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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)): Okay, I'll ask all of our friends with cameras, video cameras, and microphones to leave please. Thank you.

I'll call this meeting to order. This is the 58th meeting of the Standing Committee on Finance. The orders of the day, pursuant to the order of reference of May 14, 2012, are a study of Bill C-38, An Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures.

Minister, we're very pleased to have you here with us today for a full hour session and then have your officials afterwards. As you know, you will have up to 15 minutes for your opening presentation, and then you will have questions from all of our members.

I ask you to begin at this time, please.

Hon. Jim Flaherty (Minister of Finance): Thank you, Chair.

I will make my comments relatively brief to allow sufficient opportunity for the committee's questions.

First, before I begin, let me congratulate the chair and all of the members of the finance committee for their ongoing and comprehensive work over the past few months looking at potential ways to encourage more charitable giving in Canada with new or improved tax incentives. I look forward to reviewing the committee's eventual findings and recommendations.

[Translation]

I am here today to address the committee on the subject of Bill C-38, the Jobs, Growth and Long-term Prosperity Act. The purpose of this important bill is to implement key measures in the 2012 economic action plan that will contribute to the growth of Canada's economy not only in the years to come, but also for future generations.

[English]

When talking about why today's legislation is of such importance, we must always consider our place in the global economy.

First, overall Canada's economy has been doing relatively well. Job growth in Canada has been the strongest in the G-7, with over three-quarters of a million net new jobs created since the end of the recession in July 2009. Moreover, 90% of these jobs are full-time and over 80% are in the private sector. Economic growth in Canada, as noted by independent organizations such as the IMF and the OECD, is forecast to be at the head of the pack of G-7 countries in

the years ahead. Fiscally, Canada remains in an enviable position with by far the lowest net debt to GDP ratio in the G-7.

As Scotiabank chief economist Warren Jestin recently declared, "When you look at what exists in Canada, this is...the best country in the world to be in."

But it is the rest of the world that we must be mindful of, always remembering that we are never immune from the fragile global economy. In Europe, tremendous and ongoing challenges remain, as we are reminded far too frequently. In the United States, our largest trading partner, the uneven and bumpy recovery continues. Both situations underline the fact that Canada cannot be complacent, and that difficult and uncertain challenges persist. Winston Churchill once noted famously, "A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

Looking at Canada today, I see the opportunity ahead—the opportunity to bolster our fundamental economic strengths, to create more high-quality jobs for today and tomorrow, and the opportunity to confront our long-term economic and financial challenges head on. Indeed, we have a strong foundation on which to build.

As I mentioned earlier, Canada's economic and fiscal fundamentals are solid. Our recent job growth, our forecasted economic growth, and our fiscal position are all the best in the G-7.

In addition, our banking system is the soundest in the world, as judged by the World Economic Forum for four consecutive years. All three of the major credit rating agencies, Moody's, Fitch, and Standard & Poor's, have reaffirmed Canada's top credit rating.

With the lowest overall tax rate on new business investment in the G-7, *Forbes* magazine recently ranked Canada as the best country in world in which to do business.

Without a doubt, we are on stable economic ground. But when promoting Canada around the world to others, our admirers point to another key advantage—a strong, stable government that can make long-term decisions and that has stayed squarely focused on the economy. To understand the importance of this, we must look no further than the United States or Europe, where political gridlock and instability too often threaten or delay vital economic and fiscal reforms. In a fast changing global economy, which not only remains uncertain but in which Canada also faces increasing competition from emerging economies, delay for the sake of delay is not an option and complacency is the enemy of success.

●(1535)

[Translation]

One thing that is certain is that our government will continue to focus on the economy. With that in mind, the 2012 economic action plan provides that we will be moving forward with a clear, prudent and balanced plan to ensure economic growth and sound public finances in Canada, now and in future.

[English]

As the challenges Canada's economy faces are not small or one-dimensional, neither is our plan.

In fact it is unapologetically comprehensive and ambitious, for it responds to the magnitude of the challenges we face in a globalized economy.

[Translation]

The 2012 economic action plan focuses on the engines of growth and on creating jobs, keeping taxes low and ensuring sound public finances and social programs for future generations.

The action plan makes major investments in support of a new approach to research and innovation in Canada, an approach that will stimulate high-quality job creation. The action plan promotes responsible resource development to eliminate duplication, and the adoption of a "one project, one review" model, while improving environmental protection mechanisms. The action plan also provides for intensifying Canada's efforts to strengthen trading relationships and establish new ones and to take greater advantage of Canada's highly qualified and educated labour force.

[English]

This better ensures that our immigration system is truly fast and flexible, to help sustain Canada's economic growth.

It also includes taking steps to ensure sound public finances by preparing today for the pressures Canada will face over the longer term, steps like making necessary reforms to old age security and public sector pensions; implementing a path for provincial and territorial transfers to keep them growing in a predictable and fair way; and managing public finances in a sustainable and responsible manner, balancing the budget in the medium term, and respecting taxpayers' dollars by eliminating waste and enhancing efficiency whenever possible.

Again, this plan is unapologetically comprehensive and ambitious, aligned in its aim of building a stronger Canadian economy for today

and tomorrow. Indeed a recent editorial in the Waterloo region *The Record* characterized our economic action plan 2012 this way:

It is a moderate, intelligent and visionary plan to preserve a progressive, prosperous Canada in a global landscape filled with both upheaval and promise.

And for this reason it is the most ambitious and important federal budget in a generation.

Underlying it all is an astute recognition of how this nation and the world around it are changing....

This budget tackles these challenges head-on....

●(1540)

[Translation]

As was mentioned earlier, Bill C-38, the Jobs, Growth and Long-term Prosperity Act, is a key element of the action plan. It implements many of the principal measures in the plan, including supporting jobs and growth through responsible resource development while protecting the environment; helping to build a fast and flexible economic immigration system that meets the needs of the Canadian labour market;

[English]

gradually increasing the age of eligibility for old age security and the guaranteed income supplement from 65 to 67, starting in April 2023, to ensure that it remains sustainable for future generations; and much more.

The plan also takes important targeted steps to provide direct support for Canadian families and communities by, among other things, assisting provincial front-line delivery of health care and social programs by extending the temporary total transfer protection to 2012-13, representing nearly \$700 million in support to those affected provinces; expanding health-related tax relief under the GST/HST and income tax systems to better meet the health care needs of Canadians; helping Canadians with severe disabilities and their families by improving the registered disability savings plan; requiring federally regulated private sector employers to ensure, on a go-forward basis, any long-term disability plans they offer to their employees; promoting literacy by allowing certain charities and qualifying non-profit literacy organizations to claim a rebate from the GST they pay to acquire printed books to be given away; and supporting major exhibitions at Canadian museums and galleries by modernizing the Canada travelling exhibitions indemnification program, among many others.

Mr. Chair, since we were first elected in 2006, our government has been focused on creating jobs and economic growth. We are "looking a little ahead", as Sir John A. Macdonald was fond of saying. Ultimately, our goal is simple: it is to ensure long-term prosperity for all Canadians.

As comprehensive as it is ambitious, the economic action plan 2012 will maintain and strengthen our advantages by continuing to pursue those strategies that made us so resilient in the first place—responsibility, discipline, and determination.

Bill C-38, Jobs, Growth and Long-term Prosperity Act, is an important step in creating a brighter future for our country. I urge you, the members of this committee, to help achieve that worthy goal by passing this legislation.

With that, Mr. Chair, I invite the questions of the committee.

The Chair: Thank you very much, Minister, for your opening statement.

We will begin members' questions with Ms. Nash for five minutes, please.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Minister, for your presentation.

This sweeping bill of some 425 pages contains so many measures. Here's a little briefing binder we got from the Library of Parliament to help us with our reading of the bill. There are many changes in this bill to which Canadians have not been entitled to a clear debate. These were not in the Conservative Party's election platform. The change to OAS that will result in future retirees getting less, the gutting of environmental assessment, the changes to EI, the removal of the Auditor General's oversight—all of them were not election promises. Canadians have not had an opportunity to become involved in this discussion.

Why are you including sweeping changes in a budget bill that have nothing to do with the budget you introduced earlier this year?

Hon. Jim Flaherty: On the contrary, I say to the honourable member that the matters that are in this first budget bill—there will be another budget in the fall—were all included in the budget I tabled at the end of March in the House. All of them are.

Ms. Peggy Nash: The OAS change was not in the budget bill.

Hon. Jim Flaherty: It's in the budget, yes.

Ms. Peggy Nash: The information for Canadians to be able to have this debate about these major changes is not available to people.

You said or speculated yesterday that the changes to OAS would mean a change of about \$10 billion to \$12 billion, which seniors would not get. That's what the savings would be.

• (1545)

Hon. Jim Flaherty: No, that's not what I said. There was speculation—

Ms. Peggy Nash: You said that's what the change would mean.

Hon. Jim Flaherty: There was speculation about those numbers in the media.

Ms. Peggy Nash: What are the real numbers, then?

