain for the committee how Bill C-51 expands this important benefit and why it's crucial that this legislation be passed as soon as possible.

Hon. Jim Flaherty: Thank you, Mr. Dechert. You raise an important point.

The working income tax benefit is refundable, and therefore low-income Canadians can, assuming this bill passes in time, claim it as of January 1, 2010. They can file their tax returns early in January, if they want to, and claim the refund.

The money cannot be paid out unless it's authorized by Parliament. For this reason, I urge the committee to return the legislation to the House as soon as possible, so that the enhanced working income tax benefit will be available promptly in the new year. The proposed changes will increase benefits by an additional $580 million. As I know you know, Mr. Dechert, the purpose of the working income tax benefit is to help people over the welfare wall, to make it advantageous financially for people who are receiving social assistance to enter the workforce.

The former situation, before the working income tax benefit, was that the system itself discouraged people or made it hardly worth their while to go to work rather than not go. That's not good for the economy and not good for the country, and we've changed it.

Mr. Bob Dechert: Thank you very much.

We're all concerned about the value of the Canadian dollar, and we had a good discussion about it this morning with Governor Carney. We all know it's a double-edged sword. It hurts our manufacturing, but it helps consumers in other areas.

Isn't the value of the Canadian dollar really an international vote of confidence in the Canadian economy and the management of the Canadian economy?

Hon. Jim Flaherty: Sure. I think that's a nice way to look at it. I hope the vote of confidence doesn't get too strong too suddenly, because as you know, volatility in the Canadian dollar is a concern of businesses, particularly of businesses that export.

We are seeing downward pressure on the U.S. dollar broadly, and that affects all the market currencies: the kiwi in New Zealand, the Australian dollar, the euro, the pound, and our dollar as well.

● (1625)

Mr. Bob Dechert: Thank you.

If the Canadian dollar remains relatively high compared, say, to the value of the U.S. dollar and other currencies of countries with which our manufacturers compete, how important do you believe it is that Canadian corporate and business taxes remain relatively low in order to continue the competitiveness or enhance the competitiveness of the Canadian economy?

Where do you see Canadian corporate tax rates going over the next few years in comparison with those of, say, the United States and other countries?

Hon. Jim Flaherty: Our corporate taxes are going down in Canada. The American government has a large challenge with respect to a very large deficit. They'll have to address that in some way, I'm sure, going forward.

In 2007, we urged the provinces to reduce their corporate tax rates to 10%. When we became the government, the corporate tax rate federally was slightly in excess of 22%. We will have it down to 15% by 2012. We urged the provinces to get to 10% with their taxes by 2012 so that we would have a combined corporate tax rate in Canada of 25%, which is a tremendous way to brand the country as a relatively low-corporate-tax jurisdiction.

I'm thrilled, frankly, that the majority of the provinces are going in that direction, including the Province of Ontario, which intends to get to 10% by 2013. Alberta is already there, Manitoba is going in that direction, Saskatchewan is going in that direction, and so is New Brunswick, and so is British Columbia. Some of the other provinces as well have been reducing their corporate taxes.

We're going to have a good part of Canada with a 25% combined federal and provincial corporate tax rate by 2012 or 2013. It's tremendous branding. As you know, Tim Hortons decided to come home to Canada and bring their corporate head office back here because of the reduction in the corporate tax rates. I'm hearing very good stories from some of the manufacturers about wanting to do more here because they can see the stability and the predictability of corporate taxes in this country that are relatively low in the near term.

Mr. Bob Dechert: Thank you very much.

Thank you, Mr. Chair.

The Chair: We have time for a short round for Mr. Pacetti.

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

Thank you, Mr. Minister, for coming before committee. It's always fun to have you here.

Let me make a technical comment on the working income tax benefit. Usually the tax forms are not ready before February, and we don't start receiving our T slips before February, so it's going to be tough for us to ask for the working income tax benefit in the month of January. But I understand where you're going with that. I agree with you: the faster we can pass this type of legislation, the better it will be.

My question is more geared towards the home renovation tax credit. You seem to be pretty confident that the home renovation tax credit is going to work and that people are jumping at the door. But when we ask for precise numbers, you're not able to give them to us because, you said, nobody has filed a tax return claiming the home renovation tax credit.

So you can predict that the home renovation tax credit is working, but you can't predict what your deficit is going to be—you've changed it three or four times in the last 12 months.

