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Chair

The Honourable Wayne Easter

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● (0850)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I call the meeting to order.

Thank you all for coming. Thank you to the witnesses. Welcome back for the fall session and the beginning of our pre-budget consultations for budget 2019.

There are some new members here as well, so there is a little different makeup to the committee. We will have a busy five weeks as we hear from a pretty intensive assembly of witnesses in 10 cities and then get to finalizing our report.

I'd like to welcome the first group of witnesses. We're operating under Standing Order 83.1, pre-budget consultations in advance of the 2019 budget. I know all of the witnesses here have presented submissions, which the committee members have. You will see them looking at your briefs as we go through your presentations.

Welcome again, witnesses. We'll start with the Association of Equipment Manufacturers.

Mr. Mains, go ahead. Welcome.

Mr. Howard Mains (Canadian Public Policy Advisor, Association of Equipment Manufacturers): Good morning. Thank you, Mr. Chair and members of the committee, for providing the Association of Equipment Manufacturers the opportunity to address you this morning.

The Association of Equipment Manufacturers—AEM—represents companies that manufacture equipment and provide services for the agricultural, construction, forestry, mining and utilities sectors. I tried to count the number of different member companies' equipment pieces represented at the door this morning, but there were quite a few pieces of equipment.

Members include highly successful Canadian companies, such as MacDon and Buhler of Winnipeg, Skyjack and Sellick Equipment of Ontario, Liftking of Vaughan-Woodbridge, DY Concrete Pumps of Calgary Shepard, and Rayco-Wylie of Louis-Hébert. Global companies such as Caterpillar and John Deere are also members. AEM members directly employ some 64,000 Canadians and contribute about $34 billion annually to the economy. They continue to grow and employ more Canadians, such as with Sellick Equipment's new manufacturing facility that opened in Essex County about 10 months ago.

Allow me to touch on three things this morning: the importance of international trade to AEM members, tax measures affecting farm families and small business owners who invest in new equipment, and access to rural broadband.

AEM members operate and export globally, whether they're a small Canadian niche player or a global company. Therefore, international trade and continued regulatory alignment between Canada and the United States is a priority for AEM members.

AEM is a strong supporter of NAFTA and is advocating for a modernized agreement in both the United States and Canada. AEM members continue to spearhead efforts to discourage tariffs that will harm not only manufacturers but their customers: Canadian farmers and small business owners, as well as large business owners. It is of vital importance that construction and farm equipment work seamlessly across the Canadian-American border and that our domestic manufacturers are able to freely export products to other markets.

I'll turn to the need to modernize Canada's tax codes.

The tax treatment for those investing in new farm and construction equipment should be modernized so that it is better aligned with United States tax depreciation rates. Recent changes to U.S. tax treatment of depreciation on capital investment in construction, mining, forestry, and agricultural equipment places Canadian farm families and small business owners at a competitive disadvantage. I understand others will be speaking to this.

We urge the federal government to increase capital cost allowance rates to allow equipment buyers to more rapidly depreciate their investments in new capital equipment. Faster replacement of old equipment increases productivity and profitability, while at the same time providing significant environmental benefits with cleaner, more fuel-efficient engine technologies, and it also improves operator safety, given the new standards. AEM is aligned with others in the agricultural sector, such as the Canadian Federation of Agriculture, in calling for the Canadian government to introduce 100% first-year deductibility for investments in farm equipment.

Another challenge facing manufacturers is access and use of the scientific research and experimental development tax incentive program. This federal tax incentive is designed to encourage Canadian businesses to conduct research and development in Canada. While supportive of the policy goal, few AEM members use the program because the submission process is overly difficult and cumbersome. The cost-effectiveness of the program has been diminished because of the administrative burden placed on applicants. Our recommendation is that the Canada Revenue Agency should be encouraged to root out the problems that discourage companies from using this program.

I'll turn now to rural broadband.

Canada’s agricultural competitiveness depends on increased and enhanced broadband services to rural communities. For Canadian innovation in farming to take root, Canadian farm families need access to broadband in rural and remote parts of the country.