Hon. Jim Flaherty: In fact, there are no cuts to OAS in the budget, period.

Ms. Peggy Nash: What was the \$10 billion to \$12 billion?

Hon. Jim Flaherty: The media was speculating about whether there would be any savings later on. As I told them, there are no cuts to OAS in the budget.

Ms. Peggy Nash: You said that you had heard the \$10 billion to \$12 billion figure. What was that figure?

Hon. Jim Flaherty: I heard it from the media. That's the figure they were using. They asked me about it.

Ms. Peggy Nash: So what will be the impact of raising of the age of OAS from 65 to 67 for future retirees?

Hon. Jim Flaherty: You know, that will be dealt with.... OAS, first of all, is not a pension plan. I hear some members referring to it as a pension plan. That's just wrong. Our pension plan is the Canada pension plan, which is a contributory—

Ms. Peggy Nash: No, I'm asking you about the impact of the change to OAS. Excuse me, I just have five minutes.

The Chair: Let's just let him finish.

Ms. Peggy Nash: No, but I only have a few minutes, which is why I'm trying to get to the information.

What will the impact be of the changes to OAS? You're saying that we need this change to put the program back on a path of sustainability. What will be the impact of this change?

Hon. Jim Flaherty: We will end up with a sustainable plan so that people who will need this social program—which is not a pension plan—when they are older can rest assured that we will have a sustainable OAS program when they need it.

Ms. Peggy Nash: How can we have a debate on this major change when you are refusing to give us the figures as to what this change will mean?

Hon. Jim Flaherty: As I've told you, we're talking about the budget and the budget bill. There are no reductions to OAS in the budget or in the budget bill that is before the committee.

Ms. Peggy Nash: You've announced a major change to OAS, which will take effect in the future for people who want to retire. They will now have to wait—

The Chair: You have one minute left.

Ms. Peggy Nash: —two more years to get their old age security. How will that put OAS back on a path to sustainability?

Hon. Jim Flaherty: Yes, and this gradual change will not begin until 2023.

Ms. Peggy Nash: How will that put OAS back on a path to sustainability?

The Chair: Ms. Nash, pose your question—

Hon. Jim Flaherty: I don't think we can all talk at the same time.

The Chair: —and allow the minister to answer.

Ms. Peggy Nash: So you're not going to give us any figures?

Hon. Jim Flaherty: I can't talk when you keep—

Ms. Peggy Nash: You're not going to confirm the figure that you raised yesterday?

Some hon. members: Oh, oh!

The Chair: Can we get an answer from the minister, please?

You have 30 seconds, Minister.

Hon. Jim Flaherty: As I said, there are no reductions to the OAS in the budget.

The Chair: Okay.

Do you have a short question, Ms. Nash?

Ms. Peggy Nash: Can you tell me what concrete measures there are in this budget to reduce inequality, which is a concern for the majority of Canadians?

Hon. Jim Flaherty: Yes. If I could help you understand the budget, and I'm sure you want to understand this bill, it's in four parts.

Part 1 is income tax amendments.

Ms. Peggy Nash: Are there any concrete measures?

Hon. Jim Flaherty: Part 2 is sales and excise tax measures.

Ms. Peggy Nash: Are there any concrete measures to reduce inequality in this budget?

Hon. Jim Flaherty: Part 3 is responsible resource development—

The Chair: Order!

Ms. Peggy Nash: Nothing. Nothing.

The Chair: Order!

Ms. Peggy Nash: You have nothing to reduce inequality.

The Chair: Order, Ms. Nash.

I'm going to allow the minister a brief amount of time to answer.

We are over time, Minister, but we'll allow you to answer the question.

Hon. Jim Flaherty: I'll do it again.

Part 1 is income tax amendments. Part 2 is sales and excise tax measures. Part 3 is responsible resource development measures, and part 4 is the various other individual measures dealing with the Currency Act, cross-border law enforcement, financial institutions, CMHC, and so on.

There's nothing unusual about this at all, particularly for members of a finance committee.

The Chair: Thank you.

Thank you, Ms. Nash.

We'll go to Mrs. McLeod, please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you, Mr. Chair.

I'd like to thank the finance minister.

I also want to make a quick mention of the fact that, as you're probably aware, we were in New York and Washington last week. We had many meetings, and almost without exception we heard from our friends and neighbours in the United States about how envious they were. Again, each meeting started with sort of complimenting Canada on our banking system, on our economy.

That, to me, as we learned about the challenges in the U.S., or heard from the IMF, just reconfirmed in certainly my mind how fortunate we are to be heading down the track that we're heading.

I would really like to target in on two specific areas. The first is health care transfers, because I think health care is near and dear to all our hearts. I heard the announcement you made in terms of how we're increasing transfers for health care. The NDP of course, falsely, are standing up in the House on a regular basis saying we're cutting transfers.

I would also like to make note of the quote from Scott Brison, the current Liberal finance critic. He said that shifting the burdens to provinces—which the Liberals did in the nineties—is the “easy but cowardly way to accelerate deficit reduction.... The Chrétien-Martin cuts sent the health care and education system into crisis in every Canadian province.”

I repeat and underline the word “cut”, because it points to an important contrast. Unlike the Liberals in the 1990s, we're not cutting transfer payments; rather, we're ensuring that they can continue to grow at a sustainable level. Indeed, health care transfers will continue to grow from \$27 billion in 2011-12 to a minimum of \$38 billion in 2018-19.

I'd like you to focus in on how this new health care transfer arrangement proposed in Bill C-38 will provide certainty and stability to the provinces.

● (1550)

Hon. Jim Flaherty: Thank you for the question.

One of the key elements of fiscal sustainability in the long term is dealing with the rate of growth of transfers to the provinces and territories. About 25% of the federal revenues are transferred. That is, Canadians' tax dollars that they pay to Ottawa are transferred back to the provinces and territories, in primarily three ways: first, in equalization; second, in the Canada health transfer; and third, in the Canada social transfer. In the long term, these transfers will grow at the rate of nominal GDP, which is the rate of growth of the economy.

Specifically with respect to the health transfer, it will continue to grow for five more years at 6%. Then, starting in 2017-18, it will grow at a three-year moving average of nominal GDP growth, with a guaranteed base of 3% or more per year. This provides certainty and stability to the provinces in their planning.

It is generous, going out to 2024. If one looks at the provincial budgets and territorial budgets so far this year—and most of them are here—there is only one province that is planning to increase its health care spending at greater than 6%, and that is the Province of Alberta at 7%. The average, in fact, of the provinces is 3.8%, although for the next five years the federal government will increase the Canada health transfer by 6% to the provinces and territories.

The Chair: You have about a minute.

Mrs. Cathy McLeod: Great.

My next question is really focused in on the registered disability savings program, which is really an important achievement. I understand that about 55,000 Canadians already have an account. I think many of us have constituents and families in our ridings who have had an enormous benefit from the changes we've made.

While it's a great program, we want to ensure that we do whatever we can to make it better, which is why we recently undertook the three-year review, and we made some important changes in economic action plan 2012. Could you focus in specifically in relation to expanding the definition of who the plan holder may be for the RDSP and why we took this temporary step?

The Chair: Just a brief response, Minister.

Hon. Jim Flaherty: A brief response, yes.

The measure that's in the budget bill before you deals with a situation where someone has an intellectual disability but reaches the age of majority and then goes into a financial institution, and the person in the financial institution who is going to draw up the contract for the RDSP is unsure of whether that person has capacity to enter into the contract.

Rather than go through the huge procedure—which it is in most of Canada—to have an administrator appointed, or a trustee, which is often demeaning to the individual in question, who is capable of handling his or her own affairs for the most part, there's a very good mechanism in the province of British Columbia. I've encouraged all of the other provinces to emulate that. Some are. Some have not, and this is a concern, because there are many people—including in Ontario—who have been in effect prohibited from opening an RDSP because of the absence of a mechanism.

So we're creating a mechanism in the Income Tax Act in this budget, a temporary one out to 2016, whereby other family members will be able to be the holder of the RDSP.

The Chair: Okay. Thank you.

Thank you, Ms. McLeod.

Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Mr. Chair.

Minister, the OECD, the Parliamentary Budget Officer, and others tell us that currently the OAS is sustainable. You're saying it's not sustainable in its current form but the changes you're proposing will make it sustainable.

As such, these changes you're making must have a figure attached to them in terms of what they will actually save the treasury, because you're saying that amount is going to make OAS sustainable. So

what would that figure be? What is the figure that your changes will make to save the treasury, to make OAS sustainable, according to your calculations?

• (1555)

Hon. Jim Flaherty: Well, what we're doing, as you know, out in 2023, and gradually after that, is raising the eligibility age from age 65 to age 67. This is a recognition—

Hon. Scott Brison: But what—

Hon. Jim Flaherty: It's a recognition of the fact—

Hon. Scott Brison: Minister—

Hon. Jim Flaherty: —that we have an aging population that is relatively healthy.

Hon. Scott Brison: But, Minister, what's the figure?

Hon. Jim Flaherty: Most of the western economies are doing the same thing.