So what are we supposed to believe, that people are going to be able to use the home renovation tax credit according to the estimates you've given us? You haven't given us any. All you have said is that it's going to make a big change in the economic recovery. When we asked Mark Carney, the Bank of Canada governor, he said that the renovation market, the housing market, is a very small component of any economic recovery that this country is going to see.

Could you comment on that?

Hon. Jim Flaherty: The home renovation tax credit has been a huge hit. Canadians love it.

Mr. Massimo Pacetti: Based on...?

Hon. Jim Flaherty: Well, based on the surveys that have been done, we know that the majority of Canadians know about it and intend to use it, and we know from the retailers—I certainly do, because I talk to them regularly—how successful it has been. In my opening remarks—

Mr. Massimo Pacetti: Could we get a copy of any of those surveys?

Hon. Jim Flaherty: —I gave you....

The volume of home renovation investment increased 2.2% in the second quarter of 2009, 9% on an annual basis. This is in the middle of a recession.

● (1630)

Mr. Massimo Pacetti: Did you get those stats somewhere? Could you provide a—

Hon. Jim Flaherty: Sure, I can give you the authority for the raw numbers.

The Chair: Thank you, Mr. Pacetti.

Minister, thank you for being with us here today.

We're going to have a second hour with your officials, which is why we have all these chairs before you. We want to thank you for being with us, and you're certainly welcome back anytime.

We'll suspend for a couple of minutes.

●

(Pause)

●

● (1635)

The Chair: I'll call the meeting back to order.

We have with us a number of officials, and perhaps we'll have the officials introduce themselves. My understanding is there's no opening statement, but there certainly is an opportunity for one.

Could you please introduce yourselves and tell us what your roles are? Then we will start with questions from members, unless there is an opening statement.

[*Translation*]

Mr. Patrick Halley (Chief, Tariffs and Market Acess, International Trade and Finance, Department of Finance): My name is Patrick Halley. I am chief of tariff policy at the Department of Finance.

Mr. Philippe Hall (Senior Economist, International Trade and Finance, Department of Finance): Good morning. My name is Philippe Hall. I work at the Department of Finance, in the international finance section.

[*English*]

Ms. Colette Downie (Director General, Marketplace Framework Policy Branch, Department of Industry): Hello. My name is Colette Downie, and I'm the director general of the marketplace framework policy branch at Industry Canada.

Mr. Gérard Lalonde (Director, Tax Legislation Division, Tax Policy Branch, Department of Finance): My name is Gérard Lalonde, and I'm the director of the tax legislation division at the Department of Finance.

Mr. Tim Wach (Director of Legislative Development, Tax Policy Branch, Department of Finance): I'm Tim Wach, director of legislative development with the tax policy branch at the Department of Finance.

Mr. Chris Forbes (General Director, Federal-Provincial Relations and Social Policy, Department of Finance): I am Chris Forbes, general director of federal-provincial relations and social policy at the Department of Finance.

[*Translation*]

Mr. Dominique La Salle (Acting Senior Assistant Deputy Minister, Income Security and Social Development, Department of Human Resources and Social Development Canada): I am Dominique La Salle, Acting Senior Assistant Deputy Minister at Human Resources and Skills Development Canada.

[*English*]

Mr. Shane Williamson (Executive Director, Knowledge Infrastructure Program, Department of Industry): I'm Shane Williamson, executive director of the knowledge infrastructure program at Industry Canada.

Mr. Wayne Foster (Senior Chief, Financial Markets Division, Department of Finance): I'm Wayne Foster, director of the financial markets division at the Department of Finance.

The Chair: Thank you all for being with us here this afternoon.

It has probably been explained to you why you're here, which is to allow for questions involving more detail. If they're more of a technical nature, we can rely on your expertise in your various areas.

We will start with questions from members. We'll start with Mr. McKay, please, for seven minutes.

Hon. John McKay: The home renovation tax credit has a hard date of January 31: either you've done it by January 31 or you're out of luck. As sure as God made little green apples, on February 1 I'm going to get a raft of telephone calls in my constituency office saying something to the effect that "The windows guy said he'd arrive on Friday, but he didn't arrive until Monday, so I'm out of luck", or "My contractor got held up on another job, and he was going to get it done, but I'm out of luck."

