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Chair

Mr. James Rajotte

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• (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. This is the 89th meeting of the Standing Committee on Finance. Orders of the day are pursuant to the order of reference of Tuesday, October 30, 2012, continuing our study of Bill C-45, A second Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures.

Colleagues, we have two panels with us this afternoon. In our first panel, the first organization we have is the Bank of Canada. The second organization is Canadian Manufacturers and Exporters. We have the Certified General Accountants Association of Canada, the Public Service Alliance of Canada, and we have TSGI-Chartered Accountants.

Welcome to all of you. Thank you for being with us this afternoon. You each have five minutes for your opening statement.

We'll start with Mr. Turnbull and we'll work our way down the row. Then we'll have questions from members after that.

Mr. Robert Turnbull (Special Counsel, Financial System, Bank of Canada): I guess I'd better hurry. Thank you very much, Mr. Chairman, and honourable members of the committee. The Bank of Canada is very pleased to appear before the committee today. What we've been asked to talk about to assist the committee are the amendments in part 4, division 3 of Bill C-45. These are the amendments to a piece of legislation that I'm sure keeps you up late at night called the Payment Clearing and Settlement Act .

What I'd like to do is deliver a fairly brief opening statement. It is a fairly technical topic. I tried to be as clear as I could. Then I'd be pleased to try to answer your questions about these particular amendments.

[*Translation*]

I will begin in French.

At the 2009 G20 Summit in Pittsburgh, the leaders agreed that standardized over-the-counter derivatives contracts should be cleared through central counterparty clearing systems, by the end of 2012.

A central counterparty is a financial market infrastructure that stands between buyers and sellers in financial transactions, ensuring that obligations will be met on all contracts cleared through the CCP.

By managing and mitigating counterparty credit risk, central counterparties have the potential to reduce systemic risk, both globally and in Canada. They reduce the potential for financial shocks to be transmitted through the financial system and enable markets to remain continuously open, even in times of stress.

About a month ago, Canadian authorities reconfirmed their G20 commitment to central clearing and indicated that Canadian participants in the derivatives market can respect this commitment by clearing derivatives contracts through the global, cross-border clearing systems that are currently being developed in the United Kingdom and the United States.

Regardless of whether derivatives are cleared through a central counterparty in Canada or abroad, Canadian laws will be applied to determine the rights and obligations of Canadian participants and their customers. It is therefore important for financial stability in Canada that the transfers of assets among central counterparties, Canadian participants and their customers for the clearing and settlement of derivatives transactions be protected from possible legal challenges in the event that a Canadian participant were to become insolvent.

• (1535)

[*English*]

The main statute in Canada for protecting clearing and settlement systems from legal challenges in the event of the failure of a participant is the act that we're dealing with here, the Payment Clearing and Settlement Act, or as we call it, the PCSA. The PCSA gives the Bank of Canada responsibility for the regulatory oversight of clearing systems that could pose systemic risk. The PCSA also provides a number of important legal protections for these systems. In particular, it ensures that the rights of a clearing house to be paid, to settle transactions and to deal with collateral deposited by participants will not be stayed or unwound under the insolvency statutes if a participant defaults.

The purpose of these protections is to ensure that a clearing house will be able to exercise its legal rights to settle the system within a reasonable timeframe following a default and that it will have sufficient rights in the assets deposited by participants to ensure that the clearing house itself is not brought down by a failure of one or more participants, thereby propagating systemic risk.

The Chair: You have one minute remaining in your opening statement, Mr. Turnbull.

Mr. Robert Turnbull: Okay.

The PCSA was enacted in 1996 primarily to address systems that settle payment obligations. While it's been updated since that time to provide for the clearing of securities and derivatives, many of the legal protections in the act are worded in a way that they simply do not apply to the clearing of derivatives contracts. For example, the protections for enforceability of settlement rules in section 8 of the act are limited to clearing house rules that provide for the calculation, netting or settlement of payment obligations. It's doubtful whether these necessary protections extend to the clearing of derivatives contracts and the transfers of collateral and other assets that support derivatives clearing systems.

To sum up within the time that I have, the purpose of these amendments is simply to fix up the wording of the PCSA so that the legal protections that it provides clearly apply to the type of clearing that goes on in these now all-important central counterparty systems for clearing derivatives.

I'll add one final point. This has a competitive aspect as well, because currently Canadian banks that were very active in the derivatives markets are restricted from participating in some of these offshore CCPs because of the concerns of those CCPs and their regulators about potential gaps in Canadian law.

Thank you.

The Chair: Okay, thank you very much for your presentation.

We'll now hear from the Canadian Manufacturers and Exporters.

Mr. Martin Lavoie (Director of Policy, Manufacturing Competitiveness and Innovation, Canadian Manufacturers and Exporters): Thank you very much, Mr. Chair, and members of the committee. Thank you for inviting us to appear today on Bill C-45.

CME represents about 10,000 manufacturers and exporters across the country who account for 80% of Canada's manufacturing production and over 90% of all exports of goods and services. Innovation and productivity are obviously two increasingly important drivers of manufacturing growth in industrialized countries, and Canada is not an exception.

In the last 10 years, Canadian manufacturers have had to cope with increased competition from developing markets combined with a very rapid appreciation of the Canadian dollar. The only sustainable strategy in the long term is a stronger focus on innovation and productivity. From that perspective, I'll focus my remarks today on the proposed changes to the scientific research and experimental development tax credit, the SR and ED, which is, for our members, the most important issue in this legislation.

The Canadian manufacturing sector, despite representing now about 14% of Canada's GDP, accounts for 55% of all business R and D expenditures in Canada. It is by far the most R and D intensive industry in the country. Roughly half of SR and ED users are actually manufacturers.

Last week, CME published a special report on the economic impact of the proposed changes to SR and ED on business innovation in Canada. The first conclusion is that proposed measures will result in a net diminishment of R and D performed in Canada. We estimate that all proposed measures by the government will reduce R and D tax incentives in Canada by $750 million a year starting in 2016-17. To give you an idea of the size this amount represents, it's 5% of all business R and D expenditures in Canada last year. In our sector, according to our latest management issue survey, 69% of manufacturers will reduce R and D spending while another 20% will start looking at other jurisdictions to conduct R and D activities as a result of these changes. We estimate that the full impact of these changes on actual business R and D expenditures in Canada will be approximately $1.5 billion every year.

Our report also compared the generosity of the R and D tax credits for large companies in different countries. The international competitiveness of our R and D tax credit will fall from number 13 to number 17 in the OECD as a result of the 5% proposed reduction in the tax credit.

The budget also proposes to completely eliminate capital expenditure from the tax base. Again, no other sectors of our economy will be impacted as much as the manufacturing sector, which tends to have more capital intensive R and D activities. While on average in the overall economy only about 5% of all R and D expenditures are related to capital, in our sector it is more than 30%.

Our report compared the fiscal treatment of capital expenditures related to R and D in other countries. The vast majority of countries studied provide either a tax credit or a rapid depreciation rate, such as the U.K., for example, for capital expenditures related to R and D. Again, our international attractiveness as a destination for R and D will decrease.

Another change in the budget was the reduction of the proxy used for claiming overhead costs under the SR and ED program. By proposing to reduce the proxy from 65% to 55%, the government estimates that the proxy is too generous, and that reducing it would best reflect the actual overhead costs of companies. We have not seen any evidence or analysis provided by the Department of Finance that suggests this is really the case. We rather believe that the use of the proxy has to do with the simplification of the claim process, as suggested by the Jenkins panel in their report. Therefore, the government should proceed with a full analysis before making a change that will make more companies turn to the traditional method of claiming overhead instead of using the proxy. We think this will increase compliance costs for companies, and it will also add a burden on CRA's auditors. That was also a key recommendation of the Jenkins report.

In conclusion, there are three ways of looking at the impact of these proposed changes on business R and D. In terms of actual dollars, as I said, changes would reduce business expenditures in R and D to an estimated $1.5 billion a year once all the measures are implemented. In terms of taxation of large companies, the negative impact of the 5% reduction in SR and ED exceeds by far all the benefits that resulted with the corporate income tax, CIT, cuts that have taken place at the federal level since 2008, if you look only at the large manufacturers.

In terms of international competitiveness and our capacity to attract foreign investment from large R and D performers, our ranking would decrease from number 13 to number 17. Even more importantly, all the major developing countries such as India, China, Turkey, and Brazil will now offer more advantageous R and D tax credits, according to our report.

● (1540)

We are making three main recommendations that will mitigate the negative impact of these proposed changes.

The first one is to provide more direct support to large companies by way of a partially refundable tax credit that would be targeted at projects related to enhance productivity. The second one is to allow companies to more rapidly depreciate the cost of machinery and equipment used for R and D purposes. The third one is to conduct a more detailed analysis of overhead costs and the use of the proxy before implementing the 10% reduction.

Thank you very much for your time. I'm available to respond to questions.

The Chair: Thank you very much for your presentation.

We'll now hear from the Certified General Accountants Association of Canada, please.

[*Translation*]

Ms. Carole Presseault (Vice-President, Government and Regulatory Affairs, Certified General Accountants Association of Canada): Mr. Chair, members of the committee, my name is Carole Presseault. I am the Vice-President of Government and Regulatory Affairs of the Certified General Accountants Association of Canada, an organization that represents over 75,000 CGAs across Canada. We are happy you invited us to participate in your study on Bill C-45.

This is a very large bill. Much of its content is of considerable interest to our members. However, my comments today will focus on two main aspects—the Agreement on Internal Trade, which is covered in division 14, and the tax system.

● (1545)

[*English*]

Our comments today will concern two specific measures related to the Agreement on Internal Trade contained in division 14 and measures regarding the tax system. The measures included in division 14 implement financial penalties and enforcement provisions to support the decisions of panels that are formed to adjudicate disputes between parties to the Agreement on Internal Trade.

I've skipped a page, I'm sorry. I'm going to come back.

These measures implement changes to the Agreement on Internal Trade, which were agreed to by federal, provincial and territorial governments over the past few years. Let me remind you that the purpose of the Agreement on Internal Trade is to reduce, and where possible, eliminate unnecessary barriers to interprovincial trade and labour mobility.

It's not a perfect agreement and the Committee on Internal Trade was formed to ensure the agreement continues to meet its objectives and to improve the agreement that was signed more than 12 years ago. Implementing the measures in division 14 is a demonstration of the federal government's commitment to comply with the obligation under the agreement.

The measures contained in the bill before us implement financial penalties and enforcement provisions to support decisions of panels that were formed to adjudicate disputes between parties. These measures address a serious flaw. Prior to this, there was little incentive for governments to comply with panel rulings, as we discovered through our own experiences.

By the way, it's also worth noting that until the measures in division 14 are enacted, the Canadian government has lost its right to access the AIT's dispute resolution provisions. We support the measures contained in the bill, but we know there's so much the Committee on Internal Trade can do to further improve the agreement, particularly to improve the efficiency and accessibility of the dispute resolution process.

The process is a long and costly one, and citizens cannot access the process independently of government. Also needed are improvements to the AIT governance that would enable more stakeholder engagement and improved transparency. However, we are encouraged that ministers have agreed to develop a chapter on technical barriers to trade. This is a problematic issue in the approach to trade both interprovincially and internationally, and success in this area would help advance two of the government's priority issues in increasing international trade and reducing red tape.

The timing couldn't be better to address these issues. In December, the federal government will become chair of the Committee on Internal Trade and will have the opportunity to drive the agenda. We encourage the government to seize this opportunity to make the agreement a truly effective tool for strengthening the economic union.

Committee members won't be surprised to hear us talking again about taxation. We note with interest that part 1 of Bill C-45 implements a number of income tax measures and related measures proposed in the March 2012 budget. Measures that we've had the opportunity to comment on in previous processes include the registered disability savings plan, and as my colleague Mr. Lavoie mentioned, the SR and ED tax credit, and of course, international taxation. Many of these measures stem from the work of advisory panels, for example, the Canadian System of International Taxation, and the SR and ED measures from the Jenkins panel.

This leads me to highlight once again the importance of expert advisory panels in advancing change to public policies. I'm confident that members would agree with us, given the recommendations in last year's pre-budget consultations.

I want to talk about a measure that we did not see in the 2012 budget which continues to be a priority for our members and for taxpayers everywhere. It is the issue of a sunset provision to ensure that tax changes are enacted within a reasonable period of time after being introduced in a budget.

Today, you focus your efforts on improving policy changes announced in budget plan 2012, but we need to remember there are still hundreds of tax measures from previous federal budgets that still have not been enacted. We would encourage the consideration of the application of a sunset clause to ensure the coming forward of these amendments in a reasonable period of time.

I'd like to remind you that the short title of the bill is the jobs and growth act, 2012. We submit that removing barriers to internal trade and mobility and taking steps to simplify Canada's tax system are critical to jobs and growth, and Canada's long-term prosperity.

[*Translation*]

Thank you. I would be happy to answer any questions.

The Chair: Thank you for your presentation.

[*English*]

We will now hear from the Public Service Alliance of Canada, please.

Mr. Chris Aylward (National Executive Vice-President, Public Service Alliance of Canada): Mr. Chair and committee members, thank you for allowing me the opportunity to present to you this afternoon.

My name is Chris Aylward. I am the national executive vice-president of the Public Service Alliance of Canada. We represent approximately 170,000 federal public sector workers.

The Public Service Alliance of Canada has major concerns with the latest budget implementation bill, Bill C-45. Many of these legislative changes will have a drastic impact on Canadians and should not be rushed through Parliament without time for careful consideration, scrutiny, and debate.

My first comments are on the proposed changes to the federal public sector pension plans. These unilateral changes include increasing the normal retirement age from 60 to 65 for new hires beginning in 2013. PSAC opposes Bill C-45 because it is an attack on younger generations who make up the majority of new hires in the federal public sector. The increase in the retirement age will generate a two-tier system, creating inequities between young and older workers in the public service, forcing younger workers to retire at an older age. The public service pension plan is sustainable, and there is no reason to penalize young workers. Members of this committee should also be aware that the Canada pension plan and Quebec pension plan payments are integrated with federal public service pensions, and that the average annual pension received by retired federal public sector workers in 2011 was $25,991. PSAC calls on the government to focus on strengthening pensions for all Canadians, instead of weakening pension plans and retirement security for those dedicated to public service.

I also want to touch on a change to the Canada Revenue Agency Act contained in Bill C-45. I speak from a very personal advantage on this. This change will put the agency back under the authority of Treasury Board to oversee CRA's negotiating mandate, as well as certain terms and conditions of employment. This is a serious step backwards. Not only does the change in authority contradict some of the very reasons for creating the agency in the first place, it undermines a decade of hard work by the PSAC and the agency that have been put in place to develop effective labour relations. In fact, during the last two rounds of negotiations, both parties put considerable effort into reaching a settlement with the agency before the current collective agreement had expired. This is a first in the federal public service.