● (0855)

Today rural broadband deployment across the country does not meet the need of the high data transmission requirements of precision agriculture and other data-rich services deployed by farmers. Just this month, *CBC News* reported on Ontario farmers facing steep economic and financial difficulty because of poor access to broadband services.

In April of this year, the Standing Committee on Industry, Science and Technology published a report on this subject and called for Innovation, Science and Economic Development Canada to develop a comprehensive rural broadband strategy in collaboration with key stakeholders.

AEM supports these recommendations and joins other agricultural associations, such as the Ontario Federation of Agriculture, in calling for increased funding for broadband Internet expansion in rural and remote areas.

Now as we enter the next phase of farming, which is often referred to as “Farming 3.0”, precision agriculture, big data and artificial intelligence will be critical and revolutionary. Recently, AEM commissioned a study analyzing the future trends of agriculture over the next 10 to 25 years. Technologies such as satellite image analysis, in-field monitoring, real-time soil testing, plant-by-plant analysis, robots and predictive analytics will be at the core of Farming 3.0. As Canadian farmers become more digitally advanced, data will be at the centre of the farm as these tools become more commonplace. In this context, the government should continue to support technological development and innovation, and rural broadband is a key tool for Canadian farm families to be globally competitive.

In closing, thank you for considering AEM's submission and recommendations, and we look forward to your questions.

The Chair: Thank you very much, Mr. Mains, especially for sticking to the topic of ensuring competitiveness.

With the Canadian Chamber of Commerce, we have Mr. Stratton.

[*Translation*]

Mr. Trevin Stratton (Chief Economist, Canadian Chamber of Commerce): Thank you, Mr. Chair and members of the committee. I am very pleased to be here today.

[*English*]

The Canadian economy is facing some incredible challenges these days. Over the past year, the confluence of trade uncertainty, regulatory complexity and the tax burden have impacted the competitiveness of our businesses and our economy. In 2017, Canadian foreign direct investment hit its lowest level since 2010. Cross-border mergers and acquisitions generated a net withdrawal of funds for the first time since 2007. Compared to a year ago, more than two-thirds of business leaders view Canada as a less competitive place to invest and do business than the United States.

In my work at the Canadian Chamber of Commerce, I get to hear from businesses of all sizes in all sectors of the economy and in all parts of the country. What I'm increasingly hearing from our members is that there is an urgent need to reduce the cost of doing business in this country to make Canada more competitive, help attract investment and keep companies here. In a changing economic landscape, Canada must implement pro-growth strategies to scale our businesses, encourage investment and protect our economic interests and prosperity.

The Canadian Chamber's message to governments at all levels is simple: this is a time for us to be laser-focused on ensuring our businesses can compete and win at home and abroad. If we want the resources to create a more inclusive economy, we must tackle the problems that sap our competitiveness and hurt those very businesses we count upon to create wealth and economic opportunity.

To achieve this, to help Canadian businesses thrive in an increasingly competitive global economy, the Canadian Chamber recommends the federal government concentrate on five key areas in its 2019 budget: international trade, regulation, taxes, innovation and human resources.

A good place to start—

● (0900)

The Chair: I'll get you to just slow down a little bit for the translators.

Dr. Trevin Stratton: A good place to start is concluding a modernized NAFTA at the earliest possible opportunity to defend Canadian export interests. At the same time, Canada urgently needs to diversify its export markets to facilitate the movement of products, services and people more quickly, reliably and cheaply to key markets in the world.

As Canada continues to make the case for freer trade among nations around the world, it is important we not forget there are still too many barriers to trade within Canada. Our complex network of overlapping regulations from all levels of government creates a costly and uncertain environment for business. Regulatory reform is a low-cost way to improve Canada's long-term economic growth and its competitiveness.

Tax policy is another area where Canadian competitiveness is rapidly eroding. Canada's corporate income tax rate is now higher than both the U.S. and the OECD average, and Canada lags behind G7 countries, the U.K., the U.S. and France.