The question is, how hard is the hard date? Second, have you advertised to people that this is a hard date? Third, is there a way in which it could be structured so that, for instance, a contract entered into prior to January 31 will be honoured even though the work might well be done afterwards?

● (1640)

Mr. Gérard Lalonde: Thank you for that.

The home renovation tax credit, as the minister mentioned already, is a very important part of this budget, and it is an economic stimulus measure. In order to provide economic stimulus, it was essential that this credit entice people to draw their future investments forward and make their investments now rather than later. The HRTC is available for costs incurred before January 31, 2010. Hence, to the extent that you're buying hard assets and to the extent that those costs are incurred before that date—for example, if all the windows are delivered and you have paid for them—at that point they're incurred. The work has to be performed before January 31. That was an important design feature of the credit in order to, as I said, entice people to bring the credit forward. Otherwise, it doesn't really serve its purpose if you can get the credit now, pay for it, and have the work done any time you want.

Hon. John McKay: If the point is to get the stimulus done prior to January 31, why is that not featured in your advertising campaign?

Mr. Gérard Lalonde: It's featured quite prominently in the budget documents and in the advertising campaign, where I believe it's quite clear that it says it's for renovations done after the budget and before January 31, 2010.

Hon. John McKay: I suggest that in your future rounds of advertising you make it abundantly clear to Canadians that this is a very significant date if they intend to claim the credit.

The other question I had was whether there is a way in which the interpretation of the legislation can be such that if a contract is not completed prior to December 31, the access to the credit can still be had.

Mr. Gérard Lalonde: The access, as I say, will be available for costs incurred up to January 31, 2010. To the extent that you had a contract for, let's say, $30,000 worth of work and one-third of it had been completed by the end of January 31, you would have eligibility for that $10,000 worth at that point. It doesn't necessarily mean the whole project has to be done; only that for which you're going to claim the credit has to be done by that date.

Hon. John McKay: So essentially you have to have $10,000 worth of work done, regardless of the size of the contract.

Mr. Gérard Lalonde: That's right.

Hon. John McKay: Okay.

The second question is also with respect to the home renovation tax credit. Whenever one wishes to reduce a tax, one can do it unilaterally, by order, through the Governor in Council. So the real question is, why is it in a bill?

Mr. Gérard Lalonde: I'm not sure I understand the question. Why is the home renovation tax credit in the bill?

Hon. John McKay: Why does it have to be in a bill? Why wasn't this done by the minister unilaterally?

Mr. Gérard Lalonde: It's a change to the tax law, a change to the Income Tax Act.

Hon. John McKay: But it's a reduction in tax, isn't it?

Mr. Gérard Lalonde: That's correct. It's a tax credit, and you have to legislate tax credits in order for them to be in place eventually.

Hon. John McKay: Doesn't there just have to be a ways and means motion?

Mr. Gérard Lalonde: A ways and means motion is a statement of the government's intent to implement a measure. Generally speaking, the government tables a notice of ways and means motion with the budget. That motion is voted on and you get an agreement in principle from....

Hon. John McKay: So this will happen regardless of whether this bill passes.

Mr. Gérard Lalonde: If it were to become abundantly clear to the Canada Revenue Agency that the HRTC was not going to be passed.... Currently, Parliament has agreed in principle to the ways and means motion that was tabled with the budget, and the CRA will continue administering it on that basis until such time as it becomes clear that Parliament will not pass it.

So, for example, if Parliament were to defeat this bill, then the CRA would have to suspend its administration of the measure.

● (1645)

Hon. John McKay: It's equally plausible that the government will decide to dissolve itself in the beginning of the new year prior to royal assent. There are all kinds of scenarios by which this bill may not pass.

Is this also true with respect to the first-time homebuyers' tax credit?

Mr. Gérard Lalonde: If the government were to dissolve, but not because this bill was defeated, then it would not have been a decision of the government to defeat this particular measure, and as a result, the CRA would continue to administer it, as I say, until such time as it becomes apparent from the government of the day or from Parliament that this measure will not be proceeded with.

Hon. John McKay: So it's a tax credit, regardless.

I just want to make sure that it's true of the first-time homebuyers' tax credit as well.

Mr. Gérard Lalonde: That's true.

Hon. John McKay: Thank you.

The Chair: Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: Part II of Bill C-51 amends the Bankruptcy and Insolvency Act. There are a few unanticipated consequences of the former act arising from the previous amendments to the act. Bill C-51 changes those consequences.