Hon. Scott Brison: Minister, what's the figure?

Hon. Jim Flaherty: The figure will be, then, the number of people who claim OAS. As you know, that figure changes from time to time.

Hon. Scott Brison: So you—

Hon. Jim Flaherty: This is a social program. It is not a pension plan.

Hon. Scott Brison: So you can't tell us the figure of how much this government will save, but you'll tell us that the change will make OAS sustainable.

Hon. Jim Flaherty: I can tell you that—

Hon. Scott Brison: If you can't tell us the figure of how much it will save, how can you tell us it's unsustainable in its current form?

Hon. Jim Flaherty: I can tell you that most of the western economies are going in exactly the same direction, because of the reality that the life expectancy of a male in Canada, when this plan was introduced, was about 69 years of age. Now—

Hon. Scott Brison: So it's not based on sustainability in Canada.

Hon. Jim Flaherty: Now it's about 79 years of age. The life expectancy of a woman, similarly, is now in the eighties.

Hon. Scott Brison: The baby boom generation and the whole demographic shift have been with us since the 1950s. You were probably aware of that during the election. If so, why didn't you speak about this change to OAS during the election?

Hon. Jim Flaherty: Well, we made it clear during the election campaign that we would ensure that we had long-term fiscal stability in Canada. That is our brand around the world—a brand with respect to which Canadians can be quite proud.

Hon. Scott Brison: Raising the OAS will also raise the age of qualification for the guaranteed income supplement, which helps the poorest of the poor in Canada. Will you consider amendments to exempt these most vulnerable Canadians, the people who get the guaranteed income supplement, from these changes?

Hon. Jim Flaherty: The question usually comes in another way—that this change might impose some burden on the provinces. We made it clear, explicitly, in the budget documents that we would compensate the provinces and territories for any increased social assistance costs they incur as a result of this change, which is many years away.

Hon. Scott Brison: You're saying that people can work longer today than they used to. That's true for a politician, a lawyer, or an accountant, but if you're a manual labourer—a pipe fitter, a carpenter, or a fish plant worker doing physical labour—that may not be the case. In fact, for many people in those roles their bodies need a break at 65.

Will you consider amendments to exempt some people doing heavy physical labour, for example, from these changes?

Hon. Jim Flaherty: There's a very interesting program funded in the budget called ThirdQuarter. The Manitoba Chamber of Commerce created the program. It's an Internet program to match people aged 50 and over, with their attributes and qualifications, to available jobs. This has been very successful in Manitoba, and we're going to fund its expansion across the country.

One doesn't have to do the same job for one's entire life. Many people do not. In fact, it will be more common in the future for a person to have multiple and different jobs in their lifetime than a single job.

Hon. Scott Brison: So you don't think it's different for somebody in heavy manual labour, compared to somebody who is a professional and a sedentary worker, as an example.

Hon. Jim Flaherty: I don't agree with what you just said.

Hon. Scott Brison: Well, you seem to be a little out of touch, Minister, with the challenges that average Canadians are facing.

Hon. Jim Flaherty: I certainly couldn't keep up with the honourable member.

Hon. Scott Brison: Minister, 38% of Canadians earn less than \$20,000 a year, and 40% of the people getting old age security make less than \$20,000. You're telling them it's no big deal; they have 11 years and can save a little more money, set a little more aside.

How can you actually tell people making less than \$20,000 a year that they just need to save more money? Don't you think that sounds a little out of touch with the challenges faced by low-income Canadians?

The Chair: Please make a brief response, Minister.

Hon. Jim Flaherty: I think what's out of touch is not realizing that people in Canada are living longer and healthier lives.

The Chair: Thank you.

Thank you, Mr. Brison.

We'll go to Mr. Hoback, please.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair, and thank you, Minister, for being here.

I just find it rather rich that a member of the Liberal Party is telling us we're out of touch. When you look back to the election results since the last election, I would say the Liberal Party is a little bit out of touch and the voters showed that.

Mr. Minister, after the budget I went back to my riding and talked about various aspects of it, and it was amazing how many people said it was a good budget for Saskatchewan. It's amazing how quickly the premier came out and talked about how good this budget was for Saskatchewan.

You talked about *Forbes* saying that Canada is the best place to invest or do business in the world. Where I come from in Saskatchewan it's pretty good there too, so we're pretty proud of that. We certainly appreciate the work you, your staff, and your colleagues are doing, not only here but abroad, trying to make sure we have a stable world environment—plus what Canada can do to buffer what's going on in the world.

I guess I'd like to talk to you about a couple of things. I think the opposition parties will actually agree with me on one. The other is on the political activities and registered charities, and what we're doing in the budget on that.

We've been having meetings and talking to witnesses about looking at ways to use tax incentives to increase charitable giving. One of the comments that keeps coming up is on transparency in charities—the ability to see what they're doing, how they're spending the money, what role they're playing, and how politically active they are or are not.

Can you expand on what's in the budget with regard to political activities and registered charities?

● (1600)

Hon. Jim Flaherty: There's some additional funding in the budget for the Canada Revenue Agency to make sure that charities in this country are obeying the law.

The law permits a charity to spend up to 10% on advocacy matters for the cause they represent. That isn't always honoured, and we want to make sure that charities obey the law so that Canadians can rest assured that when they give their money to a particular charity they will know that the money will be used for charitable purposes. This is only to make sure the tax system is respected. These are tax-receipted contributions that people are making, and Canadians are entitled to know that the money is being used for the purposes intended.

Mr. Randy Hoback: That's very true.

I have a kind of personal story. My uncle passed away a little while ago at the age of 84 or 85. I was amazed, when I got his mail, how many charities were sending him mail. He was a bachelor. Looking at the content of that mail, I wondered exactly what their intent was. Was it to help the intended people who needed help, or just raise funds for themselves? So what you're doing there will hopefully address some of those issues.

On a more cheery note, I think something we can get consensus on around the table is what we're doing with the penny. Can you maybe explain to opposition members why this is important and how beneficial this will be? Even school kids get this. When I go back to Saskatchewan and talk to kids in high school they say, "Why do we have the penny? It's just a pain, and so much weight in my pocket."

Hon. Jim Flaherty: Well, I'm sure the opposition would not be out of touch with the uselessness of the penny as an item of currency.

We've just produced the last penny at the Royal Canadian Mint location in Winnipeg. Pennies will continue to be distributed by the Mint until the autumn, but that's it. There won't be any more pennies produced—for a good reason. They cost 1.6 cents to make and people don't let them circulate; they keep them in jars at home. So we have to keep making more of them at 1.6 cents per penny. We'll save \$11 million per year by eliminating the production of the penny.

The penny will remain in circulation. Things will continue to be priced including the use of the penny. In cash transactions, there will be a rounding up and rounding down. So if something costs, for example, \$1.01, it would be rounded down to a dollar; then \$1.02 down to a dollar, \$1.03 up to \$1.05, and \$1.04 up to \$1.05. That has worked quite well in other jurisdictions that have taken the same step, including New Zealand and Australia.

The Chair: You have 30 seconds.

Mr. Randy Hoback: Of course, one of the things we're also dealing with, Mr. Minister, is the labour shortage in Saskatchewan. I don't expect you to answer that, but I guess it just comes back to saying that, coming from Saskatchewan and looking at Canada here, and then seeing what's going on in the global economy and what's going on in other parts of the world, boy, it's just a great place to live. I think we'd all say that, wouldn't you?

The Chair: Minister....

Hon. Jim Flaherty: Thank you for that very helpful question.

Voices: Oh, oh!

Hon. Jim Flaherty: Yes, I think—

Mr. Randy Hoback: I thought I'd lob one there.

Hon. Jim Flaherty: Yes, even though we don't have a Canadian team in the NHL playoffs anymore, it's still a great country and a great place to live.

• (1605)

The Chair: Thank you, Mr. Hoback.

[Translation]

Mr. Caron, you have five minutes, please.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you, Mr. Chair.

Thank you for being with us today, Minister.

I would like to talk about employment insurance and the current definition of employment that is not suitable. There are valid reasons why a person who is unemployed, or who has lost their job, might refuse a job without losing their employment insurance benefits. At present, there are three considerations: if it is employment in a different occupation, if the conditions of employment are less favourable, or if there is a labour dispute at the proposed place of employment.

The bill you are proposing eliminates two of those considerations. The only consideration that remains is if there is a labour dispute at the proposed place of employment.

My question is simple. What is your definition of suitable employment?

[English]

Hon. Jim Flaherty: Well, my definition doesn't matter. The definition that will be in the regulations matters. The regulations will be forthcoming from HRSDC pursuant to the provisions in the bill, which provides certain regulatory powers.

But you know, we are—

[Translation]

Mr. Guy Caron: I would like to clarify things before continuing.

You are asking us to make a decision about a bill, and a critical definition or element of what constitutes employment insurance, without knowing what definition will be used and what constitutes employment that is suitable or not suitable.