A comprehensive review of our cumbersome and inefficient tax system is needed. With sufficient political will, Canada can create an internationally competitive tax system that rewards entrepreneurship and encourages investment in the technologies, skills and capacity businesses need to grow. Exploring innovative tax solutions, such as implementing accelerated capital cost allowance, can also have an immediate impact on our business investment.

A highly competitive venture capital industry can also incentivize investments in technology companies and start-ups, including SMEs, through tax credits and exemptions.

In an increasingly innovative economy, Canada should focus on implementing digital infrastructure policies that facilitate the deployment of new technologies, patented inventions, intellectual properties and innovative processes.

Canada needs to know what skills are in demand so we can train our young people and bring in the people we need for the industries of today and the future. Our members have repeatedly told us skills gaps and the challenges of finding the right workers are some of the biggest issues they face. They need the right people at the right time in the right place. This means building and keeping talent at home as well as attracting the best and brightest from around the world.

Let me conclude with the following: There is no greater priority today than improving Canada's competitiveness. Simply put, competitive companies are profitable companies. When businesses are profitable, they grow. When they grow, they invest in new technologies, new processes and new products. They retrain their employees and they hire new staff. That's good for business, good for government and good for Canada.

Thank you for the opportunity to meet with you this morning.

I look forward to our discussion.

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

We'll turn to the Canadian Federation of Independent Business, represented by Mr. Kelly, president and CEO.

Welcome.

Mr. Daniel Kelly (President and Chief Executive Officer, Canadian Federation of Independent Business): Good morning.

Thank you so much for seeing us this morning. We're happy to be here.

We have several ideas that we wanted to share with you for the 2019 budget, of course, and for the election platforms that your respective parties will be putting together. We want to start by talking about some of the challenges that small and medium-sized firms, our members, are facing in Canada right now.

Obviously trade is a big worry for many of our members. We have looming ahead in January five straight years of Canada Pension Plan premium increases facing every employer in the country, reducing payroll budgets for every small business in the country. On the positive side, we do recognize last week's idea that employment insurance rates are going to come down next year. I do want to add that employment insurance rates are going to go down by about 5¢ per $100 of payroll for small firms' employers, whereas CPP rates next year are going to go up by 15¢ per $100 per employer, so the net effect on payroll taxes is still a negative one.

We had, of course, the uncertainty created by last year's round of small business tax changes, new carbon taxes coming into effect, or higher rates in several provinces, and of course a growing shortage of labour facing small and medium-sized firms.

In terms of what we're asking your committee and government and political parties to focus on, we have several ideas.

Our biggest worry right now, of course, on the tax front is what's happening with respect to CPP premiums in the months ahead. We believe there are two ways that government can help address the burden of Canada Pension Plan premiums. One of them would be to implement a permanently lower rate for small and medium-sized firms under employment insurance rules. As you know, in the case of corporate taxes, you pay a lower rate under $500,000. We suggest that you could establish a permanently lower rate of employment insurance—under, say, $500,000 in payroll—at which the level would be that of the employee.

Another way to do that would be to resurrect the Liberals' election commitment to implement an EI holiday for hiring young people. The 2015 election platform of the Liberal Party included a commitment to allow employers not to pay employment insurance premiums when they hire a young person between the ages of 18 and 24 for three straight years. Unfortunately, that election commitment was ditched in the 2016 budget.

Looking at competitiveness with the U.S., I do want to underscore the recommendation that was made a moment ago by the Association of Equipment Manufacturers. We believe the time is right to implement a full cost deduction for investments in business equipment and productivity-enhancing tools. This was started under the Obama administration at $500,000; you could deduct that amount in your very first year. The Trump administration has raised that to $1 million, and we don't have a similar measure in Canada. We think the time has come to do this. The nice thing for the finance committee is that small and medium-sized firms, I think, would benefit and be optimistic if you were to implement a multi-year plan to get there. It doesn't have to cost the treasury massive amounts of money in its first year. You could implement a plan, and then raise that threshold, as has happened in the United States.