What is the impact of implementing what Bill C-51 changes regarding the Bankruptcy and Insolvency Act?

[*English*]

Ms. Colette Downie: The amendments that are proposed to the bankruptcy and insolvency legislation are technical amendments. They do such things as correct cross-references that were incorrect as a result of two bills being in the House at the same time on the same subject. As a result of some drafting errors, the updated definition of “eligible financial contracts”—commonly known as “derivatives”—that was supposed to be introduced was not brought into force.

So it would just correct provisions and the cross-references that would allow those changes to come into force. They contain no new policy changes; they're just technical amendments.

[*Translation*]

Mr. Jean-Yves Laforest: They aren't major changes.

Mrs. Colette Downie: No.

Mr. Jean-Yves Laforest: Thank you both.

[*English*]

The Chair: Merci, Monsieur Laforest.

We'll go to Mr. Wallace, please.

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

I think we also have only one round of questions and then we may be done.

I do appreciate Mr. McKay's pointing out that we do need to get this bill passed. The only way things would happen is if they forced an election on the public, which nobody wants, including probably most of you on the other side of the table. Otherwise, Parliament has spoken. Our intention is that we want to get this passed so that we can get to the WITB and all those other tax issues there.

I may be following up on what Mr. Laforest had to say, because I may have missed it. I understand everything; I just want some clarification on the multilateral debt relief part. Is this to allow us to provide aid that we've promised? What are we actually doing in here?

Mr. Philippe Hall: We're actually just changing the process by which we go about implementing the multilateral debt relief initiative. It used to be included as an item in our main estimates in the Department of Finance's vote 5.

Mr. Mike Wallace: I love estimates, but anyway....

Mr. Philippe Hall: Excuse me?

Mr. Mike Wallace: Nothing.

Mr. Philippe Hall: We are currently simply asking that it be listed as a statutory item—

Mr. Mike Wallace: It's to be statutory.

Mr. Philippe Hall: —to make it more credible to our stakeholders who are with us in this initiative.

Mr. Mike Wallace: I have a follow-up question, then. I think this comes in at around 8%. Is there a percentage attached to that statutory item, or does it just allow you to do it? Who sets the rate? How much would you set it?

● (1650)

Mr. Philippe Hall: Excuse me, do you mean the rate of—

Mr. Mike Wallace: I have it here that government is increasing our spending by 8%. Is there any spending attribute attached to that, or is it just that it takes it out of the vote and allows it to be statutory and it would be there permanently?

Mr. Philippe Hall: My understanding is that your 8% increase is in regard to the increase in official development assistance. The bill in question is talking more specifically about a very small subsection of this expenditure, which does not grow at 8% a year. It's actually our decision to take part in this initiative, which was announced in Gleneagles in 2005, to basically compensate the World Bank and the IMF for debt relief they provide to countries.

Mr. Mike Wallace: Does that compensation have a rate or a number attached to it?

Mr. Philippe Hall: Yes. The compensation that is to be provided, the debt relief that is to be provided to client countries, is in the order of.... Canada's part of that commitment is $2.5 billion over the life of the initiative, which is until 2054.

Mr. Mike Wallace: Okay, so that's an international agreement. We've agreed to that, I assume.

Mr. Philippe Hall: Exactly.

Mr. Mike Wallace: Okay. Thank you very much. I'll go to my second question.

I think there are amendments to Bretton Woods and a bunch of others. Can somebody just explain to me what we're doing there? I'm sorry, I'm being honest with you. What are these amendments actually going to do?

Mr. Philippe Hall: I'll ask one of my colleagues to inform you on that one.

The Chair: Just introduce yourself, please, for the committee.

Mr. Nicholas Phillips (Senior Economist, International Trade and Finance, Department of Finance): I'm Nicholas Phillips, from Finance Canada.

These Bretton Woods amendments refer to treaty amendments that Canada has actually already ratified. This was announced back in July of this year. We're tidying up the act.

To answer your question about what these amendments deal with, in 2008 IMF member countries came to an agreement. They said a few IMF member countries, specifically the smaller ones and ones that have been growing really fast—developing countries, in general—had inadequate representation and voting power at the IMF, so a decision was made to nudge them up a little bit.

Mr. Mike Wallace: These amendments allow those countries to participate to a greater extent in the IMF than they have in the past. Is that correct?

Mr. Nicholas Phillips: Exactly.