[English]

Hon. Jim Flaherty: Well, the regulations will deal with that. It's not uncommon to have legislation authorizing regulations, and regulations will follow. It's a standard procedure, and the principle—

[Translation]

Mr. Guy Caron: We are talking about an essential, critical definition for the purposes of employment insurance. It will define the type of employment insurance to which the unemployed will have access.

How can we make a decision about a bill without first having that definition? We are not talking about a technical, administrative definition; we are talking about a definition that will be central to the requirements that will apply to whether or not a person receives employment insurance benefits.

[English]

The Chair: Minister, I'll let you answer that.

Hon. Jim Flaherty: As you heard the Minister of HRSDC say in the House today, the person's skill set will be taken into consideration.

But look at this in the bigger context, in the context of the budget and what we're trying to accomplish in the long run. We have a shortage of workers, in the aeronautics industry in Montreal, in western Canada—in Saskatchewan, in Alberta, in British Columbia—and in other parts of the country. We are not going to have enough people for all the jobs in this country. One of the ways of remedying that is by trying to eliminate disincentives in the EI system to people seeking employment. And this is respect—

[Translation]

Mr. Guy Caron: That does not answer the question I asked.

[English]

Hon. Jim Flaherty:—for the dignity of work—

[Translation]

Mr. Guy Caron: Minister.

[English]

Hon. Jim Flaherty:—the value of work—

[Translation]

Mr. Guy Caron: Minister.

[English]

Hon. Jim Flaherty:—and encouraging people to work.

[Translation]

Mr. Guy Caron: I understand, but the Minister of Human Resources and Skills Development said in the House not two hours ago that suitable employment will be employment in the same field as the job that was lost.

However, what you are now eliminating from the definition of employment that is not suitable does precisely the opposite of that. What is being eliminated is the ability of a person to refuse employment if it is not in the same occupation, with the penalty being that they lose their benefits.

What the minister said in the House just now and what we have before us in the bill are two entirely different things.

[English]

Hon. Jim Flaherty: What I heard the minister say was a reference to the skill set of the person. Did you hear something else?

[Translation]

Mr. Guy Caron: The minister said that suitable employment will be in the same field. If the bill is adopted, however, it will mean that a person can be denied benefits if they refuse employment that is not in the same field or occupation.

[English]

Hon. Jim Flaherty: I think you can rely on what the minister said in the House.

[Translation]

Mr. Guy Caron: Thank you.

Since I have only a minute left, I would like to come back quickly to the question of the old age security program.

A proposal to raise the eligibility age for the old age security program is currently on the table. It will go from age 65 to age 67 starting in 2023. Can you confirm here that starting in 2023, a person

who turns 65 in 2023 will receive \$12,000 less in old age security benefits than a person who turned 65 the year before, and that the amounts to be cut will come to about \$10 or \$12 billion at that point, in 2023?

[English]

Hon. Jim Flaherty: The only change that will occur is that gradually, from 2023 to 2029, the age of eligibility will move from 65 to 67. That does not affect the entitlement to benefits. There are no reductions in the OAS benefits in the budget or in the bill before you.

The Chair: Thank you.

We'll go to Mr. Jean, please.

• (1610)

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair.

Thank you, Minister. I have to tell you that from my perspective, this is an excellent budget for our future. I come from an area where there are a lot of jobs and very few people who are prepared to fill those jobs. We've had the burden of outrageous red tape and systematic problems throughout the employment sector. I come from northern Alberta, and I have to say that part 3, particularly, is an excellent first step, I think.

I was asked by local media in my community about some comments made recently. For 45 years I've been in Fort McMurray, which, from only 1,400 people, has seen tremendous growth. They asked me to comment in relation to the NDP leader's comments recently about the oil sands being a "disease". To be blunt, most of my constituents laughed at it because they thought it was so ridiculous, until I had to explain to them that he is the leader of Her Majesty's loyal opposition. Then, quite frankly, they responded that it was quite scary. In fact they referred to it as negligent.

I think many Canadians don't understand the importance of the oil sands and the resource sector to Canada. I just wanted to ask you your opinion of that. I know that right now we're producing about 1.3 million barrels a day. We anticipate within 22 years getting up to about 4.3 million barrels a day, which in government revenues means somewhere around \$15 billion to \$18 billion per year, both provincial and federal.

I have to tell you, Minister, that I'm afraid for our country and the future of our country if these types of comments go unchecked, unsubstantiated as they are. I'd like your opinion in relation to who actually benefits from the oil sands production. I know we've heard evidence here at this committee that an equipment manufacturer from Ontario would be out of business if it weren't for the oil sands. I know that most of the constituents in my riding are from Ontario, Atlantic Canada, Newfoundland and Labrador, and Quebec. In fact, I would suggest that probably 70% or 80% of my constituents are from these provinces.

Is that your recollection and understanding of what's going on in northern Alberta?

Hon. Jim Flaherty: Yes, it is. There's a lot of misinformation.

Really, the comments attributed to the opposition leader are divisive and not good for the country. You know, it's as if one would say that all the cars assembled in Canada are assembled in the province of Ontario, and therefore there's something wrong with the balance being in favour of the province of Ontario and not the province of Quebec, or the province of New Brunswick, or some other province.

The aeronautics industry is very strong in Quebec. Of course the resource sector is very strong in western Canada, but it's also strong in Newfoundland and Labrador.

Mr. Brian Jean: And northern Quebec.

Hon. Jim Flaherty: And northern Quebec; Plan Nord is in northern Quebec.

Some of the data on this certainly confirmed that the rising tide lifts all boats. According to Statistics Canada, trade in goods and services from the Atlantic provinces to Alberta grew 14.8% per year from 1998 to 2008. Ontario and Quebec also benefited from stronger demand from Alberta, with trade flows growing 6.2% and 7.3% per year over the same period of time. Stronger demand from Alberta was mainly for primary metal products, fabricated metal products, and machinery. Estimates suggest that there are 130,000 jobs based in Alberta, with indirect suppliers and induced employment representing another 270,000 jobs across the country.

As you've indicated, the oil sands industry in Alberta is going to grow and is expected to purchase \$63 billion worth of goods and services from companies in Ontario alone over the next 25 years.

So this is all good for all of us as Canadians from coast to coast to coast.

Mr. Brian Jean: In fact the Canadian Energy Research Institute, an independent not-for-profit organization, actually identified that in the oil sands industry alone \$218 billion was going to be invested over the next 25 years, and for every dollar invested it is \$8 worth of economic value. One-third of that is outside of Alberta.

Some friends and I got together and started to add up all the promises the NDP had been making in relation to funding. If the NDP leader gets his way and shuts down the oil sands industry, is there any air of reality regarding the ability to make these payments and follow through on the promises that he has done?

Hon. Jim Flaherty: Well it obviously would not be possible. The oil sands are a very important economic driver in this economy, now and in the future. They are not alone, of course. We have other major projects—the hydroelectric efforts in Newfoundland and Labrador, Plan Nord in Quebec, the Ring of Fire in Ontario, all of the development in northern Manitoba, hydroelectric projects in Saskatchewan, and oil and gas in Alberta and British Columbia.

All the way across the country, there are a lot of major projects. We want them, of course, to proceed as expeditiously as possible with appropriate environmental reviews.

•(1615)

Mr. Brian Jean: Thank you.

The Chair: Thank you, Mr. Jean.

Mr. Marston, please.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Thank you, Mr. Chair, and welcome, Minister. It's great to have you back before us.

You will know from my approach in the House that I often talk about my constituents, and my constituents and the media and some others have raised some grave concerns regarding the transparency of this government and what people in my riding have called the abuse of the parliamentary procedure.

Minister, today you say that because of changes that won't come into force until 2023—and obviously my interest is still the OAS because I had the pension file for a number of years—it is hard to predict the savings that you'll actually achieve. Now how could the government predict that the savings were in fact necessary, if those predictions were not made previously using a macroeconomic model?

Sir, you must surely have made projections. Your department would have made these projections. Minister, can you tell us or will you share with us at least the projections so that we can fundamentally understand the “why” behind your move?

Hon. Jim Flaherty: Well to understand the why, one has to appreciate the demographic facts, which I've been through before. This is true in most of the major western economies—

Mr. Wayne Marston: No, we have heard you on the facts around why, from your perspective, relative to the numbers on that. We're saying, sir, would you share with us those projection figures so that we can have an understanding?

Hon. Jim Flaherty: We don't project beyond five years. Our fiscal framework plan is over a five-year period.

Mr. Wayne Marston: If that's the case then I'll move on to one of your favourite people, the Parliamentary Budget Officer. He's responsible for making estimates of any proposal concerning issues that fall within the government's authority. He discloses the economic and financial consequences of raising the age of eligibility for OAS. He has mentioned that the government could show greater budget transparency if it disclosed its analysis and long-term projections. You say they are five years, and I will take you, certainly, at your word.

We need to know the consequences. If we are supposed to, as a committee, discuss this and work through, can the minister make these analyses available to the parliamentarians on this committee?