When I look back at the small business tax changes last year, I don't think I would be helping the committee if I were hiding the fact that the anger level among small and medium-sized firms with respect to the measures, with respect to the government's actions on that front, remains extremely high. Yes, we are pleased the rate is coming down, but you're going to see another round of heat over this issue when the audits of the 2018 tax year kick in because of the new rules around splitting income with family members. I would say most businesses in Canada have taken no action to address the new rules and there will be thousands and thousands of small firms that will be caught outside of the rules on audit, not because they're trying to skirt their tax obligations but because these new rules gave them no time to factor them into their business decisions.

On that front, we are recommending the new rules be delayed, that you indicate to the CRA to give 2018 as a year of grace for small firms to catch up with the new rules to avoid these audits that we expect to start very soon.

On the passive investment front, we are pleased that there were some modifications made in the 2018 budget, but again it's created a new group of losers, sadly, as a result of passive investments. We're hearing from firms that have saved up passive investments from the past and were told by the finance minister that they were going to be grandfathered. Unfortunately, now that is not the case, and we will be seeing higher taxes for many of those firms. Unfortunately, that is not the case now, and we will be seeing higher taxes for many of those firms. A member of ours in Newfoundland and Labrador has estimated that he will pay $80,000 a year more in taxes as a result.

● (0905)

We are also asking you to consider a full exemption for spouses. I wrote a column in today's National Post about the importance of the spouse in a business environment, and we do believe there are some possible relief measures there.

We're pleased to see some progress on the regulatory reform front, both interprovincially and at the federal level, with respect to lowering the red tape burden. We have some recommendations in our deck. I won't dwell on those.

As has been noted by Trevin, we do see the shortage of labour ticking up in Canada. We have a couple of ideas there: implementing a training tax credit or a pathway to permanent residency for temporary foreign workers to ensure that they can provide some relief to the economy on that front.

Last, we are deeply worried about the state of debt and deficits. Small and medium-sized firms know that today's deficits are tomorrow's taxes. We implore you to introduce a multi-year plan to tackle Canada's growing deficit and debt problems.

On an optimistic note, the last thing I will raise, hoping the committee comes in behind the government initiative, is that one of the few elements of the 2017 small business tax reform package that we like was the concept that you would allow small and medium-sized firms to sell their businesses to the next generation without getting clobbered with a whole bunch of new taxes. That has been a problem for some time. There was some hope that this might happen as a result of the 2017 tax package. Emmanuel Dubourg, a Liberal member, and Guy Caron from the NDP have both put forward private member's bills; we ask you to look at the inspiration behind these bills and put something together as a recommendation from the finance committee in the months ahead.

I have lots of other recommendations, but I'll conclude with that. Thank you.

● (0910)

The Chair: Thank you very much.

We'll turn to the Canadian Home Builders' Association and Kevin Lee, the CEO. Welcome.

Mr. Kevin Lee (Chief Executive Officer, Canadian Home Builders' Association): Thank you.

As you've mentioned, the theme of this year's pre-budget consultations revolves around enhancing Canada's competitiveness. The quality of life offered by Canadian communities, frequently rated as among the highest in the world, is a competitive advantage, and it's closely tied to the reasonable prospect of owning your own home. Canada's enviable quality of life contributes directly and substantially to our nation's desirability and our ability to attract and retain the world's best and brightest.

This national competitive advantage is under threat. Due to declining affordability and mortgage rule changes, the rate of home ownership in Canada is falling, a particular problem for younger Canadian families and new Canadians. With the dream of home ownership in decline, so too is the desirability of our Canadian communities and our country as a destination.

In a recent CHBA national survey, three of four Canadians polled said that owning a home is a hallmark of being middle class, yet three-quarters of those polled think that with the way things are going, only the rich will be able to own a home in the future, and 81% see today's housing affordability problem as a potential failing of Canada's socio-economic system.