Mr. Mike Wallace: Okay. So we've agreed to that as an international agreement, and on our end we're just doing our share of changing the agreements to make that happen.

Mr. Nicholas Phillips: Exactly.

Mr. Mike Wallace: Thank you very much.

Thank you, Mr. Chair.

The Chair: We'll go to Mr. Pacetti, please.

Mr. Massimo Pacetti: Thank you, Mr. Chair. Thank you to the witnesses.

Mr. Lalonde, we've often had you here before on technical bills, and we've had problems in the past. It's just a standard question, but given that this is a technical bill, what is your comfort level? We've had problems in the past with other bills, so what's your overall comfort level about how this bill compares with technical bills that you've tabled?

Mr. Gérard Lalonde: I guess you're speaking of the technical bill that was originally released by one side of the House and eventually tabled by the other. There were some representations, I think, at the Senate committee.

That was properly recognized as a technical bill. It was a very large bill with over 500 pages, as I recall; this is a much shorter bill. It's not a technical bill; it is a bill implementing the measures of the 2009 budget. We would draw a distinction between something that's responding to a number of technical amendments and something like this, which is responding to—in the case of the income tax amendments—the three remaining amendments from the 2009 budget, those being the doubling in the size of the WITB, the introduction of the first-time homebuyers' tax credit, and of course the home renovation tax credit.

Mr. Massimo Pacetti: So it's purely an implementation bill, not a technical bill?

There's a whole bunch of other items, some of which Mr. Wallace asked about, that we didn't necessarily see in the budget. That's why I was asking.

Were those items in the budget?

Mr. Gérard Lalonde: Those items would not have been in the income tax annex of the budget, since they're not dealing with income tax measures, but they would have been referred to elsewhere in the budget.

Mr. Massimo Pacetti: Just to follow up on Mr. McKay's question again, if we use an example in which you've ordered the windows—I like the windows example—and in your contract you say you want them installed as well.... So they have been produced, but you're not going to visit the manufacturer to make sure they were produced, and you're not going to pay for them, because in the contract it says “purchased and installed”. The business is not able to install them by January 31. How do we cover ourselves?

It's not to accuse, but let's clarify and see how we cover ourselves. Do you actually have to make a payment? This is where we're going to get into.... It's not just windows; there are going to be other major purchases in which there is going to be some fuzziness over the issue.

● (1655)

Mr. Gérard Lalonde: Sure.

It's for costs incurred in respect of materials acquired and services provided before January 31. To the extent that title in the property has transferred to you—in this case, the windows—and to the extent that you have to pay for those windows—they are your windows, they exist—then—

Mr. Massimo Pacetti: So you have to pay for them.

Mr. Gérard Lalonde: You have to incur a liability. If you have signed the contract and you have to pay for them and you have title to those windows—

Mr. Massimo Pacetti: That's why I'm asking. Normally you would order the windows but you would only pay for them once they are installed. If there is that four or five days, would you recommend that people actually pay for them and make sure that if they are not getting the windows installed—again I'm using windows as an example, but it could be the deck or whatever else—they should perhaps go back and see the supplier or the company or whoever's going to provide those services or that product and ask them to split the invoice.

Would that be...?

Mr. Gérard Lalonde: That would be a helpful thing. It would make it easier for filing a return. Yes, that's true.

Mr. Massimo Pacetti: Quickly, how is the mechanism going to work? As taxpayers, are we going to be submitting the invoices, or is it going to be after we request the refund?

Mr. Gérard Lalonde: It would depend on whether you're filing electronically or not. If you're filing electronically, then like any other receipt that you're required to keep—say, for example, the—

Mr. Massimo Pacetti: What if we're not filing electronically?

Mr. Gérard Lalonde: If you're not filing electronically, you would file the receipts with your return.

Mr. Massimo Pacetti: And would they be returned, in case we needed them for guarantee?

Mr. Gérard Lalonde: I imagine that photocopies of the receipts would be fine.

Mr. Massimo Pacetti: I have another question, but here's one more on the working income tax benefit, just to clarify what Minister Flaherty was saying. Can we file a tax return on January 1?

Mr. Gérard Lalonde: Yes, an individual can file a tax return at any time after the end of the taxation year. They're due, of course, on April 30, for most individuals.

Mr. Massimo Pacetti: My experience is that most of the forms are not available until February.