Hon. Jim Flaherty: The budget planning cycle as you see in the budget documents, which we tabled at the end of March, runs five years from now. By delaying OAS from age 65 to 67, we know the numbers of people involved who will be of that age. What we don't know, of course, is how many people will be claiming OAS because it is not a pension; it's a social program. It's based on need—

Mr. Wayne Marston: I won't disagree with you on that point, sir.

Hon. Jim Flaherty: —it's not based on contributions.

Mr. Wayne Marston: But on the basis that people at the lower end use this \$6,000 that they get from OAS to survive on, it's a crucially important one to them.

Now not only will Canadians have to wait longer, to 67—that's very clear—before accessing OAS, but they will also have to wait for the benefits and the guaranteed income supplement. Again, sir, I am referring to the poorest of the poor. Chances are these people are already on either a disability pension from a provincial government or perhaps social assistance, and they are going to have to stay on there and that has them already below the poverty line because of these two programs. Can the minister provide us with the details of his plan to assist the provinces?

You've spoken, sir, about the fact that you're going to assist the provinces. Is there a detail that you can provide to us?

Hon. Jim Flaherty: No, there is not because one will have to see what additional benefits any of the provinces would end up paying some 15 years from now. It's a long time from now. One would hope that we'll have a strong, vibrant economy and very few people will need to have the benefit of this social program.

The Chair: You have one minute.

Mr. Wayne Marston: I hope along with you. But the reality is that when you did your assumptions—or at least apparently—and talked only about age and cost, you said yourself that if we have a booming economy.... The growth in GDP is where the Parliamentary Budget Officer came from, in saying that this program was sustainable as it is. The concern is still there.

Your department works on statistics, assumptions, and models. Would you share them with us?

The Chair: Just be brief.

Hon. Jim Flaherty: As I've indicated to you, the fiscal framework is done on a five-year basis. You can make various assumptions and do modelling if you make assumptions about how many people will be entitled to OAS 15 years from now.

• (1620)

The Chair: Thank you, Mr. Marston.

We will go to Mr. Allen, please.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you very much, Mr. Chair. It's great to be here for this kickoff meeting and welcome the Minister of Finance.

Minister, I want to talk to you a little about stability in the housing market. That's a very important consideration for us here in Canada. I know that in New Brunswick we have a lot of forestry operations that cater to the housing market in both Canada and the U.S., from an export standpoint.

In division 11 of this, it talks a little about some of the changes in the Canada Mortgage and Housing Corporation, and specifically about reforms around the governance and the oversight framework for CMHC. It's also important that there be increased oversight from the Office of the Superintendent of Financial Institutions, which will

take a more active and formal role in monitoring the commercial activities of CMHC.

I got some pretty good feedback on that, including from Louis Gagnon of Queens University. He said that the Office of the Superintendent of Financial Institutions is responsible for the oversight of insurance companies, so it only makes sense to bring CMHC under that purview, since they're a systematically important insurance entity.

Can you talk a little about this increased oversight and the importance of it for CMHC? I guess the second part of that question is: can you highlight some of the other actions we've taken to strengthen the housing market in Canada?

Hon. Jim Flaherty: Since our government was elected in January 2006 we have taken action three times to tighten the mortgage insurance market: in July 2008, February 2010, and January 2011. Then there are the most recent initiatives in the budget bill about governance and supervision of CMHC. We will take further steps if necessary to tighten the mortgage insurance market.

CMHC was created after the Second World War with a mandate to make sure there was adequate housing for veterans after the war. So it had an affordable housing or social housing mandate when it was created. It has grown over the years to have a component that is a significant financial institution in Canada. Federally regulated financial institutions in Canada are regulated by the Superintendent of Financial Institutions, who reports to Parliament through the Minister of Finance.

The office has a very good reputation. Our banks, as you know, did not require bailouts when we went through the very difficult credit and recession crises a few years ago. A good part of that is due to the excellent regulatory and supervisory skills of the Office of the Superintendent of Financial Institutions.

That office will now do the monitoring, governance, and supervision of that part of CMHC, which is the securitization and commercialization branch.

Mr. Mike Allen: Thank you.

I want to follow up on what Mr. Jean asked here a minute ago. Considering we have a lot of forestry operations, now we're starting to see a lot of development of the natural resources industry. Even in New Brunswick we're starting to see a lot of implementation of potential mining operations, and that type of thing.

It was noted that some metal fabrication operations in my riding have done a lot of modular work for companies out west because of the expense of some of the tradespeople out there. They've been able to build modular components and send them out west.

I find it quite interesting how the opposition can say about this budget that the resource development reform has nothing to do with the finances of the country, when \$500 billion in potential projects could be developed over the next 10 years.

Can you comment a little on that positive impact on government royalties and government tax revenue?

The Chair: You have one minute.

Hon. Jim Flaherty: Sure.

If I understand your question correctly, some of the major projects that have been proposed have taken years and years to move through the various permitting and processing. Sometimes the projects are abandoned because the economic fundamentals change over time, and so on.

This is to provide some certainty to proponents of projects all across the country—always doing adequate environmental assessments, but making sure there's one review for each project, no duplication, and time limits for the projects to help provide certainty to the proponents.

Mr. Mike Allen: Thank you.

• (1625)

The Chair: Thank you, Mr. Allen.

Monsieur Mai, *s'il vous plaît*.

Mr. Hoang Mai (Brossard—La Prairie, NDP): Thank you, Mr. Chair.

Thank you, Minister.

Changes to the Environmental Assessment Act do not include aboriginal title in the definition of federal lands. How will the government ensure that a regulatory gap does not appear in court, if courts recognize aboriginal title?

Hon. Jim Flaherty: I think the member is making an assumption by saying “if” the courts find something. Obviously we have respect for the rule of law, and we follow court decisions subject to appeals, of course.

Mr. Hoang Mai: There is no definition, in other words.

Hon. Jim Flaherty: I'm sorry?

Mr. Hoang Mai: There is no definition regarding “aboriginal title” in federal law for federal lands.

Hon. Jim Flaherty: I'll check that and get back to the committee about that.

Mr. Hoang Mai: How will disclosure provisions in the new CEAA interact with access to information, privacy, solicitor-client privilege, and first nations ownership of information? Basically how will they protect aboriginal traditional knowledge?

Hon. Jim Flaherty: Again, I have not addressed that. I will look at that and get back to you with an answer.

Mr. Hoang Mai: One-third of the budget implementation act, your bill, is regarding environmental assessment, so we're looking at it here.

I'll try another one. Maybe you'll have an answer for this one.

It appears in the new legislation that reports undertaken for proponents will stop the clock on the timelines that will be set out to undertake environmental reviews, but it is less than clear whether first nations will ever interact with decision-makers under the act.

This is because many decisions made under the budget implementation act are made by cabinet.

Do reports under proposed subsection 23(2) that are eligible for stopping the clock under proposed subsection 27(6) include studies undertaken for the purpose of consultation?

Hon. Jim Flaherty: I'm looking for technical advice on this, and I don't think it's forthcoming, so it will come in the future. We'll get it for you.

Mr. Hoang Mai: So any questions regarding the environment you won't be able to answer?

Hon. Jim Flaherty: No, I can answer questions about the major projects and the resource reviews. I can answer those.

You asked me some specific questions about aboriginal issues that I will get—

Mr. Hoang Mai: You pointed out to my colleague the parts that you have in your bill. You have part 1, part 2, and part 3. Part 3 contains certain measures related to responsible resource development.

Mrs. Shelly Glover (Saint Boniface, CPC): On a point of order, I just want to point out that there is a subcommittee that will be dealing with this, and there are a number of officials in the room—about 70 officials in fact—so I was hopeful that perhaps if Mr. Mai would like to continue he'd have an opportunity to do so with them.

An hon. member: On a point of order, Mr. Chair.

The Chair: Order.

One at a time.

On the same point of order, Ms. Nash and then Mr. Mai.

Ms. Peggy Nash: With respect to my colleague, we have the Minister of Finance here. This is supposedly a budget implementation bill. All members of this committee are going to be asked to review this bill on a clause-by-clause basis. We are expected to understand everything in here, so I think it is absolutely fair to ask the minister a question based on anything that comes under Bill C-38.

The Chair: Okay.

Mr. Mai, did you want to follow up on that point of order?

An hon. member: Mr. Chair, on that point—

The Chair: That's fine. I have Mr. Mai and I have Mr. Brison.

Mr. Hoang Mai: Mr. Chair, if the finance minister cannot answer questions on the bill that he has submitted, and we have asked to split the bill, I think it makes sense. That is why we asked to split the bill. If the minister cannot answer questions, maybe he should—

The Chair: I know how I am going to rule, but I can take further input if I want.

Mr. Brison, do you want to comment further?

Hon. Scott Brison: Mr. Chair, just on Ms. Glover's point of order, I found it curious that the budget implementation act debate in the House was led by the Minister of Natural Resources and the Minister of the Environment.

While Ms. Glover is right in saying that there is a subcommittee on finance, there is no subminister of finance. There is one Minister of Finance, and this is his legislation, ultimately.