The PSAC has other concerns about Bill C-45 that echo much of the criticism being expressed by environmental, scientific, and aboriginal groups, and individual Canadians. I will not address these other concerns due to time constraints today; however, I will be providing the clerk of the committee with a short summary of our additional concerns for your information.

We believe Canadians are not well served by omnibus bills. Bill C-45 should be broken down into individual pieces of legislation so that parliamentarians and all Canadians have ample opportunity to study and understand the consequences of the proposed changes.

Before I close, I will take a few moments to reiterate our concern about significant changes to programs and services that affect the livelihoods, environment, and safety of Canadians, changes that are being made without transparency, and without hearing from those who depend on the services. Search and rescue and coast guard stations are being shut down, despite the pleas to reconsider coming from coastal communities. Veterans Affairs district offices are being closed across the country, including the one and only office in Prince Edward Island, located in Charlottetown. Case loads are almost doubling, despite the desperate situation faced by our veterans. The Department of Fisheries and Oceans' budget and fisheries habitat staff are being cut, yet the recently issued report of the Cohen Commission of Inquiry into the Decline of Sockeye Salmon in the Fraser River reaffirmed the importance of restoring the Department of Fisheries and Oceans' mandate and resources to protect fish habitat.

We believe there is a need for more transparency about the scope and impact of all planned cuts to federal services and programs, and a need to listen to Canadians being affected.

Thank you very much. I look forward to your questions.

● (1550)

The Chair: Thank you very much for your presentation.

We will now hear from TSGI-Chartered Accountants, please.

Mr. Ken Cudmore (President, TSGI-Chartered Accountants): Good afternoon, Mr. Chairman and committee members.

By way of introduction I'd like to make a few comments about my background as it relates to SR and ED and R and D funding.

I have more than 30 years as a chartered accountant, with a computer science degree and an MBA. In the past I was a full-time faculty member at the University of Calgary and taught the most recent SR and ED courses for the Institute of Chartered Accountants of Alberta. For the past 10 years my practice has consisted of about 10 qualified scientists and CAs who focus solely on the SR and ED area, serving multinational corporations as well as small corporations, mostly in western Canada.

I believe I have a unique multidisciplinary outlook on SR and ED. I am from the trenches. I've also worked with the National Research Council's industrial research assistance program, IRAP, and our firm was the company that submitted the first successful shale gas technology claim in Canada. I've served as the inaugural chairman of the joint CRA and industry information technology oversight committee for the SR and ED prairie region. I am an active participant as an angel investor in western Canada, both through direct investments and also through membership in Venture Alberta, which is reputed to be one of the most active venture forums in Canada. This provides me with further insight into the technology start-up community.

To begin, I would like to summarize the overall impact that we anticipate the changes proposed in Bill C-45 will have on SR and ED performers at the ground level.

Our company has gone through a detailed modelling process to simulate the SR and ED impact of the 2012 budget on our clients, who should be considered to be a cross-section of western Canadian companies. We did this because the microeconomic nuances of how policy decisions affect individual organizations are not always visible from a macroeconomic viewpoint. Our conclusion is that Canadian-controlled private corporations, or CCPCs, are likely to experience a 5% to 10% reduction in investment tax credits, whereas non-CCPCs—those are the big ones—can expect more drastic reductions, on the order of 30% to 40%.

The industry consensus communicated to us both by our clients and by contacts is that the reductions in the SR and ED benefits will unquestionably reduce their overall ability and willingness to conduct research in Canada and will reduce jobs. This should be a concern for all Canadians.

I am also particularly concerned about the impact of the proposed changes on the energy industry, which will have effects nationwide. The implications can be extrapolated to numerous industrial sectors in Canada over the long term.

The primary story of oil and gas in Canada is no longer a story of wildcat wells and exploration uncertainties. It is primarily a technology story, that is, of using new technology to unlock unconventional resources that were previously inaccessible. This fundamental shift is highlighted by the fact that in 2010 oil sands production overtook conventional oil as the leading production method in Canada, with 51.9% of production. The technology needed to turn unconventional resources into producible reserves and a contribution to our GDP is extraordinarily sophisticated and extraordinarily expensive, with sourcing requirements that reach beyond Alberta's borders.

Every day we see Canadian energy companies taking enormous risks to develop new technology. The largest spenders in oil and gas research are most commonly in the non-CCPC category, and they will be the hardest hit by the reduction in investment tax credits. In particular, the reduction in the general ITC rate from 20% to 15% and the elimination of capital expenditure deductions will severely impact these organizations.

In our view, the impact these changes will have on the energy industry warrants re-evaluation of the proposed policy changes. We believe that public innovation policy is best delivered in an indirect form that organically results in leveraging industries in which Canada has a natural advantage in developing, commercializing, and exploiting technology.

There are few other industries in Canada that have advantages such as we have in the energy sector. We are world leaders now and we need to stay there to protect Canada's economic future. We need to enhance our competitiveness in this increasingly technological field to build world champions. Reductions to the SR and ED program will dramatically alter the positive path that we are currently on in the energy industry along with many sectors upon which the industry impacts.

Lastly, I would like to comment on the critical issue of how the proposed changes will affect jobs in Canada.

R and D performers in western Canada tell us that they will react to the concerns outlined above by reducing their research efforts in Canada. This has already started to happen. Research capital is highly liquid, and these companies are not afraid to redistribute their funds to other jurisdictions. They also recognize that we are locked in a global war for talented innovators and that they must either initially attract and then keep our innovators in Canada or go to where these individuals are.

● (1555)

We are deeply concerned that the net effect of the proposed SR and ED changes will be the loss of high-value innovation jobs. This will have significant and long-term negative effects upon our global competitiveness.

Thank you for this opportunity.

The Chair: Thank you very much for your presentation.

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

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Chair.

Welcome to all of the witnesses today.

I want to begin with the two presentations on the SR and ED tax credit. I will ask you first of all, Mr. Lavoie, how many companies your organization represents.

● (1600)

Mr. Martin Lavoie: It's about 10,000 companies.

Ms. Peggy Nash: How many of those companies did you say on average would take advantage of the SR and ED tax credit?

Mr. Martin Lavoie: What I said is that roughly half of the SR and ED claimants are manufacturing companies. I would expect more than 80% of our members to claim SR and ED credits.

Ms. Peggy Nash: As the voice of the manufacturing sector, you understand and have conveyed to us the importance of this tax credit. If I understand you correctly, the sector that you represent provides 55% of R and D in Canada.

As I understand it, and correct me if I'm wrong, over the last decade we've lost about one in four manufacturing jobs. Is that correct?

Mr. Martin Lavoie: It is roughly that, yes.

Ms. Peggy Nash: That occurred through a variety of factors. Obviously we had an economic downturn, and there's global competitiveness, technology, a variety of factors.

It seems that most of the businesses I speak with talk about the importance of investing in R and D, the importance of innovation, the importance of being cutting-edge when it comes to new product development.

Would you agree that these are key factors for our economy, and especially for the manufacturing sector?

Mr. Martin Lavoie: Yes, that's correct. Innovation and productivity are two very important drivers of business growth in our sector in the next decade, for sure.

Ms. Peggy Nash: If we look around the world at some of the AAA rated economies, such as the Nordic countries, Germany, Australia, is that the approach they are taking? Are they investing in R and D and innovation? Is that what's leading to their success?

Mr. Martin Lavoie: There is a variety of models. I would say that very few countries do not offer tax credits for R and D; the vast majority do. As to the generosity of the tax credit, Canada's is not the most generous tax credit, if you look at large companies.

Keep in mind that SR and ED is in fact two systems. There is one for Canadian-controlled private corporations, which is a refundable 35% tax credit. The other one is a 20% non-refundable credit for what you call large companies or non-CCPCs.

That being said, keep in mind also that non-CCPCs are not necessarily just large multi-nationals. Correct me if I'm wrong, but I think the threshold is $400,000 in taxable income. Many mid-sized companies would fall under the large company definition.

Ms. Peggy Nash: Okay. I noted that the CEO of your organization, Jayson Myers, said recently that he's concerned that this change is moving us in the wrong direction by increasing taxes on the companies that are investing most in R and D, and that it's going to weaken the ability of companies in Canada to compete for investment and every R and D dollar they spend.

I assume that this, in summary, is the approach your organization is taking.

Mr. Martin Lavoie: I guess it's twofold. There are of course some companies that don't have the capacity to move R and D to other jurisdictions. I would say that for those companies the options are limited. Since we're talking about larger companies, many of them actually have this mobility. They will look for the environment in which they get the most advantageous return for their investment.

Ms. Peggy Nash: Thank you. I have so many other questions, but I only have about a minute left.

Mr. Aylward, you talked about the changes to pensions. I'm interested in what this is going to mean for young people who are trying to get jobs in the federal public service. Will this mean a delayed entry into the workforce for them, because the people who are already there will be staying longer and not retiring?

Can you comment on that?

Mr. Chris Aylward: That's not so much our concern. Our concern really lies in the fact that what we're going to end up having is a two-tier system. I don't know how attractive the public service is going to be to younger workers, knowing that if they're coming in the door today they're going to be in a different pension stream from the person who is already sitting inside the building. Again—

Ms. Peggy Nash: It's less affordable, and people feel they're not getting the same benefits. It's a lower two-tiered system.

Mr. Chris Aylward: Exactly.

The Chair: Thank you, Ms. Nash.

Ms. McLeod, go ahead, please.

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

I want to do a brief summary of the SR and ED, but then I have some specific questions for Ms. Presseault.

I was on the Red Tape Reduction Commission. To be quite frank, as we travelled across the country, I don't think there was one table where we sat that people didn't complain about the complexity and onerous requirements of the SR and ED credit. It was a whole market industry in itself.

Certainly, the Jenkins report was a very important one. It was an expert panel. I understand they're going to be taking some of the money that was in this program that is complex and very difficult to weave one's way through. It's not being taken out of innovation and that area, it's just being redirected.

Ms. Presseault, in the past, did your members have any comments and concerns on the complexity of this particular program? It's funny to hear now that it's such a great program when I heard everywhere that it was flawed and had many challenges.

● (1605)

Ms. Carole Presseault: You're absolutely correct.

We initially raised this in a pre-budget consultation back in 2004 the concerns of our members about the complexity of the SR and ED tax credit. When we look back, one of the key recommendations from the Jenkins panel was to reduce the complexity.

Hand in hand with this of course is the government's intent in reviewing the whole issue of fees and contingency fees. You have to look at the complexity of a system that needs to rely on professionals to be able to do that. That is something that needs to be addressed in the future. We haven't seen anything in this legislation that addresses the issue of complexity.

Mrs. Cathy McLeod: Thank you.

To go to division 14, you said something about your own experience. Could you tell us about your own experience and how these changes might facilitate or make things better for you? It sounded as if you had an example that you didn't have time to articulate.

Ms. Carole Presseault: I could go on for many hours, not on SR and ED as much as on the internal trade agreement. We have a lot of experience. We've been directly involved with three challenges brought under the dispute resolution procedures of the Agreement on Internal Trade. Two were person-to-government challenges, and one was government-to-government, where the provinces of B.C., Alberta, Saskatchewan, and led by Manitoba, took a dispute on our behalf against measures in Ontario. To summarize quickly, it prevented our members from being mobile across provincial jurisdictions. In our experience, until these changes were proposed, there was no enforcement mechanism. There was no hammer. There was nothing to make the government that was found to be in contravention of their engagement to internal trade to be brought to account, and implement the panel findings.

Over the last several years, I mentioned that the committee on internal trade made a number of improvements. That was essentially around the issue of monetary penalties, which are on a sliding scale for smaller provinces like P.E.I., for example, with a $250,000 fine, to large provinces like Quebec, Ontario, and B.C., with fines in the $5-million range.

We think now we have a stick. There's another stick that is less mentioned because the focus is always on monetary things. It's one of loss of dispute resolution privileges if one fails to implement panel findings. We find that to be an equally important stick. In June, the committee brought those changes forward to the other aspect of person-to-government challenges. There are still a lot of issues around accessibility of the agreement for citizens, for parties, to be able to take disputes forward without government's approval.

Generally, this is a positive move. Enforcement was the key thing. We still have to resolve things around the issue of accessibility.

Mrs. Cathy McLeod: Mr. Turnbull, I have a quick question.

In 2008, during the worst of the financial crisis, would this measure being planned right now have helped in any way?

Mr. Robert Turnbull: Certainly, in regard to the measure that has been adopted by the G-20, going back to 2009, which obviously was part of redoing the whole regulatory structure to try to make sure that a financial crisis like that does not happen again. The commitment there was to try to contain the risk that's caused by these derivatives contracts, and the trading of derivatives contracts, by requiring that the trade take place and that, before the trade has settled, it be submitted to the essential counterparty so that the risk will be transferred from the original parties to the essential counterparty, which itself will be heavily risk-proofed.

The idea behind these amendments to the Payment Clearing and Settlement Act is really to support the idea of making sure that these central counterparties are protected from, in this case, legal risk, that they're protected from the—

● (1610)

The Chair: Okay, I'm sorry, Mr. Turnbull, but we're way over on Ms. McLeod's time.

Could I just remind members, if they do have a question, to allow enough time for the answer.

We'll try to come back to that later in the hearing. I'm terribly sorry about that.

Mr. Brison, it's your turn.

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

I want to say, Ms. Presseault, that the intervention and need for tax reform is clear and should be something—you've intervened previously in our pre-budget consultations—that we take very seriously. Plus, the grey areas in our tax system that are created by this space in time between the introduction in a budget and the actual implementation through legislation I think are very important. This is something that we should consider as part of our pre-budget consultations.

Monsieur Lavoie and Mr. Cudmore, you've made compelling interventions today on the importance of SR and ED. We have with us today Ted Hsu, who is the member of Parliament for Kingston and the Islands and is also the Liberal critic for science and technology and an expert in all things SR and ED.

Mr. Hsu.

Mr. Ted Hsu (Kingston and the Islands, Lib.): Thank you.

I was interested, Mr. Cudmore, in your remark that you had done some simulations on the effect of the changes in SR and ED on your client base, and also in your statement that a lot of the view from the ground out west often isn't seen in Ottawa. It seems, if I have it right, that you're telling us that folks here in Ottawa are not seeing that jobs in oil and gas companies will be affected because the cuts in SR and ED will reduce the incentive to do research and development. Also, because that is a world-leading sector of Canada's economy, indirectly that will affect jobs in all of Canada.

I think I have it right, but I want to ask, are you sure? You have a limited client base; it's mostly companies in western Canada. Do you have any evidence, other than what you find from your client base, that would apply more generally?

Mr. Ken Cudmore: No, other than anecdotal information and talking with people who have practices in the major accounting firms spread across Canada. I'm not sure whether the data they were expressing was across Canada or simply the western numbers, but some of them were even higher than the numbers I gave you.

Mr. Ted Hsu: Based on what you do know for sure, which is your own client base, what do you see from your own client base in terms of the numbers of research and development dollars that might go outside Canada and be spent outside Canada, because of the reductions to SR and ED?