Mr. Gérard Lalonde: That's a different question, as to whether you can legally file a return and whether the form is available, printed or not. There may be electronic versions that you could use.

Mr. Massimo Pacetti: Legally we can file, but practically it's probably very difficult to do so.

Mr. Gérard Lalonde: It depends on how early the forms get out.

Mr. Massimo Pacetti: In your experience, how early can the forms get out?

Mr. Gérard Lalonde: I've never filed my return before April 30, so I wouldn't know.

Voices: Oh, oh!

Mr. Massimo Pacetti: All right, but I'm not asking you only. Maybe somebody else in the room has experience on how early.... As an accountant, I've never seen the forms earlier than—

Mr. Gérard Lalonde: I don't think we've brought anybody here from the Canada Revenue Agency, and they would be the ones who would have to respond to that question.

Mr. Massimo Pacetti: Thank you.

The Chair: So you're similar to other Canadians in that respect.

Mr. McKay, I understand you have a question or two.

Hon. John McKay: I have a couple of questions on the CBC and the pensions. You're increasing the borrowing ability of CBC from $25 million to $220 million. Does the CBC borrow at crown rates?

Mr. Wayne Foster: The current limit is $25 million. The CBC has not actually borrowed to this date; the increase will allow them to borrow a larger amount, up to $220 million. The proposed structure of the borrowing is by way of monetizing certain receivables, so it'll be a market borrowing. It won't be at the government's rate; it'll likely be higher than the government's rate.

Hon. John McKay: Are you saying the CBC has to monetize whatever accounts receivable it has, bundle them up, go to the bank, and borrow money just like anyone else does?

Mr. Wayne Foster: That is the proposed and approved structure of the transaction that the CBC could—

Hon. John McKay: What would that add to the CBC's annual cost?

● (1700)

Mr. Wayne Foster: I don't have the details as to what the specific rate of interest might be on the proposed transactions. They're engaged with various financial advisors, and for those details you'd have to go to CBC. Probably the CBC would have to give you those details.

Hon. John McKay: Well, $220 million at 5% is a lot of money. It's an extra $11 million on their cost structure.

Mr. Wayne Foster: Sure, yes.

Hon. John McKay: Well, I'm just curious.

The second question is with respect to the pensions. I'm just not clear on the intention. You're going to remove the work cessation test so that a person can take retirement as early as 60 without a requirement of work interruption or earnings reduction. I'm not quite sure I understand the public policy thought behind that.

Mr. Chris Forbes: Right now there is a test in place if you want to take your CPP early, a work cessation test: as you read, you either have to stop work for a couple of months or sharply reduce your earnings.

I think it's a bit of a holdover from a time going way back to when we clawed back CPP from those who had continued to have work earnings. The concept, which was coming from the ministers of finance at the federal and provincial-territorial level, was that we wanted to give flexibility to people to continue working and collect the CPP. We wanted to make sure that we were flexible in the arrangements people wanted to have, so this takes away a somewhat arbitrary rule that was forcing decisions upon people. They'd have to stop work for two months in order to collect CPP early. There was no good justification for that.

Hon. John McKay: If I want to work and collect a reduced-rate CPP, with this amendment I'll be able to do so.

Mr. Chris Forbes: Yes, and you'll be able to do it without having this work cessation before taking it.

Hon. John McKay: I won't have to prove that I was fired or something like that.

Mr. Chris Forbes: Yes, exactly.

Hon. John McKay: Then from ages 65 to 70 you're giving a type of opt-in, opt-out position with respect to contributions. If I maxed out at 65, why would I want to contribute further to my pension?

Mr. Chris Forbes: You may have reasons. You may just to want to accrue more benefits. You want to continue working and you decide, for whatever reasons, that you want to accrue more benefits. Again, it's all in the context of making sure it's actuarially fair to the CPP and to the plan member, but if you would like the flexibility of continuing to contribute to accrue more benefits, that's a possibility for you.

Hon. John McKay: Okay. Thank you.

The Chair: We're going to go to Mr. Kramp now, please.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): With regard to livestock and income deferrals, I'd like a little clarification. I know some of the producers obviously.... When their herds are impacted by drought or moisture or whatever, is there a particular portion of the herd that must be affected? Is it a partial cull, or does the herd have to be liquidated?

I'd like some more details with regard to the income deferrals, please.

Mr. Gérard Lalonde: Sure, I can respond to that.