I share with Mr. Mai the concern that the Minister of Finance cannot answer questions on his own legislation.

Hon. Jim Flaherty: If you have technical questions, the officials are here to answer those.

Hon. Scott Brison: Where are they?

The Chair: Order.

I'll go to Mr. Jean, and then I'll bring my point.

Mr. Brian Jean: Just very quickly, Mr. Chair, I noticed we have a document from the Library of Parliament, a non-partisan group, that has 44 pages of explanations for Mr. Mai, in particular on pages 10 through 17, on measures related to responsible resource development, which he can read instead of playing politics and asking questions so specific that no one would be able to answer them—

• (1630)

The Chair: Thank you.

Mr. Brian Jean: —on the fly.

The Chair: Just for members' information, technically we don't have a subcommittee yet.

Voices: Oh, oh!

The Chair: That may be something we discuss later.

With regard to Mr. Mai's questions, Mr. Mai can ask the questions he wants regarding the bill, but the minister is entirely within his jurisdiction to ask officials to respond to those questions.

I'll just remind committee members that we have a number of hours with officials, of whom we can ask very detailed questions as well.

I'll also point out, Mr. Mai, that you have about one minute left.

Mr. Hoang Mai: One minute? I'll try to go to a broader question. Maybe the minister can answer it.

The proposed Canadian Environmental Assessment Act, 2012, contains several provisions regarding public participation and the use of an Internet site. How will the government fulfill its constitutional obligation to provide notice to first nations potentially affected by developments?

Hon. Jim Flaherty: That's a good technical question for the officials to answer.

The Chair: Okay.

Thank you, Mr. Mai.

I want to thank you, Minister, for being with us here today.

Hon. Jim Flaherty: Thank you.

The Chair: I understand that you have a Senate committee to present to.

Hon. Jim Flaherty: Yes.

The Chair: Colleagues, I will suspend this now and we will bring the finance officials to the table.

Thank you.

• (1630)

_____ (Pause) _____

• (1635)

The Chair: I call this meeting back to order.

I want to welcome all our officials. We have with us officials from the Canada Revenue Agency and the Department of Finance.

I want to welcome you to our committee. It's our understanding that we may be spending a lot of time together over the next number of days.

My understanding, Mr. Cook, is that you may have a few opening remarks to make to the committee. Is that correct?

Mr. Ted Cook (Senior Legislative Chief, Tax Legislation Division, Tax Policy Branch, Department of Finance): It depends on how the chair would like to proceed. I could either do that or provide a brief overview of all the measures in part 1. That would probably take about two or three minutes.

The Chair: I think a brief overview would be helpful.

As chair, my suggestion is that we proceed part by part, so we would start with part 1.

If you could give us an overview of part 1, then, if any members have questions, we'll go to members' questions.

Mr. Ted Cook: Thank you.

Part 1 contains the income tax measures in Bill C-38. What I would propose to do is to essentially follow the summary at the start of Bill C-38, which provides a list of all the measures.

The first measure that is listed is to expand the list of medical expenses eligible for the medical expense tax credit to include blood coagulation monitors and associated peripherals. This measure parallels a GST/HST, which is in part 2 of this bill.

The second measure was referred to in the discussion with the minister. This will allow qualifying family members, that is, parents, spouses, and common-law partners, to open a registered disability savings plan for an adult in situations where the contractual competence of the individual to do so is in doubt. In situations where it is determined that the individual does have contractual competency, they will be able to then replace the qualifying family member as holder of the RDSP, if they choose to do so. This measure will apply to RDSPs that are opened before 2017. However, those RDSPs will continue on as long as necessary.

The next measure relates to the mineral exploration tax credit. It extends the tax credit available to flow-through share investors by one year, as has been done in the last several budgets. What this measure does is to support grassroots mineral exploration. It will apply to flow-through share agreements entered into after March 2012 and before April 2013.

The next measure has to do with eligible dividend designations. Under the Income Tax Act, individuals—

The Chair: Point of order, Mr. Jean.

Mr. Brian Jean: Chair, is it my understanding that we're going to go through each part and then ask questions, or ask questions as we go to the parts we might have questions on? I just wanted to—

The Chair: My sense would be that we get an overview of part 1 and then have questions on part 1, and then an overview on part 2 and questions on part 2.

I don't know how far we'll get today, but that's the process I was going to follow.

Mr. Brian Jean: Excellent. Thank you, Mr. Chair.

The Chair: Okay.

Mr. Cook, please continue.

Mr. Ted Cook: No trouble.

The measure I was discussing was the eligible dividend designation. When dividends are paid to an individual from a corporation, they may be eligible for a dividend tax credit. There are two types of dividend tax credits—enhanced dividend tax credit and a regular dividend tax credit. The dividend tax credit is meant to recognize the fact that tax is paid at the corporate level before it's distributed to an individual by way of shares.

What this measure does is fairly technical. It allows a corporation paying a dividend to identify the portion of the dividend that relates to income that was taxed at the higher corporate level. It will also allow the recipient of the dividend to claim an enhanced dividend tax credit as opposed to the regular dividend tax credit. It deals with a technical problem where, in prior years, a corporation had to designate the entire dividend as either being eligible or ineligible.

The next measure has to do with the Governor General's salary. Currently under the Income Tax Act, all income related to the office of the Governor General is exempt from tax. This part will remove that exemption for salary paid under the Governor General's Act. As well, this part will adjust the Governor General's salary, starting in 2013, to \$270,602, which will then be adjusted annually.

The next measure has to do with partnership waivers. It's a fairly technical measure that allows a single designated partner of a partnership to extend, on behalf of the partnership, the time that the CRA has to complete an audit and make a determination in respect of the partnership. Currently under the Income Tax Act the CRA must obtain a waiver from all the members of the partnership, which may be difficult for both the partnership and the CRA.

Then there are three measures related to tax shelters. The first measure has to do with an amendment to a penalty under existing rules where a person sells an interest in a tax shelter that is not registered, or the person files false information in applying for a tax

shelter. Currently where the penalty applies, the penalty is the greater of \$500 and 25% of the amount that the tax shelter promoter receives as consideration for the tax shelter investment.

This penalty does not work appropriately in the context of a charitable donation tax shelter, because the benefit of the tax shelter is predicated on the charitable donation receipt that the person who participates in the tax shelter could receive from making a donation to a qualified donee. As a result, this penalty is amended so that where there's a charitable donation tax shelter, the penalty will be the higher of the amount under the existing rules and 25% of the amount that the individual, usually the tax shelter promoter, asserts could be donated to the qualified donee.

This bill also introduces a new penalty with respect to tax shelter promoters where, in an annual information return, all the purchasers of interest in the tax shelter, or amounts paid by individuals in respect of the tax shelter, are not reported, or the promoter of the tax shelter or the person who has to file the return does not respond to a demand to file a return by the CRA.

• (1640)

This penalty will function much like the one I discussed. The penalty will be the greater of 25% of the amount that is consideration received by the tax shelter promoter, or in the case of a charitable donation tax shelter, 25% of the amount that's asserted by the promoter that could be donated to a qualified donee.

As well, this part introduces a measure that would limit the validity of tax shelter identification numbers to one year. Currently, tax shelter identification numbers are valid in perpetuity. As an audit matter, it's difficult for the CRA to know whether a particular tax shelter has not filed a return because they've done no sales and have no requirement to file a return, or they're just failing to file.

The next measure has to do with foreign charitable organizations. Currently, a foreign charitable organization can be registered as a qualified donee if it receives a gift from the Government of Canada and demonstrates to, and registers with, the CRA that in fact it is a charitable organization. What the amendment would do is keep the requirement that there be a gift from the Government of Canada, but also require that the foreign charitable organization is undertaking activities in response to a disaster in providing urgent humanitarian aid or in doing activities in the national interest of Canada.

The next measure in part 1 has to do with political activities. What this measure would do is provide essentially a look-through rule, so that if a registered charity or registered Canadian amateur athletic association makes a gift to another qualified donee, and the purpose of that gift—or a purpose of that gift—is to have the qualified donee engage in political activities, the amount of that gift will be considered a political activity for the registered charity or RCAA making the gift.

As well, part 1 implements two measures with respect to intermediate sanctions. One is to allow the CRA to suspend a charity's tax-receipting privileges for one year if the charity exceeds its limitations on political activities. Secondly, it allows the CRA to suspend the tax-receipting privileges of a charity if it provides inaccurate or incomplete information in its annual information return. The suspension will remain in effect until such time as the charity provides the required information.

There are just three more measures in part 1 that I'll mention quickly. The first one is a consequential amendment that removes certain references to the Canadian Wheat Board from the Income Tax Act.

There's also a measure that... Currently under the Income Tax Act, when the Canada Revenue Agency issues a demand to file a return, it must either be served personally or by registered mail. The amendment would allow those demands to be sent by online notice or regular mail.