Mr. Ken Cudmore: All we have is anecdotal information. In other words, when we talk to tax managers and CEOs of companies, they tell us what's happening with respect to their budgets. The oil and gas industry is extremely fluid. They will turn on and turn off a billion-dollar project just like that. It all depends upon what is happening.

What we find with R and D is that the scientists within these companies have to fight for the opportunity to do this SR and ED work, and they have to fight against other projects. Shale gas would never have occurred; shale gas has been a game changer for all of Canada and North America. That probably wouldn't have happened if they hadn't been able to have some tipping point in the SR and ED program. It's quite often that tipping point that allows those engineers and scientists to go forward with some of these technologies that push the envelope beyond where we ever anticipated it could go.

Mr. Ted Hsu: With regard to the complexity of SR and ED, could you address that in the context of the decrease of the proxy rate from 65% to 55% that is proposed in SR and ED?

● (1615)

Mr. Ken Cudmore: The proxy was put in place in 2002 to simplify things. As Canadian Manufacturers and Exporters has indicated, it's really to reduce audit angst. When Canada Revenue Agency gets a claim that uses traditional overhead, they have a real problem with it because it can be neither proven nor disproven. It causes a lot of angst for taxpayers. In an attempt to avoid that, the proxy method was brought in.

I heard the testimony on Thursday where it was indicated that too many people are using the proxy because it's too generous. That's not what we find at all. We actually have an internal policy that the traditional has to exceed the benefit from proxy by a very significant amount before we will even use traditional overhead because of the audit problems that occur.

Mr. Ted Hsu: Very quickly, is it fair to say that jobs in the oil and gas industry in Canada will be at risk because of cuts to SR and ED?

Mr. Ken Cudmore: Absolutely. I can tell you that for one of our major clients, the difference in the projected R and D in the next year is very, very significant. How much is it related to this? A lot, I think, but it's also affected by other world factors as well.

The Chair: Thank you.

Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thank you, Chair.

Thank you to all for being here today.

Mr. Turnbull, I want to give you an opportunity to finish your thoughts on the question that Ms. McLeod had.

Mr. Robert Turnbull: I think I was almost finished the response to the last question.

These amendments are quite related to the efforts to make sure that a financial crisis like the one that occurred in 2008 does not happen again, or at least one that's propagated by the derivatives market.

Mr. Mark Adler: Mr. Turnbull, I was very interested in your remarks. I followed them very closely. If there was one thing we learned out of the recent financial crisis, it was that we need to pay more attention to the stability of the financial system. You addressed that during the course of your remarks.

The systemic risk, of course, can manifest itself in many different ways. Could you discuss some of those ways?

Mr. Robert Turnbull: Well, systemic risk is the risk to the financial system that is caused by some kind of contagion passed among financial institutions.

Mr. Mark Adler: It starts with one institution, right? Then the contagion begins to spread and amplify itself.

Mr. Robert Turnbull: That's correct. It can start with one institution and then spread throughout the financial system, such as was the case with Lehman Brothers and the major insolvencies of the U.S. investment banks.

It can also start in these major clearing systems. The clearing systems really act as funnels where unbelievable amounts of money are funneled and cleared through the system in money and assets every day. If those systems are not sufficiently protected from risk and they fail, that's another form of systemic risk that will cascade through the system.

Mr. Mark Adler: Would you say that the financial system is too pro-cyclical, in your estimation?

Mr. Robert Turnbull: It's really not in the purview of these amendments, so I'm really not in a position to respond to that.

Mr. Mark Adler: Okay.

These amendments, as you mentioned, came out of the Pittsburgh G-20 in 2009, but the bank has been working on these and researching this for about 10 years now. It has been at the forefront of the central banks in terms of examining systemic risk.

Could you tell us specifically how the amendments that we have before us in Bill C-45 will minimize or mitigate the opportunity for financial risk in the OTC?

Mr. Robert Turnbull: I'm not going to look at each particular amendment, but generally, what these amendments are designed to do is to close the gaps in the legal protections that clearing and settlement systems have, and specifically these newer types of clearing and settlement systems called derivative CCPs. They're to close the gaps in legal protections for those systems.

What we're talking about when we say “legal protections” is protections against the risk that if a major participant defaults in a system, the system operator—the clearing house, the CCP—could be unable to exercise its remedies under the rules of the system, because of stays or unwinding of payments that have already been settled in the system.

● (1620)

Mr. Mark Adler: Could you talk about what numerical indicators are used to determine whether there is an initial shock within the system and what the threshold is to determine whether it's going to lead to a contagion or not?

Mr. Robert Turnbull: I can't. Again, I'm legal counsel at the bank. I'm not in a position to discuss that kind of analysis.

Mr. Mark Adler: Okay.

I'm done.

The Chair: Thank you, Mr. Adler.

[*Translation*]

Mr. Caron, go ahead.

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

To follow up on Ms. Nash's questions, I will address Mr. Lavoie.

You mentioned in your analysis that, for businesses, the cost of the changes to scientific research and experimental development tax credit would be about $660 million. However, when department representatives appeared before us, I compared your figures with those they gave us. They said the cost would be about $500 million.

What is that $160-odd-million difference due to?

Mr. Martin Lavoie: The difference comes from the fact that they calculate the impact of those measures on government revenue, while we calculate the impact on incentives for businesses. Since tax credit is non-refundable, large companies that are not profitable can record that in their account ledgers and request it a year, two years, five years or ten years later. I think they may even have up to 20 years. If that is how a business operates, there is no impact on government revenues that year. That's what those people calculated.

We think that, just because a company does not request the credit during the year when it spends money, it does not mean that the credit is not an incentive for R&D. In a way, it is about playing with methodology. They look at government revenue and we look at tax incentives.

So federal tax incentives will be reduced by $660 million. We should not forget that a number of provinces provide their own tax credits for R&D and that those credits are administered by the Canada Revenue Agency. Changes made to the federal system will probably be automatically reflected in the provincial system. So a $84-million reduction in tax incentives should be added for all Canadian provinces, for a total of $750 million.

Mr. Guy Caron: What will be the impact of that loss of incentives—which will affect your members and businesses—on Canada's position in terms of R&D?

Mr. Martin Lavoie: I don't see how reducing tax incentives could resolve the original issue, where the R&D expenditure percentage of the GDP is lower for Canadian companies than it is for companies in other countries. That is kind of like saying that, since Canadians are not saving enough money for their retirement, we will eliminate all RRSP-related tax credits.

There aren't really any alternative solutions. What we have heard is that more direct support will be provided. In the case of a company set up in Connecticut or in Germany, for instance, it does not help much to go see the international CEO to ask what will happen to R&D over the next five years and tell him that there will probably be some money available, at some point, for direct support.

Mr. Guy Caron: I am asking the question because the department representatives told us, when they appeared before us, that this would not have a significant impact on incentives for businesses.

Mr. Martin Lavoie: That is a bit strange, since those same representatives published a report in 2007 where the SR&ED program was assessed. They said in their report that each dollar spent under this program had an economic impact of 11¢ per dollar. Today, they are saying that the change will not have an impact on the incentives. Some people are even saying that the SR&ED program is not working. So the statements are contradictory. I am not the one saying this, the Department of Finance is. It's on page 8 of their report.

Mr. Guy Caron: I have one last question. Mr. Cudmore, if there is any time left, you could answer after Mr. Lavoie.

It is also being said that capital expenditures should no longer qualify for tax credit. What will be the impact of that measure?

Mr. Lavoie can start, and I would then like to hear from Mr. Cudmore.

● (1625)

Mr. Martin Lavoie: As I said, capital expenditures are more vigorous in our sector than in other sectors. Capital expenditures in software development, for instance, are larger than those in labour force.

It is estimated that capital will account for about $123 million of the $750 million that will be eliminated in total. That is $95 million at the federal level and $28 million at the provincial level. The provinces will probably also eliminate capital from their tax credit.

Mr. Guy Caron: Mr. Cudmore, would you like to add anything?

[*English*]

Mr. Ken Cudmore: The analysis we've done on large non-CCPCs that form part of our knowledge base indicates it's between 5% and 8%. That industry is different from the manufacturing group though.

[*Translation*]

Mr. Guy Caron: Thank you.

[*English*]

The Chair: Mr. Van Kesteren, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Chair.

Thank you, all, for coming here.

Mr. Lavoie, I just want to get a clarification, and I apologize. Did you say that the primary focus of your group is the SR and ED issue? Is that first and foremost?

Mr. Martin Lavoie: Do you mean in the bill?

Mr. Dave Van Kesteren: Yes.

Mr. Martin Lavoie: Yes.

Mr. Dave Van Kesteren: I have had a number of meetings with your organization. As a matter of fact, I had a meeting with four of your associates, and I have to say that really wasn't brought up. I understand that is an area of concern, but for instance, it's been mentioned that the lack of SR and ED will have an enormous impact, and I'm sure Mr. Jean will deal with that, on the oil sands, but most of our testimony does not show that as being the biggest issue.

The biggest issue is workers and the fact that there's an incredible lack. We've heard that not just from the organizations involved in pipelines and oil extraction and all those things but also from the colleges. I'm looking for the quote, but I know that the Association of Canadian Community Colleges said that attracting skilled workers would be our greatest challenge.

The other thing we heard from your organization was that ACCA, the accelerated capital cost allowance, was paramount and seemed to have a great impact for success in your industry.

I could go on. There's more. I was just looking for some more quotes. I think we heard mention too about red tape reduction. Again, I know the bill deals not only with that, but those have been the measures that our government has been most active in pursuing. I have found that your organization has been most supportive of that, and although SR and ED is an issue and it is something we're struggling with, it wasn't the primary issue. Could you elaborate on that discrepancy?

Mr. Martin Lavoie: It happens that SR and ED is part of that particular bill.

With regard to the accelerated capital cost allowance, I think that is going to be more of an issue for the next budget since the temporary extension of the measure means it will end at the end of next year. It will either be renewed, made permanent, or completely eliminated in next year's budget. That was part of our pre-budget submission, which was presented by Jayson Myers, I think two weeks ago during the pre-budget consultations.

Mr. Dave Van Kesteren: When I visited I mentioned that we had a number of your organizations represented in my office. For instance, the forestry people were greatly excited about what was happening with the opening of new markets and how that has had an enormous impact on the forestry industry. Our government has amplified that and seen that as something that again is paramount to trade.

Do you want to comment on that? Are you hearing that as well from your organization? I picked forestry, but of course I could probably go through a number of different organizations. There was a gentleman there from Siemens, for instance. I forget what his function was, but one of his concerns was the lack of protection that we have for investments in China. Of course we've just had a bill passed that would protect those companies. Would you comment on those?

● (1630)

Mr. Martin Lavoie: Our general position on trade agreements is that we're in favour in principle, but there has to be a level playing field. If we do sign trade agreements with other countries, we hope that, for example, we're going to have the same access to their government procurements that they will have to our own government procurements, that the rules governing foreign direct investment will be similar.

This is where the devil is in the details. In principle we're quite supportive of the government's aggressive agenda on trade, if that's the answer you're looking for.

Mr. Dave Van Kesteren: Again, I'm not saying that this isn't an area, and I've mentioned that SR and ED is very important, but most, if not all, of the testimony we've had has centred on other areas. I'm a little curious why suddenly this seems to be the focus of your organization.

Mr. Martin Lavoie: Again, that was in the context of Bill C-45 and I would be happy to circulate to the committee a compilation of testimonies from companies from across the country that gave me their comments about how SR and ED changes would impact R and D in their businesses. I'd be happy to circulate that to the committee members.

The Chair: Thank you, Mr. Van Kesteren.

[*Translation*]

Mr. Mai, you have the floor.

[*English*]

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

Mr. Cudmore, I read this from the website of TSGI-Chartered Accountants:

> —our interpretation of Bill C-45 reveals that taxpayers will now be eligible to claim only 80% of their payments to approved universities, colleges, research institutions, or other similar institutions for conducting research and development on their behalf. This change was not highlighted at the time of the budget announcement, and would seem to be counter to the government's emphasis on increasing collaboration between industry and academia.

Is that correct?

Mr. Ken Cudmore: That's correct.

Mr. Hoang Mai: Can you expand on that?

Mr. Ken Cudmore: When the budget speech came out, it seemed to indicate they were dealing only with cases where someone was using a third party contractor, they hired XYZ Engineering Company to do part of their SR and ED program.

Then when Bill C-45 came out, they used the wording to actually encapture other parts besides third party contractors, the normal contractors. The budget speech said it was there to get rid of a profit margin. We can all dispute whether or not even that was necessary, but why would they want to put universities in there? If there is any group that does not make a profit—we're all supporting universities in many different ways. I don't understand why that would have been included in Bill C-45.

Mr. Hoang Mai: We're wondering also about a lot of things.

Regarding SR and ED, we've heard from the other side that changes to the SR and ED tax credit would actually reduce red tape or do things like that. Have those changes really affected red tape reduction?

Mr. Ken Cudmore: You're asking good questions.

The government has tried diligently for a decade or more to reduce complexity and lack of predictability in the SR and ED program, and as other people have alluded to here, that continues to be the swan song. It is very difficult to do that. None of the measures the government is proposing to introduce would actually do anything other than make it more complex and more expensive for taxpayers. It would force some taxpayers to not want to even apply under the program, because the more complex anything is, the less likely they are to do it.

[*Translation*]

Mr. Hoang Mai: Mr. Lavoie, are your members having the same reaction?

Mr. Martin Lavoie: Yes. In our opinion and in the opinion of our members, the complexity of the program is much more related to the interpretation of technology assessment reports and especially to Canada Revenue Agency's change of direction over the past two or three years.

The success rate of some our members' claims used to be over 90%, but it has suddenly dropped to 40%. This drop stems from the CRA's sudden decision to no longer consider certain expenditures as eligible. That was not really addressed in the budget. No budgetary measure makes any mention of that. Reducing the rate will not simplify the program.

Mr. Hoang Mai: Some of my constituents actually used to be entitled to tax credits, but they are suddenly no longer eligible. They tried to contact the Canada Revenue Agency, but since the agency had cut some services, it provided less information.

I would very much like to talk about this, but unfortunately, I don't have much time.

[*English*]

Mr. Aylward, regarding CRA, we asked the officials questions with respect to negotiations. Can you tell us what the impact would be of going through the President of the Treasury Board, having to accept the mandate? How does that work in terms of labour relations?

● (1635)

Mr. Chris Aylward: Thank you for your question. I'll speak from personal experience because I've sat on five bargaining teams with PSAC across the table from CRA.

Since the inception of the agency in 1999, the labour relations have been steadily increasing in a very good way to the point that, when we come to the bargaining table with the agency, we know that we're negotiating with the agency and not some faceless, nameless person down the street. When we sit across from the representatives from the agency, that bodes very well in respect to the trust, as well as to the union-management relations that we take away from that.