There were some questions posed earlier I think when the minister was here as well, and they may have referred to the measure as a tax credit, which was not completely accurate. This particular measure relates obviously to farmers. It talks about situations in which a farmer is required to dispose of their breeding herd because of drought conditions in the past and, with the new measure, the excess moisture or flood conditions.

Many farmers operate using the cash method of accounting, which means they will deduct the cost of purchasing their inventory, including animals, and when they sell the animals they will include the whole proceeds in income. This differs from many other types of businesses that use accrual accounting, such that you would not deduct the cost of acquiring your income, and hence when you sold the property the cost of the property that you sold would be excluded from your income. It's the profit element that you would take into account. Using the cash method, it's different. When you buy the inventory the whole thing is a deduction; when you sell the property the whole thing is an income inclusion.

For those farmers who have to sell breeding cattle, part of their breeding herd, because of drought, or now because of excess moisture and flood conditions, they're selling at a time when even though they may not be making a profit on the sale because it's being made at a time when the market is distressed because of the drought or the flood conditions, they will have to include the whole proceeds of disposition into income.

The next year, if they are going to want to replenish their herd, they won't have the money because they will have paid the tax in the previous year. What this measure does is allow farmers to withhold or defer a portion of the tax on the sale of the breeding herd to the next year. At such time they will have the deduction from buying the new replacement cattle, and as such they continue going and they don't have a cashflow problem.

The tax law provides that for dispositions of breeding herds between zero and 15%, there's no deferral; between 15% and 30%, there's a deferral of 30% of the proceeds; and for dispositions of more than 30% of your breeding herd, there's a 90% deferral until the next year. If the next year also happens to be a drought or flood year, then it shifts to the year following, etc.

• (1705)

Mr. Daryl Kramp: Might there be any other conditions other than weather where this could potentially be utilized, i.e., trade—either sanctions or country of origin—that could dramatically affect the capacity of a particular producer or regional producers all of a sudden to market their product?

Mr. Gérard Lalonde: There's a similar measure in respect of forced destruction of livestock due to disease, for example, but not so much market elements. These are natural disaster types of measures. As I say, this one in particular used to be in place for drought. It had been in place for drought for a number of years and it was recently extended to apply to flood situations.

Mr. Daryl Kramp: Okay, thank you.

I was looking at the first-time homebuyers' tax credit. You don't buy a home too many times in your life really—at least most people don't. Some of them are one-time buyers, period. Of course, this is an area that a lot of people don't have a lot of experience in. Right off the bat, all of a sudden those unseen costs just seem to mount up. Can you give us some of the items that would be eligible for a refundable tax credit here? Obviously, if they didn't like the plumbing that was in place and they're going to have to replace some of that, that would probably not be the type of thing.... Are we talking about professional fees only? What other fees would be acceptable for the non-refundable tax credit?

Mr. Gérard Lalonde: Is this for the new home purchase tax credit?

Mr. Daryl Kramp: That's correct, for the first-time homebuyers' tax credit, for the $750 one.

Mr. Gérard Lalonde: Right. The base of that tax credit is not applied to professional fees or permits, or any other kinds of fees that you might have. If you have bought your first home, you get a tax credit of $750.

Mr. Daryl Kramp: It's just straight, period, across the board.

Mr. Gérard Lalonde: That's correct.

Mr. Daryl Kramp: From the point of the actual tax credit of $5,000, there are no terms, no strings, no conditions? It's just, there it is.

Mr. Gérard Lalonde: Yes. The tax credit amount, as it's referred to, is $5,000. It's the amount that shows up in your tax form, because there are a number of other credits also applicable at the 15% rate. You add up that amount and at the end you multiply the whole thing by 15%. That's why I mentioned $750 being 15% of $5,000.

Mr. Daryl Kramp: So, in essence, it has to be very, very simple for a first-time homebuyer, instead of some of these complexities where you have to dot every “i” and cross the “t” and you never know what you're going to get back at the end of it. It's straightforward and simple.

Thank you.

The Vice-Chair (Mr. Massimo Pacetti): Just quickly, Mr. Forbes, the question Mr. McKay asked you on the work cessation test, is that also similar to what's in place right now with Quebec, with the QPP?

Mr. Chris Forbes: I don't know, actually. It's a good question.

Apparently yes, they tell us.