Finally, there's a new provision relating to commercial tax preparers. Commercial "tax preparer" is defined. This provision requires that a commercial tax preparer must file any returns they prepare for consideration electronically, except that in each year they may file up to 10 returns of individuals' personal income tax returns or corporate tax returns "other than by way of electronic filing". This applies in respect of corporate and personal income tax returns. There's also a penalty where the commercial tax preparer does not do this.

Those are all the measures that are included in part 1.

•(1645)

The Chair: Thank you, Mr. Cook, for that overview of part 1.

Colleagues, just for your information, we will be using the same list as for normal witnesses in terms of members' questions, so we'll be starting with the NDP.

I'll start with Monsieur Mai for five minutes.

Mr. Hoang Mai: Thank you, Mr. Chair.

[Translation]

I have a question about the Governor General's salary. Have calculations been done relating to the net after-tax salary of the Governor General of Canada?

[English]

Mr. Sean Keenan (Director, Personal Income Tax Division, Tax Policy Branch, Department of Finance): The after-tax salary of the Governor General would certainly be determined by his own personal situation. The calculation of the salary for 2013 was based on the assumption that he has other income upon which he pays

taxes. Therefore, his salary adds to his taxable income and is taxed at the top marginal rate for a person living in Ontario. The level of \$270,602 is set so his estimated salary in 2013 will be the same on a net basis...so his pre-tax salary of \$270,602 will be the same as it would be if it were not taxed.

In terms of his personal situation...

Mr. Hoang Mai: Is there a way to have regulations that would have the after tax...? Let's say his salary would be such and such after tax. Is it possible to have such a regulation, or such legislation?

•(1650)

Mr. Sean Keenan: I don't know from a technical point of view. Someone's individual tax circumstances, the amount of credits they claim, the deductions, and other sources of income and how they affect your personal income tax are very individual. We wouldn't have access to that information from someone's individual tax files.

Mr. Hoang Mai: Depending on the situation of the person, say this is their salary after tax, so you calculate their salary and their income tax, and at the end of the day that's how much would be given to them. Is that possible or feasible?

Mr. Ted Cook: The clearest way to do that is to say that your salary after tax is a certain amount. The system we had before the budget amendment said, "Your income is exempt from tax. This is your after-tax income". I think there's been an explicit policy choice to move away from that in order to put the Governor General's salary on the same footing as others.

Mr. Hoang Mai: Do you know how the pension of the Governor General is calculated?

Mr. Sean Keenan: The Governor General's pension is calculated under the terms of the Governor General's Act in section 6, I think. I don't have the explicit figures, but my understanding is that the calculation is based on one-third of the value of the Governor General's salary in 1967. Then it's indexed according to an indexation factor that is explicitly spelled out in another act. Essentially the adjustment is made so it keeps up with inflation.

Mr. Hoang Mai: With the salary he has now under this budget, do we know how much the Governor General's pension will be right after?

Mr. Sean Keenan: Bill C-38 does not change the calculation of his pension. In 2013, if the Governor General left office.... I don't actually have that calculation, but it would be the same. There would be no change to the calculation of his pension with this act.

Mr. Hoang Mai: Is it fair to say it would be almost the same amount as his salary?

Mr. Sean Keenan: My understanding is that right now.... As far as the annuity paid to all former Governors General and their survivors under the terms of the act, I think the survivors receive one-half of the annual amount. According to the main estimates of 2012, that's only \$520,000. That's for all former Governors General plus their survivors. Because there's no change, I don't think it's getting close to his salary for next year.

The Chair: Okay, that round is up.

Perhaps we can get some information for the committee tomorrow or the next day on the pension of the Governor General—just on the section you referenced.

Mr. Sean Keenan: On the section...?

The Chair: I think you referenced section 6 of the Governor General's Act.

Mr. Sean Keenan: Yes.

The Chair: Thank you.

We'll go to Ms. Glover, please.

Mrs. Shelly Glover: Thank you, Mr. Chair.

I want to thank the witnesses for appearing.

As we all know, the Minister of Finance has some very knowledgeable officials, some of whom are sitting in front of us, who were very instrumental in helping to craft the BIA. I want to thank you for your service to the minister and to the Government of Canada.

You do answer the technical questions on behalf of the government, and I appreciate that.

Mr. Keenan, with regard to the Governor General's salary, I heard you very clearly say that anything with regard to the pension of the Governor General is actually outlined in other sections; it's not referenced at all in the BIA. There is no change whatsoever to the pension benefits of the Governor General as a result of any changes made to his salary in this BIA.

Am I correct?

Mr. Sean Keenan: That's correct.

Mrs. Shelly Glover: Okay. I just want to make that clear, because I don't think Mr. Mai may have gotten that from the explanation.

As the chair requested, you'll certainly provide the former legislation that deals with the pension, which is outside of the scope of the BIA. But I want to make it clear to all members who are here that the request has nothing to do with the BIA.

I actually want to ask about the registered disability savings plan. The minister takes great pride in trying to ensure that people who are affected by the registered disability savings plan are able to access that plan, and the plan holder's definition is actually changing under the BIA.

I want you to tell me who is being added to the plan holder's definition so that this flexibility is achieved.

• (1655)

Mr. Ted Cook: Currently under the Income Tax Act, where a person has not yet attained the age of majority the plan holder can be

the parent of that individual. Then, when an individual attains majority.... In the normal course when they have contractual competences, it would be the individual who holds the RDSP themselves. In cases where the person may lack the contractual competence and there is a legal representative, such as a tutor, curator, or some other form of legal representative, they would enter into the RDSP for the individual.

As the minister pointed out, this leaves a sort of lacuna, if you will, in the legislation. It's unclear to the RDSP issuer that the person who would be the beneficiary under the RDSP has contractual competence to enter into the RDSP. Short of going through the process of having someone appointed to act for that individual, there really was no individual who could open up an RDSP for them.

What this measure does in that sort of grey area, where there is some question as to the competence of the individual to enter into the RDSP, is to allow what we're calling a qualifying family member, who is either a legal parent, spouse, or common-law partner, to enter into an RDSP. It's only in that grey area, and it's only parents, common-law partners, or spouses.

Mrs. Shelly Glover: Thank you. I'm good.

The Chair: Okay.

Mr. Brison, please.

Hon. Scott Brison: There have been some changes to the medical expense tax credit. Is the medical expense tax credit refundable or non-refundable?

Mr. Sean Keenan: It's a non-refundable credit.

Hon. Scott Brison: It's non-refundable. So as a non-refundable credit it wouldn't benefit the lowest income Canadians—people who don't make enough to pay federal taxes.

Mr. Sean Keenan: The medical expense tax credit does provide tax relief to individuals, but if they don't have an income tax burden then it only takes it down to zero.

Hon. Scott Brison: Just to confirm, as a non-refundable tax credit, low-income Canadians, people who don't make enough to pay taxes, don't benefit from it. If it were a refundable tax credit, it would benefit those people.

Mr. Sean Keenan: It does. You're right that a refundable tax credit provides an amount equal to the value of the credit, which is independent of the individual's tax burden.

The medical expense tax credit is a credit that actually can be shared among family members. With regard to an individual who pays for the medical expenses of their spouse or minor children or another dependant relative, those amounts can be shared between spouses, for example. There's a certain amount of sharing that's done under the medical expense tax credit that's not available for other credits.

Hon. Scott Brison: There are some provisions in Bill C-38 that would clamp down on charities, or penalize charities that transfer moneys to other charities, or that use more than 10% of their money for what is deemed political activities.

The United Way is an umbrella charity that raises a lot of money that's transferred internally within a city for instance, or a community, to a number of other charities. Are you considering the unintended consequences on a group like the United Way, which does transfer money within charities within other communities?

• (1700)

Mr. Sean Keenan: In terms of the changes that are being proposed in Bill C-38, essentially the law currently says that a charity must have charitable purposes. So they must be engaged in charitable purposes and they must use the resources they have to achieve those charitable purposes, and to the extent that they engage in political activities that are related to their charitable purposes, they can spend up to 10% of their resources. When a charity makes a gift to another charity, that is considered to be part of its charitable activities. What Bill C-38 is proposing is that when a gift is made to another charity, and a purpose of that gift was to allow the other charity to engage in political activities, then the gift would be included by the charity that makes the gift in its own political activities.

In your example of the United Way making a gift to another qualified donee or charity to engage in activities, to the extent that there's no suggestion that a purpose of the gift is political activities then there's no impact on them.

The Chair: You have one minute.

Hon. Scott Brison: If the United Way were to give money to a food bank within a community and the food bank from time to time expresses opinions on poverty issues—it would strike me that people who work and run food banks perhaps know a fair bit about poverty issues and have opinions to express. Are you going to be monitoring those? Will there be some sort of monitoring of the United Way or other charities, and how granular is this assessment process going to get?

The Chair: Who is going to answer that?

Mr. Brian McCauley (Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency): Part of the provision would ask charities to self-report. So there is already an existing obligation and the form that they report on that would be adjusted. In fact, the plans are to sit down with umbrella organizations and charities over the next couple of months and talk about just exactly how we do that. That information would be available both publicly on our website, and it would be available to ourselves, the CRA, to monitor and to take action, if necessary. But as Sean was describing, in a lot of those circumstances it goes to the intent and purpose of the gift. It would be surprising to find circumstances where the intent or purpose of the United Way was to ask for political activities.