As I said, during the last two rounds of bargaining, in 2007 and 2010, we reached tentative agreements prior to the expiration of that current agreement, and that's hardly ever seen. It was the first in the federal public service and it hasn't been seen since. Unfortunately, what's happening now, or what's going to happen, is that the staff relations, the union-management relations in the agency are going to deteriorate for sure.

Mr. Hoang Mai: Well, the reason we were given was to make CRA compliant with the other organizations. Does that really help? Is that a good excuse in terms of maybe affecting the—

The Chair: Please give just a brief response.

Mr. Chris Aylward: It makes absolutely no sense when, in 1999, it said that they wanted to create a separate agency to get away from Treasury Board and to entice as well new business, new acquisition of business for CRA.

The Chair: Thank you.

Mr. Jean, go ahead, please.

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

Thank you, witnesses, for attending today.

I'm very interested in talking a little more about SR and ED.

I have done some research online and I have actually come across some people who indicate that they are experts at SR and ED. R&D Partners, for instance, say that they have a reputation and track record as a leading Canadian independent R and D tax adviser that has been in business for over 10 years, has successfully filed over 1,000 projects and $100 million in R and D tax credits, has a comprehensive and thorough understanding of the current R and D tax rulings, and an excellent relationship with federal and provincial tax authorities across Canada.

Are you individuals familiar with this particular company, R&D Partners? It's on the web. It's one of the first three hits that come up. I just wondered. They seem to indicate that they have an excellent track record. They have successfully filed over 1,000 projects and $100 million in R and D tax credits. It seems to me that there are experts out there who seem to know what they're doing, and I am not one of those people.

I want to confirm my understanding of the changes to the SR and ED program. The total pot of money is going to remain the same. In fact, my further understanding is that some of your groups have lobbied for more direct funding before and fewer SR and ED credits. Is that fair to say, Mr. Lavoie, that there's more money going to direct funding? My understanding is that any savings from the SR and ED program will not go back into general revenues. They're going to be used to directly fund initiatives that SR and ED would have gone for. Is that fair to say? The money is not being reduced.

Mr. Martin Lavoie: I think we have never been against more direct support mechanisms, but we've never advocated that any money into new direct support should be taken out of SR and ED.

Mr. Brian Jean: No, and I'm not saying that. In fact, I'm saying the exact opposite. They're not taking money out of SR and ED. Any savings that are there are still going to be used for that program. Are you familiar with that? You're not aware of any tax cuts?

Mr. Martin Lavoie: It's not going to be reused for SR and ED. It's going—

Mr. Brian Jean: —to direct funding for these organizations.

Mr. Martin Lavoie: Direct funding, what is it? I couldn't tell, I don't know.

Mr. Brian Jean: My understanding is that there are not going to be any cuts under the program. There might be some savings, but those savings will be redirected into direct funding for those projects.

I'm just curious. You mentioned that this is one of the most important things for the oil and gas industry. I don't know if the Government of Canada hands out $50 million a day, but right now Canada and the oil and gas industry, because of the distribution struggle we have with our networks, are losing somewhere in the neighbourhood of $50 million in direct profit per day on our oil industry. Are you familiar with that?

Mr. Martin Lavoie: [*Inaudible—Editor*]

Mr. Brian Jean: Okay.

Are you familiar with that, sir?

Mr. Ken Cudmore: I don't know those numbers—

Mr. Brian Jean: Okay, you understand that—

Mr. Ken Cudmore: —but I understand—

Mr. Brian Jean: There's a 40% tax differential.

Mr. Ken Cudmore: The tax differential—

Mr. Brian Jean: It's about $50 million a day.

Mr. Ken Cudmore: They're getting a great deal.

Mr. Brian Jean: Yes, they're getting a discount, a great deal, a $50 million a day deal, which is going to be $100 million a day in about 15 years. Are you aware of that?

Mr. Ken Cudmore: No.

Mr. Brian Jean: Doesn't that seem like a much more pressing issue than the SR and ED tax credit?

● (1640)

Mr. Ken Cudmore: I think all of these issues are—

Mr. Brian Jean: I agree, but would you not suggest that it's a much more important issue to deal with? I'm not saying that we shouldn't deal with SR and ED. I'm just suggesting that this is much higher on the priority list.

Mr. Ken Cudmore: It's a very important issue, but I also think that SR and ED is very important.

Mr. Brian Jean: I'm not saying it's not, sir. But your organization and Mr. Lavoie's organization have been asking for simplicity and for predictability and saying that it's far too complicated. This government's set up a task force to actually recommend changes to do exactly what your organizations are asking for. Is that fair enough?

Mr. Ken Cudmore: Yes, they have.

Mr. Brian Jean: Okay.

In fact one of the particular proposals is to move to a more simplistic method by removing the eligibility of capital from the base of eligible expenditures, which is the most complex component of it.

Mr. Ken Cudmore: I would thoroughly disagree with that.

Mr. Brian Jean: Could you tell me why?

Mr. Ken Cudmore: We as a firm have never had a problem with CRA on capital expenditures. I don't know where that came from.

Mr. Brian Jean: Are you familiar with the task force and what their recommendations were and what their findings were?

Mr. Ken Cudmore: Do you mean the Jenkins report?

Mr. Brian Jean: Yes.

Mr. Ken Cudmore: Yes.

Mr. Brian Jean: Didn't you see that they suggested the eligibility of capital was the most complicated part of it?

Mr. Ken Cudmore: That was their opinion, but it is not in practice what we see.

Mr. Brian Jean: Okay.

Mr. Ken Cudmore: We see claims of up to $100 million in expenditures.

Mr. Brian Jean: But it's fair to say that's what they came up with.

Mr. Ken Cudmore: Yes.

The Chair: You have 30 seconds.

Mr. Brian Jean: Also, the cost effectiveness of the program is going to be improved through a number of actions. For instance, the SR and ED overhead expenditures will be reduced from 65% to 5% of the salaries and wages of employees.

That's correct. I see you nodding your head, Mr. Lavoie.

In fact the profit element will be removed for arm's-length third party contracts for the purpose of calculation of SR and ED tax credits. That's correct. You are nodding your head again, Mr. Lavoie.

Finally, the general SR and ED investment tax credit will be reduced to 15% from 20%. That's correct.

There are some measures that have been moved. In fact the predictability of the SR and ED program will also be enhanced with some things I don't have time to talk about today, but you're obviously familiar with some of those.

Wouldn't you suggest that the government is moving in the right direction on the initiatives that you're asking for?

Mr. Martin Lavoie: With regard to capital expenditure, we saw that in the report. I actually read about 45 submissions to the Jenkins panel and I didn't find one that said that the capital expenditure was too complex. I know finance has said that, but I have never heard it once among our membership.

Mr. Brian Jean: All the members agree.

The Chair: Thank you, Mr. Jean.

Mr. Marston, please.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Mr. Aylward, in the provisions for the changes that are taking place to the pensions of your members, there's a part that talks about retroactivity. My concern here, and I'm wondering if you share that concern, is what that might actually entail for existing employees.

Mr. Chris Aylward: That's a very good question, Mr. Marston. I have with me another witness who is a subject matter expert on pensions.

I would ask Mr. Infantino to answer that question specifically, Mr. Chair.

The Chair: Please take your spot.

Mr. James Infantino (Pensions and Disability Insurance Officer, Public Service Alliance of Canada): Thank you for that question, Mr. Marston. I think what you actually were referring to was part of the provisions regarding the establishment of a two-tier arrangement.

Mr. Wayne Marston: Yes, exactly.

Mr. James Infantino: There will be two groups of employees, one group of existing employees who will remain under the terms of the plan as they exist now and then a new group of employees who will continue on a go-forward basis with new eligibility requirements for pensions. I believe that's what you're speaking to in terms of retroactivity and how that will apply.

Mr. Wayne Marston: Yes.

Mr. James Infantino: That's my understanding of the language in the legislation under this particular part of Bill C-45.

Mr. Wayne Marston: The concern of the official opposition is the impact that will have on young people, because they are facing two-tier pensions. It won't be long before they're facing two-tier wages, I would suspect, sir.

Mr. James Infantino: That's correct. It wasn't too long ago that we used to pay women differently for exactly the same work. As I say, that seems to be a direction that perhaps we're going in with respect to this in terms of young people.

Mr. Wayne Marston: I already have significant concerns about young people and the crippling debt they're coming out of university with now.

Mr. James Infantino: Absolutely.

Mr. Wayne Marston: That's really all I have on pensions.

Mr. Turnbull, I'll turn to you for a second, sir.

When you were referencing derivatives in 2008—I am far from expert on that situation—it struck me that when the catastrophe happened in the United States, there was kind of a free-wheeling attitude going on down there. They were bundling derivatives and they knew the mortgages were not good. They knew in back of all of this....

Canada did very well during that time. Was that because we weren't invested in derivatives? What was the reason?

● (1645)

Mr. Robert Turnbull: My understanding is that, as you suggested, the large Canadian market players did not get into the derivatives market to the extent that their European and American counterparts did. They did dabble in it but they tended to stick more to basic banking and investment vehicles.

Mr. Wayne Marston: In a less polite way, I think they weren't as greedy as some of their counterparts in the United States and didn't take the risk as a result.

The changes in Bill C-45, in this regard, are probably something worthwhile. It wasn't that we had such great protection before. It was that we were lucky in a lot of senses of the word. Now we do need the provisional changes that we see in there, from your perspective.

Mr. Robert Turnbull: That's right. These are changes to the financial plumbing or the financial infrastructure, to ensure that if we get into trouble in the future, with institutions going into default and this kind of contagion effect, the clearing systems that are designed to add stability to the system will hold up in these situations.

Those are really the facilities we're depending on to control risk so that these types of things don't happen in the future.

The Chair: You have about one minute.

Mr. Wayne Marston: I'm coming back to you, sir, since you're back at the table.

The number of your members who are losing their jobs I understand is in the 40,000 range. Is that a correct figure or close?

Mr. Chris Aylward: Not quite for PSAC members. For PSAC members it's closer to 20,000.

Mr. Wayne Marston: Across government services I understand it's about 40,000.

Do you have any estimates about the ripple effect of that?

Every good-paying job has an effect on our economy. It's like in automobile manufacturing. They believe that for every job in automobiles there are five to seven jobs created around it.

Do you have any estimate on that figure and what that loss would be?

Mr. Chris Aylward: We know that in small town Canada it's going to have a devastating effect, for example, in places like Montague, Prince Edward Island, and St. Andrews, New Brunswick, where there's a loss of federal jobs. We engaged with the province of P.E.I. on the loss of federal jobs, with the provincial government and the municipality of Charlottetown. They are very concerned about the effect that the federal job losses will have.

Across the country we've been talking to people like coffee shop owners and bike store owners who say they're going to be out of a job because the money is going to be going out of the community.

Every federal job that's lost, especially in small town Canada, has that trickle down effect. As I said, the people in small business in those communities are going to be faced with a loss of business and, therefore, a possible loss of their own business.

The Chair: Thank you.

Thank you, Mr. Marston.

Ms. Glover, please.

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you, Mr. Chair, and welcome to the witnesses.

I'm going to start by asking about a few measures we haven't talked about that are in Bill C-45. I think it's important that we get your input on those as well.

I'll start with Mr. Lavoie. You and I have had an opportunity to talk about some of the things our government has done in the past, in the hopes of creating jobs and helping businesses. These are things like the decrease in the GST, the corporate tax decreases, limiting the EI premium to 5¢ instead of 15¢, not opting for doubling of CPP as proposed by the NDP, not going to a 45-day work year that would cost businesses. For the most part, I know that your organization was very supportive of those measures to help your businesses. I appreciate that. I see you nodding your head. Hopefully that means it is still the case.

In this bill, there are a couple of measures I haven't heard you speak to, so I would like to give you an opportunity. On the accelerated capital cost allowance for clean energy generation equipment, I'm wondering if you can tell us how that investment would help your businesses. Is it a good measure in Bill C-45?

Mr. Martin Lavoie: We are quite supportive of the accelerated capital cost allowance. We see it as a great tax incentive for making companies invest more in what you call productive assets, in this case clean energy assets. We think that should be applied to any kind of machinery and equipment used for manufacturing. As it relates to the SR and ED tax credit, why not for any piece of equipment used mostly for R and D purposes?

Mrs. Shelly Glover: There's also the hiring credit for small business that's in this bill. I would be interested in knowing if that's going to help your businesses, if you think that's a good measure that we ought to continue with.

● (1650)

Mr. Martin Lavoie: Are you talking about the $1,000 rebate?

Mrs. Shelly Glover: Yes.

Mr. Martin Lavoie: In an ideal world, I think you will hear us, the CFIB and others say that we would like a freeze in the premiums. In the current context I think, as you mentioned, the 5¢ increase instead of 15¢, and 7¢ instead of 21¢ for employers, is reasonable. The CFIB will have better numbers about this. I know that for some companies that are near the $10,000, they won't have access to the rebate. I don't know how big it is, but it's mostly for small companies. I'm sure the CFIB will talk about that.

Mrs. Shelly Glover: Actually, we had officials in.

I was quite surprised to hear that 534,000 companies took advantage of the hiring credit that was in place before, and so we're extending that. It saved them about $205 million which they were able to obviously reinvest in other places: R and D, innovation, or anything else. It's up to them, but it's money saved.

As for the PRPP measures, there was a lot of discussion when the PRPP bill first went forward. Now that we're trying to finish up with the PRPPs, have your companies voiced an opinion on that? Do you have any stories to tell about whether you think that's a great measure or not?

Mr. Martin Lavoie: No, I don't have particular stories, but I did hear some of our members say that they were looking at that as a good alternative. Of course, I would say that the major issues we have with the pension fund are more related to pension fund insolvency issues. Some have to do with the provincial level more than the federal level, but I haven't heard anything against that measure.

Mrs. Shelly Glover: Excellent.

I might do the same thing with Madame Presseault and Mr. Cudmore, the wonderful general accountant at the end of the table, from TSGI.

Do you think the RDSP, registered disability savings plan changes that are in Bill C-45 are good measures? Are they important to families? Will these help families?

Ms. Carole Presseault: We think the RDSP is excellent. We've participated in consultations leading up to the proposals included in budget 2012, and absolutely, on the surface, we think this is a very positive impact. Of course, we would like to see things go a bit further. We recommend, for example, rollover options for RSPs. Right now, our rollover options are just for RESPs. We've heard back from some of our members who serve that community very well.

As constructed now, the RDSP poses some challenges. It is inaccessible, I would say, for those individuals who become disabled at an older age in life. For example, for those who are

[*Translation*]

living with multiple sclerosis or

[*English*]

muscular dystrophy, it would not be helpful, but on the surface, yes, it's a good step.

Mrs. Shelly Glover: That's good feedback. I appreciate that. We'll take that into consideration for future.

Did you have any comments about the RDSP changes? Do you think those will benefit your clients?

Mr. Ken Cudmore: No, I don't have any comments on that.

Mrs. Shelly Glover: That's fine.