The Vice-Chair (Mr. Massimo Pacetti): There's an amount in Quebec. I think it's $6,000 or $8,000. So is it going to be different now between the CPP and the QPP?

Mr. Dominique La Salle: What amount are you referring to, sir?

• (1710)

The Vice-Chair (Mr. Massimo Pacetti): There's a work amount. There's a number in Quebec that if you're earning $6,000, $8,000, or $12,000, you cannot qualify between the ages of 60 and 65 to get the QPP.

Mr. Chris Forbes: I'm told that Quebec may not completely eliminate their work cessation test. They may go partway. They had one like ours. We can provide more details if you'd like, but they're not completely harmonizing with us.

The Vice-Chair (Mr. Massimo Pacetti): So for the CPP, you're going to go all the way done to zero, so there's not going to be any—

Mr. Chris Forbes: The work cessation test will be on, yes.

The Vice-Chair (Mr. Massimo Pacetti): And what is it presently?

Mr. Dominique La Salle: Presently you have to have low earnings for a period of two months or no work at all.

The Vice-Chair (Mr. Massimo Pacetti): Okay, it's not a yearly amount. So what are low earnings for two months, more or less?

Mr. Chris Forbes: It's $950 a month. So you would have to bring your earnings down to $950 per month for two months, or to zero.

The Vice-Chair (Mr. Massimo Pacetti): Okay, great.

One last question on the Financial Administration Act. I know you're putting into the bill that crown corporations and federal entities and departments are going to have to make public within sixty days after the end of the fiscal quarter.... Where does that come from? Don't we have that condition presently?

Mr. Bill Matthews (Acting Assistant Comptroller General, Financial Management and Analysis Sector, Treasury Board Secretariat): Hello. My name is Bill Matthews. I am with the Office of the Controller General.

Sir, I couldn't quite hear your question.

The Vice-Chair (Mr. Massimo Pacetti): The amendment to the Financial Administration Act is requiring that specified federal departments as well as parent crown corporations and other federal entities are to prepare and to make public within sixty days after the end of the fiscal quarter a quarterly financial report. Is that not a requirement today?

Mr. Bill Matthews: No. If you look at the reporting framework we have federally, it starts with the budget, and then to wrap up the year we do the public accounts on an annual basis. From an interim perspective, the Department of Finance produces the fiscal monitor on a monthly basis. But that's a whole of government level. The issue here is this is the way to report back to Parliament, on a departmental level, on how departments are doing with their appropriations in terms of what Parliament authorized. So it's a new requirement to do quarterly reporting for each of the first three quarters of the year. We're not requiring it for the fourth quarter because there already is substantial year-end reporting by departments and crown corporations.

The Vice-Chair (Mr. Massimo Pacetti): Is that going to require more resources, or is it already built into the system that you'll be able to provide it?

Mr. Bill Matthews: We have put a delay on it—it goes into effect in April 2011—to give them some time. But in terms of reporting, it's largely to be based on reporting they would be doing anyway for their own management. So there are some resources required, but it's not enough to require an ask of resources. But there are certainly some resources in the department.

The Vice-Chair (Mr. Massimo Pacetti): I have just one last question related to that. On the departments named in schedule 1, would that be all departments?

Mr. Bill Matthews: That's basically all departments and all crown corporations—all the major departments, yes.

The Vice-Chair (Mr. Massimo Pacetti): But wouldn't the crown corporations report on a quarterly basis now?

Mr. Bill Matthews: They don't produce publicly available quarterly reports right now. They do annual financial statements.

The Vice-Chair (Mr. Massimo Pacetti): These quarterly statements don't have to be audited, correct?

Mr. Bill Matthews: They are to be unaudited, exactly. If you want to do it sixty days after the quarter ends, there's no way you could do audits. If you went the audit route, it's quite an expensive proposition.

The Vice-Chair (Mr. Massimo Pacetti): Okay, great. Thank you.

Thank you to everybody. I don't think members have any more questions.

Yes, go ahead.

Mr. Gérard Lalonde: I just have one piece of information for Mr. McKay. I'm advised by one of our helpful people behind me that last year the T1 return was available from the CRA on December 22. So if you want something for your Christmas stocking this year, there you go.

The Vice-Chair (Mr. Massimo Pacetti): That was me who asked the question, so thank you, Mr. Lalonde.

That's why Mr. McKay was clueless. As a lawyer, that's what happens.

The meeting is adjourned.

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