The Chair: Thank you.

I'm going to take the next round here. I wanted to start off with the mineral exploration tax credit. The summary of part 1 says, "extends, for one year, the temporary Mineral Exploration Tax Credit for flow-through share investors". This measure was introduced in the 2000 budget, I believe. It's presented to us each year at the finance committee during pre-budget hearings. It was presented in Whitehorse this year. I strongly support this measure. I think it's a very good idea. The junior sector makes the point that if this measure

were not in place it would severely affect their activities in their industry, which is very important to Canada's economic health.

My question though is why is it done on an annual basis? What's the rationale for doing it by extending it each year, rather than making it a permanent or perhaps a two- or five-year measure?

Mr. Ted Cook: Certainly, I think you're correct that some proponents, and there are strong proponents of the mineral exploration tax credit, favour extending it for further years.

I think it has always been analyzed in a particular context. While the proponents are certainly in favour of the extension and of making it permanent or for multiple years, generally it is one of several factors that go into the exploration decision. Exploration may be driven by the prices for metals as well as by tax incentives. If prices for metals increase a great deal, then there's an argument that the particular incentive is not strictly necessary. There's an assessment each year as to whether its continuation is appropriate.

• (1705)

The Chair: Primarily it would be your junior companies that do exploration, and not the larger ones, that rely on this. Their argument is that if they had a longer planning period, it would obviously be beneficial for them. Companies don't like to plan annually. They like to plan over, say, three-, five-, or ten-year periods.

They make that argument. Can you respond to the argument the industry makes?

Mr. Ted Cook: I think the response is essentially the one I've already indicated. There's some question as to how the benefit of the mineral exploration tax credit and the flow-through is divided up between the corporations that actually engage in the exploration and the shareholders who invest in those corporations. To the extent that it is just one of several factors, it's not clear that it should become a permanent part of the system.

The Chair: I appreciate that.

I have a couple of minutes left.

I want to move on to the medical expense tax credit. I'm often approached by constituents with respect to expanding what's eligible or expanding the credit. Obviously, I support the expansion in terms of what's eligible under this tax credit.

Just for my own information as a parliamentarian, can you enlighten me as to the process the department goes through to decide that now, this year, this expense will now be eligible under this credit?

Mr. Sean Keenan: The department receives lots of correspondence. The Minister of Finance receives lots of correspondence from individuals and meets with groups. He tries to keep on top of changes in medical technology. Essentially, he looks at a couple of criteria in determining whether an expense should be eligible for the medical expense tax credit.

Is the purpose of the item to help with a medical condition? That's one of the factors that goes into the decision. There are lots of things that are closely related to helping with a medical condition that may have other applications as well. The second part is whether other applications may apply such that the primary benefit of extending the medical expense tax credit to this item would essentially fall outside of individuals who are the most in need of it.

The Chair: I appreciate that. I just have a few seconds left.

Can you indicate to us how many other products are currently being considered or reviewed?

Mr. Sean Keenan: I don't have that information with me right now. We hear representations from groups all the time.

The Chair: It's on an ongoing basis.

Mr. Sean Keenan: Yes.

The Chair: I appreciate that. Thank you.

[Translation]

Mr. Caron, you have the floor.

Mr. Guy Caron: Thank you, Mr. Chair.

I would like to come back to the question of charitable organizations. We have not talked much about them, but I think we will be talking about them in future. I have a specific question. Both before and after the bill, a charitable organization will be able to devote a maximum of 10% of its time or resources to non-partisan political activities. Is that correct? That proportion will not be changing.

How is that limit calculated? How are you going to look at an organization and determine whether it spent more than 10% or less than 10% of its time or resources on political activities?

[English]

Mr. Brian McCauley: We'll do it the way we do it now. There are guides up on our website. There's a methodology that begins with looking at the documentation—the books and records—and talking to the organization. There are criteria that, as I say, charities self-assess.

Part of the process for these measures will include sitting down with umbrella organizations and charities to talk about whether we need to post additional guidance and additional information. We don't see that changing either, although again, there are some funds here to educate and do more outreach so that there's more self-awareness in the sector.

• (1710)

[Translation]

Mr. Guy Caron: One of the changes in Bill C-38 is that a donor organization, like a foundation, could have something considered to be a political activity attributed to it if the organization that received

the money uses those funds for a political activity. Have I understood that correctly?

[English]

Mr. Ted Cook: Currently, under the Income Tax Act, when a registered charity makes a gift to another qualified donee, it is deemed to have been made for its own charitable purposes. What the bill does is leave the existing rules, which I think you've alluded to with respect to political activities, in place. A charity must expend all its resources exclusively for charitable purposes and must engage exclusively in charitable activities. Where a charity devotes substantially all of its resources, which we kind of think of as a 90% test, towards its charitable purposes or charitable activities, it can devote the remainder to political activities, as long as those political activities are ancillary and incidental to the charity's purpose and are non-partisan in nature.

This measure leaves that basic framework in place. But it provides, essentially, kind of a look-through rule. Before, if an amount was given to another qualified donee, it would automatically be considered to have been used for a charitable purpose. Now we'll make a determination as to whether it can reasonably be considered that the purpose of the gift to the other qualified donee was to allow them to engage in political activities.

[Translation]

Mr. Guy Caron: There is one thing that concerns me. A donor organization could, in complete good faith, give a sum of money to a charitable organization that then, for some reason, exceeded the 10% limit, when that was not the intention of the donor organization. From what I read, and according to the bill that has been proposed to us, the donor organization would share the responsibility, even if it had no intention whatsoever to contribute to political activities. Is that correct?

[English]

Mr. Ted Cook: The CRA may have some questions.

In terms of the way we've crafted the legislation, it talks about the purpose of a gift. It was specifically drafted in a way that was meant to look objectively at the circumstances related to the making of the gift in the first place. It was not to impose sort of a tracking obligation.

You know, you, in good faith, have made a gift to another qualified donee, and they've gone out and have done something with respect to political activities. The notion was not to impose a specific obligation to track through. We look at the purpose. That's a concept used in the Income Tax Act. It talks about the objective being not what the final result is, necessarily, and what's reasonably considered. You would look at all the objective circumstances.

The Chair: Okay. Merci.

Mr. Jean, you have a very short round of about two to three minutes.

Mr. Brian Jean: Thank you very much, Mr. Chair.

That was a good question about the mineral exploration tax credit. I was going to ask that. That's excellent.

I'm curious about the Governor General's salary. Very quickly, because I have a limited amount of time, is this consistent with what other jurisdictions are doing, such as Australia and New Zealand? In essence, you are taking a tax-free salary and are grossing it up to take that into account and are making the salary, in essence, to my mind, competitive for a job of this nature. Is that fair to say?

Mr. Sean Keenan: When New Zealand and Australia changed their law such that the salary of their Governors General became taxable, they essentially just increased the level to offset the fact that it was grossed up. They have different traditions in terms of how they set the salary of the Governor General. In terms of when those decisions were made, it was quite clear in the literature we reviewed that the decision was to just gross it up so that the net after-tax benefit was the same.

Mr. Brian Jean: Is it still applicable, in relation to the pension itself, that it's one-third of the salary annexed to the office of the Governor General on March 1, 1967? Is that how it's calculated?

Mr. Sean Keenan: I believe those are the words in section 6 of the act. That section is not changing.

Mr. Brian Jean: The pension itself would be fairly minimal, if I can imagine the salary in 1967 and one-third of that.

Mr. Sean Keenan: There's a second part to that.

Mr. Brian Jean: Yes, I saw where it says, "such amount, in addition to...the Supplementary Retirement Benefits Act". I just thought it would be supplementary.

Mr. Sean Keenan: It's my understanding that the purpose of paragraph 6(1)(b) is to essentially take that amount in 1967 and grow it so its real value over time is protected.

• (1715)

Mr. Brian Jean: I only have time for one other question.

I'm wondering about filing. My understanding is that filing electronic returns is much more cost-effective and saves the Government of Canada and taxpayers a tremendous amount of money, compared to filing the traditional way, where you write them out, which I still do.

Mr. Brian McCauley: It's about one-quarter of the cost for the government to administer.

Mr. Brian Jean: So there are substantive savings.

Mr. Brian McCauley: It saves millions.

Mr. Brian Jean: What would it be over a year, on that basis?

Mr. Brian McCauley: We're hoping with this measure that about three million tax filers will eventually move to electronic filing. It's hard to give a precise number, but it's certainly in the millions.

Mr. Brian Jean: Thank you, sir.

Thank you, Mr. Chair.

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

We will stop at this point. Mr. Jean has a couple of minutes left, and then it will be Mr. Marston. We'll continue from there at our next session.

I have to suspend. We will go in camera to consider the subcommittee report.

I want to thank our officials for being with us. I know we will see you very soon. Thank you all.

[Proceedings continue in camera]

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