Madame Presseault, we've met before on tax measures, on how important it was for this government to address tax loopholes. In the bill, we addressed tax loopholes.

[*Translation*]

The Chair: Could you please ask your question?

[*English*]

Mrs. Shelly Glover: Do you have any comments about the tax loopholes changes we're making?

Ms. Carole Presseault: Well, there are a number of measures. I'd like to address the gaps, the pieces of legislation that are not in the bill. They are what we've been looking at as the grey areas. Those have not been legislated and we will welcome the technical tax bill when it comes forward. I think that's going to be an important one.

The Auditor General talked about 400 unlegislated tax measures. We still have to address that backlog.

Mrs. Shelly Glover: The ways and means motion was tabled.

Ms. Carole Presseault: Yes, we've taken notice that the ways and means motion has been tabled.

I do want to say something about PRPPs.

The Chair: Very briefly.

Ms. Carole Presseault: Very briefly, we do support the introduction. It's going to start filling that big, wide gap between public and private pension plans, but certainly we are supportive of PRPPs. Now we have to get provinces to adopt the legislation. We have to get employers choosing and offering PRPPs as well.

The Chair: Thank you, Ms. Glover.

I'm going to finish with the final round.

Perhaps I'll follow up with Mr. Cudmore. In your opening statement, you talked about the fact that you worked with the NRC's IRAP. Do you see IRAP as a good federal program?

Mr. Ken Cudmore: Yes, IRAP is a wonderful program. It's one of the best ones I've seen with the National Research Council. It's unfortunate that it doesn't have more funding.

The Chair: Funding was announced in budget 2012. I assume you see that as a welcome investment in terms of the budgetary funding.

Mr. Ken Cudmore: Do I see that as what?

● (1655)

The Chair: Do you see that as welcome in terms of the funding increase in budget 2012?

Mr. Ken Cudmore: Yes, that is a very good thing. I think that IRAP, of course, only helps small and medium-sized corporations, not large ones, but it's very positive, yes.

The Chair: Mr. Lavoie, would you agree that the NRC's IRAP is a good program?

Mr. Martin Lavoie: Yes, we do agree. It's not accessible for companies with more than 500 employees, but it's good for what it is designed to do.

The Chair: That's certainly what I hear universally from businesses.

I want to read a couple of statements from the budget document with respect to the findings of the Jenkins panel which found:

> Relative to peer countries, Canada has an over-reliance on tax incentives in the mix of federal support for business research and development compared to direct expenditures that support innovative firms and public-private research collaborations.

The budget document set out the key recommendations of the Jenkins report, one of which is:

> Shift resources from indirect support through the Scientific Research and Experimental Development (SR&ED) tax incentive program to direct forms of support, including the Industrial Research Assistance Program.

The budget document went on to state:

> Economic Action Plan 2012 begins to deliver on this commitment, announcing $1.1 billion over five years for direct research and development support and making available $500 million for venture capital.

The logic here is fairly clear. We have a program. The single largest federal program supporting business R and D in Canada is the SR and ED program. It provided over $3.6 billion of taxpayer funds in 2011. The rationale is to move some of that taxpayer support to more direct funding programs like IRAP.

As both of you gentlemen know, governments have to make decisions in terms of opportunity costs. We can't fund everything. Money doesn't grow on trees in Ottawa. We have to make decisions. The decision was made to move some of that very generous taxpayer support for R and D from indirect support like SR and ED into direct programs like IRAP.

Do you disagree with that overall approach? Give me your reaction as an organization and as an individual.

We'll start with Mr. Cudmore and then go to Mr. Lavoie.

Mr. Ken Cudmore: I think another report that should be looked at is the MacIntosh report. Professor Jeffrey MacIntosh wrote it in March of this year in commentary to the Jenkins report. One of the things he talked about was whether or not direct investment was really the way to go. His studies would indicate that even very sophisticated investors have a very difficult time in getting it right and picking the right winners. Whenever governments play the position of making direct investments, they are investors, and I don't think we have much hope of them ever making as good decisions as the market will make.

The Chair: Is your view that, of the two choices, you would keep the funding with SR and ED and not increase funding for IRAP? You can't do both.

Mr. Ken Cudmore: The IRAP funding that you did was only $115 million of new money. That's very little of the $1.5 billion you took—

The Chair: A part of over $1 billion of funding plus $500 million for venture capital.

Mr. Ken Cudmore: I think we have to see whether that's an effective way of dealing with it. Again you're asking the government to be an investor. Governments have never proven themselves to be particularly adept investors in any type of private enterprise.

The Chair: Okay.

Mr. Lavoie.

Mr. Martin Lavoie: My first observation is it is true there may be a greater imbalance between direct and indirect support in Canada. What I don't have is evidence that a more balanced approach would necessarily have more business R and D expenditures in Canada.

My second observation is that part of this imbalance was actually created in 2006 when we got rid of a program called technology partnerships Canada, which was providing $350 million a year in direct R and D support. There have been a lot of problems with this program, including the picking winners issue. The Auditor General has made several reports about it and we decided to get rid of it. Part of this imbalance was created right there.

We kept some of it under SADI, but there's still a gap. I want to be cautious here because there's going to be 2,600 companies impacted by the ITC rate reduction and I don't think any direct support mechanism is going to be accessible for these 2,600 companies.

The Chair: My time is running out here. Regarding the $3.6 billion of taxpayer assistance in 2011, you mentioned you are going to submit a list of companies and their concerns in terms of funding they may lose. Could we as a committee have a list of all innovations that have occurred as a result of this very large federal taxpayer investment?

Mr. Martin Lavoie: Do you mean among our members?

The Chair: Yes.

Could you do the same, Mr. Cudmore, if you have any information the committee could consider? Of that big, broad public policy debate, we as parliamentarians have to justify to taxpayers, including the Canadian Taxpayers Federation which is in the room right now. The $3.6 billion is an awful lot of taxpayer money. The Jenkins panel came out with a specific report, which you two disagree with, but then you have to argue your case with very specific examples in terms of what types of innovations have actually happened as a result of business investment, as a result of the SR and ED program.

I'd like that information from both of you, okay?

● (1700)

Mr. Ken Cudmore: Thank you.

The Chair: Thank you.

I want to thank all our witnesses for being here today, for responding to our questions, and for their presentations. If you have anything further, please submit it to the clerk and we'll ensure all members get it.

We will suspend for a few minutes and come back for the second panel. Thank you.

● (1700)

(Pause)

● (1705)

The Chair: I call this meeting back to order.

This is the 89th meeting of the Standing Committee on Finance. We are continuing our study of Bill C-45, A second Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures.

For our second panel this afternoon, I would like to welcome four individuals.

First of all, representing the Canadian Federation of Independent Business, Ms. Corinne Pohlmann, welcome to the committee. We also have a second organization, the Canadian Labour Congress, with Ms. Angella MacEwen. Welcome to the committee. We have Mr. Gregory Thomas from the Canadian Taxpayers Federation. Welcome. We are expecting Mr. Albert De Luca, partner with Deloitte & Touche.

You each have five minutes for an opening statement, then we'll have questions at the end of the last statement.

We'll start with the CFIB.

Ms. Corinne Pohlmann (Vice-President, National Affairs, Canadian Federation of Independent Business): Thanks for the opportunity to be here today. CFIB is a not-for-profit, non-partisan organization representing more than 109,000 small and medium-sized businesses across Canada who collectively employ more than 1.25 million Canadians and account for $75 billion in GDP. Our members represent all sectors of the economy and are found in every region of the country.

The focus of my remarks will be on three provisions of Bill C-45 that are important to small business owners. They are the EI hiring credit, pooled registered pension plans, and changes to public sector pensions.

You should have a slide deck in front of you that I would like to walk you through in the next few minutes.

Measures that address barriers to small business growth are very important as they, more than anything, will help Canada's overall economy and job creation.

As you can see on slide 2, payroll taxes have, by far, the greatest impact on growth. Why? Because they are a tax on jobs. It must be paid regardless of any profit. This is why EI remains a key issue for us and it is why we continue to push for the extension and expansion of the EI hiring credit for as long as EI rates continue to go up, as they did in 2012 and will again in 2013.

Very recently, we asked specifically about the EI hiring credit and found that almost two-thirds said it was somewhat or very effective in helping to—

The Chair: I'm sorry, Ms. Pohlmann.

I'm told the translators are having a hard time keeping up. If any of you have an opening presentation that we could give them, that would help as well.

Ms. Corinne Pohlmann: I did provide a presentation to them.

The EI hiring credit was seen by 64% as being somewhat or very effective in helping them to maintain or strengthen business performance. It does this by offsetting at least some of the EI premium increases when businesses grow their payroll. This is especially important for smaller firms who tend to be more sensitive to these kinds of cost increases. While small business would prefer to see EI premium rates frozen, the EI hiring credit does provide some relief to the smallest firms.

However, I want to mention that we have some concerns with the suspension of the Canada Employment Insurance Financing Board Act and the dissolution of the board. We understand and support the need to cut costs, and it makes sense to suspend the board's operations while it has nothing to do. However, our interest has always been that there be an EI account independent and separate from general government revenues, so that surpluses that accumulated in the past, to the tune of $57 billion, could never again be spent on other government priorities. While we understand the practicality of suspending the board's operations, we insist that EI continue to be treated as an account separate from general revenues.

The next part of Bill C-45 that is of interest to small business relates to provisions intended to create pooled registered pension plans. This is important as the majority of small business owners don't have a retirement plan for themselves or their employees. Why is that? Most small business owners will tell you that having a retirement savings plan is too expensive and too complicated to administer.

We believe that PRPPs will start to address some of those issues. We recently asked small business what features they would find most attractive in a PRPP. We found that giving employers a choice, keeping costs low, having no payroll taxes on the employer contributions, and minimizing the paperwork were all equally important. In theory, with this framework in place, PRPPs should address these issues to some degree; however, it will be up to the provinces and financial institutions to make it attractive to small firms. The good news is that just over one-third would consider offering a PRPP and another 30% might become interested once they have more information. Offering more options for retirement planning is welcomed by CFIB and our members.

The last provisions of Bill C-45 that I want to focus on are changes to public sector pensions. We welcome these changes, as they start to address some of the unfairness and unsustainability of public sector pensions. Let me illustrate why this is a concern for small business owners. More than half, 58%, of small business owners said they did not feel they had sufficient disposable income to take advantage of the various retirement savings options available to them.

Furthermore, more than half do not believe that they will be able to retire comfortably until they are well past the age of 65. Contrast this with the fact that in the last five years, nine out of ten new federal public sector pensioners retired before the age of 65 with guaranteed retirement incomes. Much of this is being paid for by those very same taxpayers who cannot afford to put money toward their own retirement, partly because they have to pay taxes to help pay for government pensions.

Last year, CFIB launched a pension campaign calling for greater transparency of public sector pension liabilities and fairness for taxpayers. Over the last year we have collected over 55,000 action alerts from small business owners concerned about the state of Canada's public sector pension system. Many of you have likely received these in your offices. These small business owners are particularly concerned with the sustainability of the federal pension plan, as it has an unfunded liability estimated to be somewhere between $140 billion and $220 billion.

We're pleased to see that Bill C-45 will start to address these issues by gradually moving federal public sector workers to a 50-50 split in contributions from their current 37% share. This will also bring the federal public service more in line with most of its provincial counterparts. This measure was well supported by small business owners.

We also support the provision of Bill C-45 that will move the retirement age to 65 for new employees as of 2013. Many other organizations, including federal agencies like the EDC and Bank of Canada, have also made changes to address their pension issues by providing a different type of pension plan to new employees that includes increasing retirement age to 65. It is good to see the federal public sector is also moving in this direction. We believe that these provisions are a good start in addressing some of these issues.

All the provisions I have discussed here are important to small business. As such, we would want to see them implemented as soon as possible.

Thank you.

● (1710)

The Chair: Thank you very much for your presentation.

We'll now hear from the Canadian Labour Congress.

Ms. Angella MacEwen (Senior Economist, Social and Economic Policy, Canadian Labour Congress): On behalf of the 3.3 million members of the Canadian Labour Congress, we want to thank you for this opportunity to present our views regarding the 2012 budget implementation bill.

The CLC brings together workers from virtually all sectors of the Canadian economy, in all occupations and in all parts of Canada.

Bill C-45, division 22, proposes to temporarily suspend the Canada Employment Insurance Financing Board, the CEIFB. The suspension of the CEIFB makes sense, as it was constrained in setting rates by subsection 66(7) of the EI act, which limited rate increases or decreases to 0.05% of insurable earnings.

The CLC never agreed with the CEIFB as it was established, because it failed to include input from premium payers who are employees and employers.

In past submissions to the government and to parliamentary committees, the CLC called for a separate employment insurance account, governed by an EI commission or similar body, established at arm's length from the federal government. Similar to the CFIB, we are concerned with the surplus that was taken. We argued that the EI account and any surplus funds placed in a reserve fund or premium stabilization fund should be used only for EI purposes.

The fact that the EI program is paid for by employer and worker premiums has not been adequately reflected in the governance of EI finances. If we consider the $57 billion that was taken from the account without the consent of premium payers, the account would be in a surplus position right now. The government would be less concerned about cutting back EI programming, and EI would be more effectively performing one of its key roles as an automatic economic stabilizer.

When the CEIFB is reinstated, the premium payers, who are the employees and employers, should have closer input into the premium-setting process, and effective joint control with the government over the management of any reserve funds and the use of any surpluses.

As well, we want to comment on how the EI financing system now in place is not operating in an appropriately counter-cyclical way.

Even though the federal government directly covered the cost of the EI measures in Canada's economic action plan, including the cost of the premium freeze during the recession, training benefits, work sharing, and the temporary five-week extension of regular benefits, the EI operating account went into deficit because of the large increase in the cost of regular EI benefits caused by an increase in the national unemployment rate from about 6% before the recession to a high of 8.6% in 2009 and continuing high unemployment since the worst of the recession. It's been at about 7.4% for the past year.

Premiums were frozen rather than reduced during the worst of the recession, and are now rising during a very weak recovery. While premium revenue is forecast to exceed EI expenditures in 2012, it will have to continue to do that in order to pay off the deficit of $9.2 billion that was in the EI operating account at the end of 2011.

The stage is set for continuing premium increases for several years in order to eliminate the accumulated deficit. Again, this is the case notwithstanding the huge EI surplus that was accumulated before the recession.

We believe the federal government should pay into the segregated EI operating account an amount equal to deficits in the account incurred from 2009 until such time as the account is segregated, and should cover any future deficits incurred in the account until such time as the national unemployment rate falls below 6.5%.

I would also like to speak to an unexpected tax change in Bill C-45. Bill C-45 clarifies the taxation of RCAs, closing an unintended loophole. At the same time, Bill C-45 extends pension-splitting to RCAs.

Budget 2012 states:

> Under the Income Tax Act, a retirement compensation arrangement (RCA) is a type of employer-sponsored, funded retirement savings arrangement. RCAs are normally used to fund the portion of a higher-income employee's pension benefit that exceeds the maximum pension benefit permitted under the Registered Pension Plan (RPP) contribution limits.

This is effectively a tax break for wealthy seniors that will have very little benefit for most Canadians. Pension income splitting provisions do not benefit unattached seniors, who are 30% of all Canadians over the age of 65 and who are those most vulnerable to poverty, and there is no benefit to senior couples whose income is so low that they already pay no income tax.

The amount of tax savings from pension income splitting depends on the income level, so the small proportion of affluent seniors receive the largest reductions, with the majority of middle-income seniors seeing only a modest reduction, if any. This is especially true of allowing pension splitting on RCAs, into which many seniors will not have had the resources to contribute.

● (1715)

As well, different types of pension splitting have different impacts. Allowing spousal RSPs encourages the higher earning spouse to transfer the funds into the control of the lower earning spouse. Allowing the splitting of pension income for tax purposes reduces the couple's tax burden in the current year, but does not require funds to be shared with the lower earning spouse. An example of where this might matter is in the case of subsequent divorce, or the death of the higher earning spouse. Where pension splitting was encouraged via spousal RSPs, the lower earning spouse is far better off than in other forms of pension-splitting.

A thorough gender-based analysis of the budget and budget provisions, such as GBA+, as outlined on the Status of Women website, would illuminate the differential gender impact of such apparently gender neutral policy decisions.

The Chair: Ms. MacEwen, we must ask you to conclude.

Ms. Angella MacEwen: I have one more paragraph.

Pension-splitting measures cost $3.2 billion in 2010 alone. We argue that these tax expenditures would be better directed at returning the OAS to age 65, and improving the GIS so that all seniors in Canada are above the poverty line.

Thank you.

The Chair: Thank you for your presentation.

We'll now hear from Mr. Thomas.

Mr. Gregory Thomas (Federal and Ontario Director, Canadian Taxpayers Federation): Mr. Chairman, we appreciate the invitation of the committee to appear today.

The Canadian Taxpayers Federation is Canada's largest taxpayer advocacy group, with over 70,000 supporters from coast to coast, and 22 years of history advocating for less government, lower taxes, and more accountability from our elected officials.

We welcome the reforms contained in Bill C-45 as they apply to public sector pensions. We believe that increasing the retirement age for new hires to 65 is a good first step toward making government employee pensions at the federal level more sustainable. We salute members of all parties for taking leadership by reforming their own pensions and speeding that legislation to royal assent. It was a long multi-decade slog for us, and you folks managed to get the job done in 48 hours when the chips were down. That was inspiring to watch.

With regard to pensions, if you look at C.D. Howe Institute's estimates and the public accounts, you see that unlike the Canada pension plan, the government employees' pensions are completely funded out of general revenues. There are no pension funds set aside to secure the retirements of Canada's federal government employees. We believe that Parliament needs to have a serious look at this.

The government was able to put the Canada pension plan on a sustainable basis. Through reforms to old age security, by raising the retirement age to 67, and by giving people an incentive to stay in the workforce until age 70, you're also putting old age security benefits on a more sustainable basis. We think you need to look at this for government employees.

With regard to EI, we have a lot of sympathy for the arguments made by the Canadian Labour Congress. They rightfully feel that to have $57 billion of employment insurance funds snafued by government in order to apply them to deficit reduction is a shocking and upsetting development. The seizing of these notional pension surpluses in the 1990s falls under the same banner. We think that parliamentarians, people with their feet on the ground who have to go home on the weekend and explain all of this to their constituents, need to be very wary of actuarial assumptions and projections, notional surpluses, and these deficits that arise. When you move away from having individuals save for their own retirements, innocent people are subject to the manipulations of government and the financial system, and it doesn't serve anyone.

With regard to the EI funding, we note that for every employee up to the average industrial wage, employers and employees who are fully in the system pay over $2,000 combined into the EI fund each year. Many people will never claim against the EI fund, and yet you have entire regions of the country where people are multiple claimants, claiming more than three times in the last five years. It's particularly unfair in the Ontario labour market, where it's very difficult for most people who are working to even qualify for EI. We ask why you don't set up a plan similar to the Canada pension plan, where employees and employers contribute to a rainy day fund that individual workers can access directly.

Thank you.

● (1720)

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

We'll go to Mr. De Luca.

Mr. Albert De Luca (Partner, National Leader, Global Research and Development, Government Incentives, Deloitte & Touche): Thank you.

I apologize for not having a document handy, but I was invited yesterday to attend. There is a submission from Deloitte, which was filed on September 13.

My opening remarks relate to the R and D incentives program. I am the Canadian leader of the global incentives and investment attraction for Deloitte. I also preside over the board of the Quebec Industrial Research Association, l'ADRIQ. It's in this capacity that we're in contact with industry right across the country. I wish to reflect industry's view on the changes proposed in relation to SR and ED.

We think we need to position the incentives discussion in the wider discussion of innovation investment attraction or preservation. R and D incentives certainly serve to help increase productivity. We would agree with that, but R and D should also serve to increase economic wealth by creating the next generation of technologies.

Canada is attracting natural resource investments. Unfortunately, the related innovation investment is not being made, or at least not entirely. Canada, therefore, is not as attractive compared with the rest of the world in its strategy of attracting, preserving, or creating the next large technology company.

Canada's SR and ED regime has been widely viewed as an important positive factor in encouraging innovation investment in Canada. We believe that the proposals to reduce government support make Canada’s incentive regime less attractive than those of competing countries that are improving their incentive programs. In fact, Canada’s ranking in tax incentive generosity has already declined from third to fifth for small companies, and from ninth to thirteenth for larger ones, from 2008 to 2012.

With the changes announced in the budget, we anticipate that these rankings, especially for large companies, will drop even further. Our recent post-budget survey of Canadian companies confirms that reactions to the reduction in government support through the SR and ED program have generally not been positive and suggest that Canada’s R and D tax regime will be less attractive after the changes.

In our view, the elimination of incentives for capital expenditures does not recognize that capital investments are needed to perform R and D and that certain industries will be put at a disadvantage as a result of this measure. The software industry, for example, requires computers and related equipment in order to undertake R and D. Rather than completely eliminating all capital costs, we recommend that the government distinguish between short-term capital expenditures, such as computers and related equipment, and longer term ones, and treat the short-term capital expenditures in the same manner as material costs would be treated, as eligible for SR and ED credits.

In addition, rather than introducing a broad elimination of eligibility of capital expenditures for SR and ED, we recommend the introduction of a limitation process. For example, an approach similar to that for shared use equipment could be considered. Alternatively, the proposals could introduce a cap on the amount that would qualify.

Should the proposals relating to capital expenditures be retained, we would recommend that the draft legislation be refined to introduce greater certainty. I won't go through the series of notes in respect of the drafting itself, but there are a number of them that create some uncertainty as they relate to the legislation as currently drafted.

As we noted in our pre-budget 2012 submission of October 2011, we believe that Canada’s R and D tax regime should be improved by allowing the tax credits to be at least partially refundable for all businesses, as is the case in many countries and in Canadian provinces. The U.K., for example, has decided not to eliminate the program, but to make the tax credit entirely refundable for all companies. France is doing the same.

● (1725)

The Chair: About one minute, Albert.

Mr. Albert De Luca: Expanding the refundable credit to all businesses would more appropriately reward risks inherent in carrying out SR and ED in Canada, as opposed to applying credits only to profitable years when the credits are not as necessary. Long-term planning is made more difficult for many organizations, particularly those that operate in cyclical industries and cannot easily predict when they will have sufficient corporate tax liability to benefit from the SR and ED tax credits.

Thank you.

The Chair: Thank you very much for your presentation.

We will begin members' questions *avec M. Caron, s'il vous plaît*.

[*Translation*]

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

I will begin with Ms. Pohlmann.

The tax credit for hiring is an interesting measure. We are talking about $1,000 for each new employee. That money comes from the employment insurance fund. We often heard that about 530,000 businesses took advantage of tax credit in 2011. Yet there weren't 530,000 new jobs created in Canada—if we are talking about net numbers—in 2011. That's what I have a problem with. I asked the department representatives who appeared whether the businesses that took advantage of that tax credit had hired and retained employees over the whole year. They told me that was possibly not the case.

Tax credit is very attractive for businesses, but as far as job creation goes, do you really think that each of the 530,000 businesses who benefited from that measure retained their employees over the course of the whole year?

[*English*]

Ms. Corinne Pohlmann: I think it would be difficult for me to say yes they all did. Having said that, I do believe the purpose of the credit is to encourage businesses to hire new employees, but it's also to encourage them to retain their employees. That's just as important when you're going through a difficult time. It allows them to have at least something so that they perhaps can make that decision to hold on to their employees a little longer. That's the other important element behind why this credit, while small, is important to smaller companies.

[*Translation*]

Mr. Guy Caron: In the last election, the NDP said it was in favour of a tax credit for hiring that would be accompanied by a retention tax credit after a year.

Do you think that measure would be better for creating jobs that are more permanent and stable?

[*English*]

Ms. Corinne Pohlmann: Again, it certainly would be helpful to have something that would encourage people to retain their employees.

At the same time, businesses have to go with the cycle. They have to understand what they need from time to time. It's not always easy for every single small firm to hold onto every employee they bring on. We always say small businesses are the first to hire and the last to fire. They'll do anything they can to hold onto their people. We saw that through the recession very clearly. That type of incentive may also be helpful, but I think the way the EI hiring credit is now, it has also been useful for a lot of the very small companies.

● (1730)

[*Translation*]

Mr. Guy Caron: Thank you.

Mr. Thomas, we briefly discussed MP pensions, and I don't want to necessarily rehash that, except for the following point. The NDP suggested that an independent group look into not only the MP pension plans, but also their salaries.

Do you think such a measure would be positive in terms of how Parliament manages the issue of MPs' and senators' benefits?

[*English*]

Mr. Gregory Thomas: It is our long-standing position that parliamentarians need to continue to set their own salaries and make these decisions, because ultimately, they are accountable for the decisions. We survey our members on a regular basis in this regard, and our supporters, whom we survey, consistently believe that parliamentarians should be accountable for their wages, their benefits, their budgets. Therefore, they've historically been very resistant to the idea of getting any kind of expert commission.

[*Translation*]

Mr. Guy Caron: My time is limited, and I would like to ask Mr. De Luca one last question.

Representatives from TSGI Chartered Accountants and from Canadian Manufacturers and Exporters told us that there were serious issues with R&D tax credit. I would like to know where the Jenkins report went wrong. This is not the first time we hear people talk about these problems, which stem from the Jenkins report. That's at least what the government is claiming.

What is the main mistake in the Jenkins report when it comes to its assessment of tax credit's usefulness?

Mr. Albert De Luca: The Jenkins panel still did some considerable work in terms of trying to better understand the impact of incentives on improving innovation in Canada. However, there are two or three things that the report did not fully accomplish, at least according to what we have clearly heard from people in the industry.

The first item has to do with meeting with representatives from the major Canadian companies in terms of innovation investment in order to establish a transparent, comprehensive and appropriate dialogue to better understand how that affects them directly. It is important to understand that more than two-thirds of Canadian companies are foreign-owned. So that means that decisions are not fully made in Canada. As I sometimes say, going to the movies is a bit more expensive in Canada, but the movies are just as good.

The Vice-Chair (Ms. Peggy Nash): Thank you, Mr. De Luca.

[*English*]

Sorry, we'll come back in another round of questioning.

Mr. Hoback.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Madam Chair.

Thank you to the witnesses for being here this afternoon. It's good to see you. I really appreciate your taking the time out of your busy schedules to be here. I'd like to talk to all of you, but I only have five minutes. I'm going to focus on a couple of you and get a feel for what your organizations are saying about a few issues.

I'll start off with you, Ms. Pohlmann. Roughly how many members make up the Canadian Federation of Independent Business?

Ms. Corinne Pohlmann: We have approximately 109,000 members.

Mr. Randy Hoback: You have 109,000 members. You're in constant contact with your members through surveying in different ways. What would they expect the public service pension to be like? What do they think would be a fair pension plan for the public service? Should it be better? Give us your opinion of what your members think that should look like.

Ms. Corinne Pohlmann: Our members fundamentally believe that the overall public sector pensions and compensation should follow what's in the private sector. I think when you look at similar positions, especially at the mid-level, there are certain advantages to working in the public sector over working in the private sector. One of the big areas is that of benefits, specifically pension benefits.

These changes were a great start, but we would like to see, and we'll need to push for, such things as looking at defined contribution plans, perhaps extending the retirement age to 65 for all government employees over time, similar to how the OAS changes are being implemented. The changes wouldn't necessarily impact people who are close to retirement now, but perhaps would impact those who are still maybe 15 to 20 years away from it instead of only affecting those who start in 2013. Those would be a couple of things.

We also believe things like the bridge benefit might be something to be looked at. Those are some of the things that are just not available in the private sector that perhaps need to be looked at a little more closely in the public sector.

● (1735)

Mr. Randy Hoback: Mr. Thomas, roughly how many members does your organization have, and what would be their expectations of the public service with regard to pensions? What do you think they would like to see? What do you think they would consider to be a fair pension plan for our public service employees?

Mr. Gregory Thomas: We have about 75,000 supporters.

We note that only about 12% of Canadians outside of government now have a defined benefit pension plan.

We believe that salaries, benefits, and retirement savings should be competitive for government. The government has to hire qualified staff if they want good staff. They want them to be well compensated, but they shouldn't make more than the rest of us do.

We think one of the ways governments have attracted employees is by offering all these back-end benefits that look cheap to government. They say that they will pay people less now, but they'll have pension benefits.

There are over 100 members of the Ontario teachers' pension plan who are at least 100 years of age. There are over 1,000 who are at least 90 years of age. There are 10,000 who are at least 80 years of age. The Ontario teachers have compiled great statistics, but the average retirement age this year was 59. Many of these people will be retired for longer than they actually worked as teachers.

That's the trap government is falling into by offering guaranteed indexed income for life to people starting when they are as young as 55. It's terrific that you're moving to start to deal with that. We think you should put things on more of a cash basis. Maybe pay your staff what you need to get them to work for you, but don't offer them benefits 40 years down the road that the rest of us can't afford.

Mr. Randy Hoback: Again, this depends on what sector you're in. For example, one sector has to pay more to attract people to it versus what another sector does. I think if you look across the wide variety of jobs among the government sector, you would use pay as the reward for the higher demand jobs versus the lower demand jobs. Is that right?

Mr. Gregory Thomas: Yes, and let's face it. In some parts of Canada the government is the highest paying employer in the region. In other parts of Canada the government is scraping to find employees, because the economy is hot and they can't pay enough.

I think government has to be more flexible about getting the people it needs to operate.

Mr. Randy Hoback: Mr. De Luca, in your presentation you talked about our competitiveness to attract investment going from third to fifth to ninth to thirteenth. I'm curious. What would those numbers look like if we didn't lower our corporate tax rate or if we didn't have the incentives to relocate here? I know it's speculation, but can you give us an idea of what that would look like? Also, what would a carbon tax do to those numbers?

The Vice-Chair (Ms. Peggy Nash): Mr. Hoback, sorry, you're out of time.

Mr. De Luca, if you'd like to answer, we have time for a very brief response.

Mr. Albert De Luca: The concept you're referring to takes into consideration the total tax framework. We're not suggesting that lowering the tax rates is not a good attractive feature. In fact, we think it is.

The problem, however, is in the fact that risks and rewards are not timed properly and the fact that we're competing against the large projects, outside natural resources, because we're quite competitive there. You can understand the impact.

The Vice-Chair (Ms. Peggy Nash): Thank you, Mr. Hoback.

Go ahead, Mr. Brison.

Hon. Scott Brison: Thank you, Madam Chair.

I'd like to begin with Ms. Pohlmann. Under Bill C-45, the 2012 hiring credit does not factor in the 2011 hiring credit calculations. The calculation under Bill C-45 is based on employers' 2011 EI premiums before the hiring credit. As a result of that, for instance, a small company with 10 employees, earning $39,000 each in salary, would pay premiums of $9,445 in 2011. In 2012, that would go up to $9,718. Would you acknowledge that small businesses, even those that qualify for the 2012 hiring credit, would still see their EI rates go up by 7¢ per $100 contribution in 2012 compared to what they paid in 2011?

● (1740)

Ms. Corinne Pohlmann: Yes, that is true. The fact is the increase still applies even after the credit is in place, but we also feel at least it's some sort of credit that is available to small business owners. There is a bit of a break given to them when they do their hiring. But that is one of the limitations of the credit the way it's designed right now.

Hon. Scott Brison: Beyond that, there is a disincentive for those businesses that break the $10,000 maximum. There's an actual disincentive to potentially increasing wages on one hand or potentially increasing the number of employees on the other hand. To give an example, employers who had 10 workers, again earning $39,000 each, would have qualified for the 2011 hiring credit, but if they give a wage increase of 1.3% in 2012, this would push the employers up over the $10,000 maximum and they would not qualify for the 2012 hiring credit and their EI rate in 2012 would actually rise by 12¢ per $100.

What should we do to address this disincentive for a small business to actually hire more people? There would be a number of small businesses in that category which would be teetering on the edge of that threshold.

Ms. Corinne Pohlmann: There's a couple of things. We have strongly recommended for the last year or two to have the EI hiring credit expanded as well as extended beyond 2011 into 2012 and 2013. When I say expanded I mean it should be available to firms with more than $10,000 in EI premiums, perhaps $15,000 or whatever, and perhaps it could be increased gradually every year to make sure those folks are always captured. We would like to see that threshold expanded.

Another alternative, so that everybody would benefit, would be to actually freeze EI premiums. Freezing EI premiums at a difficult time would be one solution. While that would add to the deficit in the EI account, it would just add a couple more years of paying down that deficit. Instead of having the deficit paid off by 2015, it would be paid off by 2017-18. We've done some modelling on that and that is what we've determined over time. Another option would be to freeze EI premiums.

Hon. Scott Brison: For the government not to raise EI premiums by the scheduled amount would be a $600 million boost to the economy, whereas the hiring credit for small businesses is actually only $125 million. Unemployment rates, as you said Ms. MacEwen, are still higher than they were pre-recession and are significantly higher depending on where you are in the country. There's a real gap.

Thank you very much.

Madam Chair, do I have more time?

The Vice-Chair (Ms. Peggy Nash): You have one minute.

Hon. Scott Brison: On SR and ED, Mr. De Luca, thank you very much for your intervention. We heard earlier today from Mr. Cudmore, an accountant in Calgary who used to be at the University of Calgary, about the impact on the oil and gas sector and research in the oil and gas sector and the negative impact.

Do you find the changes to SR and ED potentially risking the capacity for businesses, entrepreneurs and scientists to actually prioritize research and giving that control to big government? There seems to be a shift with the Conservatives towards the bureaucracy making these decisions as opposed to the scientists and the entrepreneurs actually in the field. What would your comment be in terms of the potential risk to innovation?

Mr. Albert De Luca: My comments are based on surveys we have performed. Industry has said very clearly that it is in the best position to decide where the funds are to be invested. That has been said time and time again and very clearly, as much as it also indicates that it's perfectly acceptable for a government to identify certain strategic areas of interest and that the related funding of those should be governed centrally, but as it relates to determining how the investment should be made.

● (1745)

The Vice-Chair (Ms. Peggy Nash): Thank you, Mr. Brison.

Mr. Jean.

Mr. Brian Jean: Thank you, Madam Chair, and thank you to the witnesses for coming today.

Mr. De Luca, I remember hearing your proposal. It went by pretty quickly, but are you suggesting that we get into picking more winners and losers, that the government do more direct funding? You're shaking your head in disagreement.

Mr. Albert De Luca: No, no. I'm shaking my head in disagreement indeed.

We are not suggesting that there not be any direct funding in strategic areas, for strategic purposes, and for strategic periods of time.

Mr. Brian Jean: Are you familiar with the MacIntosh report in response to the Jenkins report?

Mr. Albert De Luca: No.

Mr. Brian Jean: I'm wondering whether you would agree with this. I'm not sure of the page of the report but it is under part V. It refers to the difficult task of picking winners and losers. I quote:

> One of the chief difficulties with direct assistance is that we simply cannot have much confidence that government bureaucrats are well positioned to pick companies that are likely to succeed in the commercialization sweepstakes.

Would you agree with that?

Mr. Albert De Luca: Yes.

Mr. Brian Jean: Would you also agree with this statement on the next page in relation to restricting the SR and ED to small firms:

> In 2007 (the last year with complete data) about $1.3 billion in SR&ED credits was paid to CCPCs, while $1.8 billion was paid to “large firms.” The average payment to a large firm was $700,000,136 implying average SR&ED-eligible expenditures of somewhere on the order of $3 million. Restricting SR&ED credits to CCPCs will immediately reduce the SR&ED budget by about 60 percent — which is likely to result in far more substantial savings than implementation of the Jenkins Panel’s recommendations.

Would you agree with that?

Mr. Albert De Luca: I'm not sure about the 60%, but in general, yes, I would agree with that.

Mr. Brian Jean: Do you think that larger firms should not be eligible for SR and ED credits, and that it should be just smaller firms?

Mr. Albert De Luca: No. The anchor tenants in Canada are important investors in innovation, and we have to acquire more of those. One of the ways of doing so is through SR and ED incentives.

Mr. Brian Jean: Would you be surprised to find out that the Silicon Valley has pretty much the same number of failures within three to six years as the IT sector in Canada? It's pretty much the same.

Mr. Albert De Luca: No, I'm not surprised at all. That's common knowledge.

Mr. Brian Jean: Whether the SR and ED is effective or not, in essence it has the same number of failures over time even though the SR and ED credit is obviously available in a different nature in the United States.

Mr. Albert De Luca: It's a long sentence, but I guess the way I'll answer it is to say that the SR and ED is an incentive for taking risks.

Mr. Brian Jean: Exactly, but whether or not the SR and ED is effective is the question, because the same failures happen in Silicon Valley which doesn't have the same system as we have here, and obviously it's a much more robust industry.

Mr. Albert De Luca: Apples and oranges.

Mr. Brian Jean: That is my point actually. The same failures. Apples and oranges.

Ms. Pohlmann, I love you guys. I have to be honest. I was a member of the CFIB for many years. Since I've been an MP, every time I get responses from you in my office, I write back to each and every one my constituents who writes to me. I find these to be very helpful. In fact, I find them to be so helpful that I want to spend my last two minutes going through your survey.

I notice that 64% of your members said that the EI hiring credit was very or somewhat effective, so your members like this very much.

Ms. Corinne Pohlmann: Absolutely, they like this. Yes, you can say that.

Mr. Brian Jean: Looking at the PRPP, over 78% say they don't offer a retirement savings plan to their employees because it's too expensive; it's too complicated and burdensome; it's uncommon to have such benefits in their sector and they don't know where to start; there's no suitable plan for their business; and the financial risk exposure to their business is too great.

Those are all the major reasons. It looks to me as if the most significant answer by far was those things I've indicated.

The Chair: You have about 30 seconds.

Mr. Brian Jean: Isn't it fair to say our proposal with PRPP takes care of all of those issues? It really does, doesn't it?

Ms. Corinne Pohlmann: Yes. We're hopeful it will take care of all of those issues. The question now becomes whether the provinces are going to implement it, and whether financial institutions are going to implement it properly.

● (1750)

Mr. Brian Jean: Yes, but it seems like a good proposal from your members.

Ms. Corinne Pohlmann: Yes. We think the framework is a good one.

Mr. Brian Jean: The final question is regarding—and I'm not surprised at all—the number of people in small business who do not believe they can retire until 68 or later.

The Chair: Thank you.

Mr. Brian Jean: It doesn't surprise me.

The Chair: Do you have a question?

Mr. Brian Jean: Certainly we should bring our private sector realities to the public service. Wouldn't you agree with that?

Ms. Corinne Pohlmann: Yes, I would.

The Chair: Thank you, Mr. Jean.

Mr. Marston, please.

Mr. Wayne Marston: I'm going to be focusing my questions primarily on Ms. MacEwen, but we've had some agreement here that surprised me a little. Ms. Pohlmann, when you talked about how the 2015 deadline for taking care of the deficit should be crowded out to 2017, you publicly agreed with the NDP.

Mr. Thomas, you talked about the need for pensions among your group. I agree with you. Twelve million Canadians don't have pensions. I just want to point out my perspective. That may or may not be accurate in Ms. Pohlmann's case, and I can see my friend here is going to proceed a little further on that.

Going to Ms. MacEwen, the reason I raised the pension issue is we have a national pension plan now that the CLC has been promoting an increase to. That to my mind is a way of addressing the problem with less of a complication than the PRPPs. Ms. Pohlmann's right in that there are concerns about whether or not the industry or the provinces will go forward on the PRPPs. At least one province says they don't want to; I think it was Ontario. That may change with the change of leadership. The issue of pensions is obviously very present on everybody's mind.

Having raised that particular point with regard to the increase of CPP, it is a well-known stated position of the CLC and the NDP as well, so I don't think we have go into that and I'll shift gears. It's just that when I heard what sounded like some agreement, I wanted to raise that. I've heard rumours that some folks in the CLC were concerned about the provisions of EI funding that you see in this bill.

I have a connection going back and I should label it. The CLC has 3.3 million members. It was established in 1883. For 14 years I was a president of the labour council in Hamilton.

My point is that the CLC has had a long history of advocating for workers, and in this case we have concerns about EI that I'd like you to address.

Ms. Angella MacEwen: Are you talking about concerns about EI financing?

Mr. Wayne Marston: Yes, within the bill that we're talking about here.

Ms. Angella MacEwen: Right. Our concerns about the financing are that first, just as the CFIB stated, this is one area of agreement where we would like the funds to be separate from the general account. We want to make sure that if there are surpluses they aren't stolen as they were before. The $57 billion in surplus was stolen. I think even before that surpluses were taken away from the account, right? We want it separated and managed in the interests of the premium payers, the employers and the employees. That is what it's there for, to help the labour market function more effectively.

We're concerned that it be separate. Then we're concerned that when or if the board is reinstated, there be a provision for tripartite control of those funds where business and labour effectively have joint control over how the surpluses are managed.

Mr. Wayne Marston: Presumably, the government as well.

Ms. Angella MacEwen: The government has some control, yes.

Mr. Wayne Marston: I wanted to clarify that one point.

Going back to the PRPPs, pension splitting is an issue. You notice I fall back on pensions because I had a lot to do with them for three years as the critic for our party for them. Again I have heard from people in the labour movement who had concerns about that. Do you share those concerns?

Ms. Angella MacEwen: Absolutely. This bill does provide for PRPPs to be subject to pension splitting as well. That's one concern.

We are concerned about pension splitting and the adverse effects of that on low- and medium-income families in terms of where you're putting your tax expenditure dollars. As you say, if you want to make a simple pension plan that employers can offer that's portable between jobs, that's efficient in terms of getting more out of every dollar in CPP. Defined benefit pensions are more efficient to run, and the larger they are.... The CPP is already separate so government can't get their hands on that money and take it. That is controlled in a way that benefits the people who pay into it.

● (1755)

Mr. Wayne Marston: We'd also have to open it up.

The Chair: Please be very brief.

Mr. Wayne Marston: We'd also have to open it up to allow for some of the people who can't get in now to be able to get in, in Mr. Thomas's case.

Thank you, Chair.

The Chair: Thank you, Mr. Marston.

We'll go to Mr. Adler, please.

Mr. Mark Adler: Thank you, Chair.

Thank you, everybody, for being here this afternoon.

I want to start with Ms. Pohlmann.

Mr. Marston was talking about increasing the CPP payments. By doing that, wouldn't business have to pay more into CPP?

Ms. Corinne Pohlmann: Yes.

Mr. Mark Adler: Yes. What would that do to your membership? How would they react to something like that?

Ms. Corinne Pohlmann: They would be pretty unhappy. It's the payroll taxes. As I talked about in the presentation, payroll taxes have the greatest effect on the growth of a business. They pay 50% of the cost of CPP for every employee. To increase the CPP would have a substantial impact, and we have fought against it as much as possible.

Mr. Mark Adler: Far be it from me to be partisan about this, but —

A voice: Part of you would be partisan.

Mr. Mark Adler: Tough but fair.

Presumably, people would be laid off, and there'd be a rise in unemployment. The more costs you put onto business, they're passed through the system, and if the costs are too onerous, people are laid off. Right?

Ms. Corinne Pohlmann: For smaller firms, payroll taxes certainly have an impact on their choices about hiring. I think a lot of them would probably take a second look at whether they could afford to hire someone because now they would have to pay more for that person.

On CPP, the other thing I want to mention is that people who are self-employed pay both shares. When you increase CPP, you're not just increasing it for the employee. For that self-employed person, it's a double increase. They would be required to pay a substantial amount into a system where they want to use those funds to pay into something different than the CPP system.

Mr. Mark Adler: Okay.

Now, Bill C-45 brings in some changes to the public sector pension plan system, bringing it more in line with the private sector. In advance of budget 2012, the CFIB said:

> ...start bringing federal public sector wages and benefits more in line with the private sector. ...federal public sector employees should increase their pension contributions from the current approximate 36% of their pension to 50% over time, which is the norm for most provincial public sector employees.

What is your reaction to the change taking place specifically in Bill C-45?

Ms. Corinne Pohlmann: We support the increase to 50-50. As I said, it's the norm in most other levels of government. It's appropriate for public sector pension employees to be paying 50% of the bill. We also support the increase of the retirement age to age 65 for all new employees.

Mr. Mark Adler: Yes. This would, of course, promote fairness among all workers.

How would these changes lead to greater sustainability for the public sector?

Ms. Corinne Pohlmann: I think increasing the age of retirement to 65 would, hopefully, help cut some of the costs. Putting more of the public sector employees' contributions higher would also help sustain the cost to the system. However, these are small measures at this point. They're a great step in the right direction, but we think more needs to be done in order to deal with some of the sustainability issues coming at us down the road.

Mr. Mark Adler: The extension of the small business hiring tax credit is estimated to save businesses about $200 million in the course of the year. In your estimation, what would businesses do with this extra cash? Would they invest in job creation? Would they expand their businesses? Could you comment?

Ms. Corinne Pohlmann: Yes. We've asked about what they would do. Generally, it's exactly that. They invest it back into their business. Sometimes they add extra employees, Sometimes they buy new equipment. Sometimes they pay down debt, to be fair. Right? These are things that are real for small business owners.

The Chair: You have one minute.

Mr. Mark Adler: One minute? Okay.

We hear a lot about this $500 billion in cash out there that businesses are sitting on. Are any of your members sitting on large hoards of cash?

Ms. Corinne Pohlmann: No. I can most assuredly tell you there isn't some big pot of gold sitting in the closet of the small business owners that we represent.

Mr. Mark Adler: Again, how many members do you have?

Ms. Corinne Pohlmann: A hundred and nine thousand.

Mr. Mark Adler: A hundred and nine thousand.

Okay, that does it. Thank you.

● (1800)

The Chair: Thank you, Mr. Adler.

We'll go to Ms. Nash, please.

Ms. Peggy Nash: Thank you to all the witnesses for being here today. I have a couple of questions about employment insurance.

EI is a benefit that most people hope they will never have to claim because it's designed to help transition someone when they face the catastrophe of job loss. Sadly, we are in a situation today when only about 40% of Canadians who are in the situation of unemployment are able to get these benefits.

I heard the first three witnesses today, Ms. Pohlmann, Ms. MacEwen, and Mr. Thomas, talk about the money that was shifted from EI premiums that were paid by individuals and employers to government use for general revenue. We had a bit of a discussion about this yesterday. Officials from the government said that this was just an accounting change and it did not mean this money was actually taken out of the EI fund.

I wonder if any of you would like to comment on that. I had a different perspective on it, but that's what the government officials told us.

The Chair: Just before we do, the bells are ringing. Can I get unanimous consent? I would like to get as many members in as possible to question witnesses. I see I have consent.

Ms. Pohlmann, would you like to start with that?

Ms. Corinne Pohlmann: I find that's an interesting comment to be made. Since employment insurance is an insurance, you are paying a premium. It's supposed to be there for those people who are paying the premium. Hence, that's why we have always called it a tax, because essentially what happened was those premiums were then taken away and used for other government priorities, making it essentially a tax. As much as people don't like to hear that, it's what it is. It's funny to me when they say that it's just an accounting change when, in fact, that money, from our perspective, came from employers and employees, and it includes some interest on top of that.

Fundamentally, most employers to this day still feel very strongly that the money was taken out of the system and away from them.

Ms. Peggy Nash: Then there's the fact that subsequently there was a premium increase because, of course, we were in a period of high unemployment when, over the economic cycle, normally the surplus would cover the increase in demand for a period of unemployment, and instead there has been a premium increase.

Any other comments?

Ms. Angella MacEwen: Absolutely. When I hear Ms. Pohlmann talking about the small business hiring credit, I think it would have been a far better policy to reinstate some of that so that the EI operating account didn't go into deficit and premiums didn't have to rise during a very weak recovery when small businesses are still struggling to get through. We would suggest either freezing premiums or even lowering them through the recession. That would have given a bigger break to employers and a bigger incentive to hire.

Ms. Peggy Nash: Sometimes people feel that they don't want taxes to go up, but when there is a premium—or a tax, if you will—that is a dedicated fund, I think people feel okay to support it. In this case, it was intended to be a dedicated fund, which ended up in general revenue. As I said yesterday, there are multiple governments that have done that.

I don't know, Mr. Thomas, if you have any comments on it. I guess what I am interested in is if any of you want to express more fully what measures and protections we should have in place so that this funding that employers and employees pay is directed for its stated goal.

The Chair: There are about 45 seconds.

Mr. Thomas, we'll start with you.

Mr. Gregory Thomas: Working Canadians and their employers were gouged to the tune of $57 billion to create a fund for a storm like the one we experienced, and the money wasn't there just when we needed lower payroll taxes to stimulate the economy and get people back to work. Because the money had been taken, all of a sudden we have higher and higher payroll taxes. The credit is a very worthy stopgap. The fact is, if the money hadn't been taken by previous governments, then it wouldn't be necessary.

The Canada pension plan has the confidence of Canadians because there are assets behind it. The money hasn't been taken by government for other purposes. Anyone can go online and see what their entitlement is because those funds, the funds of theirs and their employers, are put into an account in their name.

The amount of over $4,000 a year for a working couple is being siphoned out of their net worth and then shipped to pay for these EI programs. You could do a lot to rebuild the balance sheets of Canadians and deal with the personal debt problem by putting EI into a CPP-style rainy day fund.

● (1805)

The Chair: Thank you. Unfortunately, we are out of time on that round.

We will go to Mr. Van Kesteren, please.

Mr. Dave Van Kesteren: Thank you, Chair.

Ms. Pohlmann, I too am a big fan of your organization. I was a member from 1985 when I first got into business myself. I understand a lot of the things. I filled out all those surveys as well. As Mr. Jean said, I experienced a lot of the frustrations that a lot of business people feel today.

Mr. De Luca, your organization is the third largest in the world. You must do some work for governments. Without asking you to give state secrets, have your actuaries looked at some of the pension plans, possibly not the Canada pension plan, but some in the U.S.A. and other countries to see how viable they are? Is there a running tally on some of these?

Mr. Albert De Luca: Unfortunately, it's not in my area of expertise. I can't really comment on that, unfortunately.

Mr. Dave Van Kesteren: Do you have a personal opinion? They are wonderful ideas. I don't think anybody would disagree that we shouldn't have pensions for everyone and the money should always be there. I guess my question to you would be that in order for those things to happen, the funds have to be there. How are pension plans looking to date as far as viability?

Mr. Albert De Luca: I'm not sure what Deloitte's view on this is. Quite frankly, as I said, it's not my area of expertise. My own personal opinion, which would echo Mr. Thomas's, is that it needs to somehow reflect private industry—

Mr. Dave Van Kesteren: And it has to reflect reality—

Mr. Albert De Luca: —and all the measures that come with that, only because the resources that are being attracted are the same resources. Therefore, you need to have the same rules of engagement. That would be my view.

Mr. Dave Van Kesteren: Thank you. I think that's fair.

Mr. Thomas, I'm going to ask you the same question. You mentioned these funds were rated. We can have a discussion about that. It was a former government. It's really immaterial at this point. These moneys weren't suddenly disbursed throughout the world. They went to Canadians, for the most part. Wouldn't you agree that the government of the day that was confronted with a huge deficit situation found it necessary to take those moneys to pay down that debt? Wasn't it a spending problem we had in government at that time that caused this crisis?

Mr. Gregory Thomas: Yes, and it's a spending problem that persists. I won't start talking about pork-barrelling...oh sure, I'll talk about pork-barrelling. ACOA and FedNor, if you look at the long-term track record of your corporate welfare organizations, it's not a good one. ACOA wrote off something like $222 million in the last fiscal year on economic development funds that were given out and on corporate welfare to different companies in Atlantic Canada.

Mr. Dave Van Kesteren: Maybe Ms. Pohlmann can answer this point. In your organization, how many of those were able to say that yes, they received that funding and their members didn't all pay that back. How many of your members, the independent businesses?

Ms. Corinne Pohlmann: Do you mean funding for economic development?

Mr. Dave Van Kesteren: It's the funding that Mr. Thomas mentioned.

Ms. Corinne Pohlmann: Our members don't necessarily ever benefit from any types of grants or programs from economic development agencies.

Mr. Dave Van Kesteren: The long and the short is that there is money coming into the government coffers and there is money going out. It's the sole responsibility of governments to handle and manage that prudently. This government is beginning to do that. Is it fair to say that we, as suggested on the other side, need to expand our CPP or pensions when we have an economy that is contracting?

● (1810)

Mr. Gregory Thomas: The dangers of expanding CPP is what you saw with the Caisse de dépôt in the financial meltdown. They lost a third of the wealth of retired Quebecers because it's a compelled government savings program with a single investor, essentially. Instead of having many investors investing their own retirement savings as prudently as they can, you have people taking big risks and everyone suffers.

The Chair: Thank you, Mr. Van Kesteren.

[*Translation*]

Mr. Mai, please go ahead.

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

Mr. De Luca, a little earlier, a number of witnesses came to talk to us about the scientific research and experimental development tax credit. They said that the measures taken by the government were not beneficial for the manufacturing sector, among others, and that the sector was going to experience job losses because of the loss of investment.

We have also heard from the government side that one of the reasons behind the measures contained in Bill C-45 is to reduce red tape.

[*English*]

red tape reduction.

[*Translation*]

However, as someone said, this does not help to accomplish that.

Can you tell us what the impact is on the manufacturing sector? Why are the people you are representing opposed to the measures taken by the government in terms of the cuts?

Mr. Albert De Luca: The budget measures have absolutely no impact on simplifying things. Those are two completely separate issues. There is no connection between the two.

The manufacturing sector, instead of being encouraged to invest more in hiring engineers and PhDs, feels that its funding is being tightened. As a result, investment in research will suffer the consequences.

Mr. Hoang Mai: I feel that we have to look at a budget and a vision. We see that productivity is going down in Canada, and that we have fewer and fewer PhDs compared to other countries. Now, if we really wanted to make sure that we had a viable future, I think that this type of tax credit would be appropriate as an investment. Do you agree?

Mr. Albert De Luca: Yes, absolutely. Productivity partly has to do with capital expenditures. Also, for example, eliminating capital expenditures for the sake of simplicity creates a disconnect, so to speak.

Mr. Hoang Mai: Thank you very much.

My next question is for Ms. MacEwen.

[*English*]

One of the things we argue about with the other side is the increasing gap between the rich and the poor, the fact that there are more and more inequalities.

You've talked about income splitting. Can you tell us whether that will help or reduce the gap between the rich and the poor? What would be the influence?

Ms. Angella MacEwen: Certainly. In general, what we see is that income splitting or pension income splitting, which has been implemented now, benefits higher income individuals more than lower income individuals. Part of this is because if seniors are unattached, they don't benefit. Thirty per cent of seniors are unattached. Seniors who are unattached are more likely to live in poverty. They're more vulnerable. The less tax you pay, the less you benefit from this type of tax incentive or tax expenditure.

The more income you make, the more you're going to benefit from this, particularly if there is a higher income spouse and a lower income spouse. They'll benefit more in that situation. What we say is if you look at this from a perspective of gender analysis or inequality analysis, you'll see that the tax expenditure would be far better spent improving GIS and keeping OAS at 65, for those who need to retire at 65. Not everybody can work past 65, and in fact, Canadians who can work are continuing to do so. With the financial crisis, their pensions have been decimated, so they're continuing to work.

● (1815)

Mr. Hoang Mai: Very quickly, Mr. Thomas, in Bill C-45 there are provisions for transfer pricing. Do you believe the government should do more in terms of tackling tax havens and tax evasion?

The Chair: Give us a very brief response, please.

Mr. Gregory Thomas: Yes, we do.

Mr. Hoang Mai: Thank you very much.

The Chair: Thank you very much for that.

Merci, Monsieur Mai.

We'll go to Ms. McLeod, please.

Mrs. Cathy McLeod: Thank you, Mr. Chair.

I want to ask three quick questions about SR and ED and then move on to the pension issue.

Mr. De Luca, would you agree there were problems with predictability? The changes we're making to SR and ED are a comprehensive response to the Jenkins report. Answer with a quick yes or no. For companies with the SR and ED program, were there issues with predictability?

Mr. Albert De Luca: The budget does not address predictability.

Mrs. Cathy McLeod: But, again, we have a comprehensive response.

Were there issues with fees that were being charged to organizations at times that were really creating huge issues at the company? In actual fact, was a lot of money not actually going back to the companies, to perhaps do research and development, but for consulting fees?

Mr. Albert De Luca: Predictability is one thing. What you're referring to is the cost of administration of the program and the cost of getting the credits, which is a function of different private sector attributes. The bottom line is, just as in any other sector of finance, people would acquire services and the more complex the program is to administer, the more requirements there are.

I'm trying to answer your question as simply as I can.

Mrs. Cathy McLeod: Certainly what we heard, too, is that the capital component is most complex.

Mr. Thomas, to move toward pensions, I always remember a conversation I heard as a fairly young adult. I think there was a teacher, a physician, and someone who ran a small business. Certainly the physician was complaining about having to take care of his own retirement. The teacher was making comments regarding both his wages and retirement, having a defined benefit pension plan. I can still clearly recall the small business person indicating that of course he was paying for both, and was struggling.

First of all, in terms of defined benefit programs, how does the federal government pension plan compare to municipal or some of the provincial public service plans?

Mr. Gregory Thomas: In government pension plans, when you look at accrual rates, the 2% accrual rate is common.

Many municipal plans permit spiking. They use sometimes as few as the last three years of earnings, so you have what they call a sprint to the finish line where you get 50 police officers suddenly working overtime and doing a lot of court duty. In Ontario they show up on the sunshine list with these big incomes way in the six figures. That plays a big role in establishing the retirement rate they're going to enjoy for the next 10, 20, 30, or 40 years.

The Government of Canada, by taking steps to rein in some of these things and provide for a later normal age of retirement, is going a long way to reducing its exposure. It needs to go further, but I think it's been estimated the reforms included in this bill are going to save Canadian taxpayers a couple of billion dollars, perhaps $2.6 billion. We applaud that.

Mrs. Cathy McLeod: I do understand that perhaps a lot of the provincial public sector employees have a 50-50 already. Is that a more common cost-sharing?

The Chair: You have about one minute.

Mr. Gregory Thomas: It's tough to generalize, but certainly with regard to contributions, federal government employees have an advantage, and it's an unfair advantage. We believe that wage and benefit structures should be made competitive with the rest of us who don't work for the government.

● (1820)

Mrs. Cathy McLeod: This is just a one-number answer.

Ms. Pohlmann, do you remember when things changed in terms of the EI fund? You talked about significant dollars being redirected into general revenue. Can you talk about when that changed?

Ms. Corinne Pohlmann: That changed in 2009. At that point in time when the Canadian Employment Insurance Financing Board was created, all that money then disappeared and it was down to zero, once again.

We thought it was the right idea, but it was the wrong time.

The Chair: Thank you.

Thank you, Ms. McLeod.

I want to thank all our witnesses for being here, for your contributions to our study of this bill. If you have anything further, please submit it to the clerk and we'll ensure that all members get it.

Thank you so much for being here, especially on short notice.

The meeting is adjourned.

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