Canadians expect governments to do better. Only one in 10 Canadians thinks governments at any level are doing a good job of addressing the problem. They are looking to government to provide the solution. Two in three Canadians think that younger and new Canadians should be given more flexibility when it comes to buying their first home.

The federal government can address this issue without creating undue risk in the financial system or fuelling home price increases. It can expand the home buyers' plan, back innovative financing tools such as shared-appreciation mortgages, and even return to 30-year mortgages for well-qualified first-time buyers seeking entry-level homes.

Rapid action is needed to protect home ownership, one of Canada's most compelling economic strengths, and its close tie to our quality of life.

In addition to improving access to home ownership via smart mortgage rules, the government can improve the competitiveness of Canada's communities through authoritative data and analysis.

In addressing its concerns over rising debt and housing price acceleration, the government has largely focused on measures that constrain demand. These measures have made it more difficult to become a homeowner, making Canadian communities less attractive, but tighter mortgage rules overlook the primary driver of home price increases in our larger urban centres: a prolonged and significant shortage of housing supply and ever-increasing development taxes.

The chronic shortage of more modest and affordable family-friendly, ground-oriented homes in our largest cities results mainly from public policy. A lack of serviced land coupled with complex regulatory processes make it impossible to respond to market demand. The result is higher home prices, too many buyers, and too few homes.

The federal government needs to support research to quantify how provincial and local zoning, regulations, processes and approval times affect housing supply; to ascertain how well cities are doing in these areas; and to identify best practices. This research can provide the necessary objective reporting that governments need to properly recognize the challenge, identify the issues and develop effective policies and solutions to truly address affordability to make our cities more competitive.

It is also time to make housing affordability a building code objective. CHBA is a strong supporter of the national building code, which is developed via a rigorous, open and evidence-based process, and Canada is widely regarded as having one of the best building code systems in the world.

Currently, however, the system is under stress, as an unprecedented number of changes are contemplated. Governments are seeking solutions to key policy issues like climate change adaptation and mitigation, accessibility, and more through regulation. However, there is a real danger that an accelerated pace of change without simultaneously providing affordable solutions will further impair housing affordability, adding many tens of thousands of dollars to the price of every new home.

The government should therefore ensure that affordability is a clear objective when code changes are considered. Currently costs may be looked at, but affordability is not a code objective in and of itself. We have reached a point where it needs to be.

Finally, to truly address climate change in housing, the government can enhance competitiveness not through excessive regulation but through an energy retrofit tax credit.

Within the government's aggressive climate change goals there has been excessive emphasis on what could be very costly changes to the building code, yet new housing is very efficient and will continue to get even better, as it has for decades, on a voluntary basis. However, the old existing housing stock on average is very inefficient and holds a great deal of potential for cost-effective improvement through retrofits.

Through an energy retrofit tax credit based on use of the EnerGuide rating system, Canadians would improve the energy efficiency of their homes, benefiting themselves, the economy and national competitiveness.

● (0915)

It is also important to note that a tax credit need not simply be a cost to the government either. CHBA analysis has shown that much of the cost of such a program is recovered through a conversion of underground-economy cash jobs to tax-revenue-generated above board jobs.

Thank you very much. I look forward to answering any questions you may have.

The Chair: Thank you very much, Kevin.

Turning then to the Canadian Housing and Renewal Association, we have Mr. Morrison, executive director.

Welcome, Jeff.

Mr. Jeff Morrison (Executive Director, Canadian Housing and Renewal Association): Thank you, Mr. Chair.

Good morning to you all, and thank you for the invitation to appear before this first panel of the committee.

As some of you may know, CHRA represents the social, non-profit, and affordable housing sector in Canada.

[*Translation*]

What we are talking about in these public hearings is competitiveness. Unless everyone living in Canada, regardless of their economic status, has access to safe and affordable housing, there can be no competitiveness. People cannot be competitive if they do not have a roof over their heads. Housing is such a fundamental part of the economy and of a functional society that it cannot be overlooked in budget policy.

[*English*]

In November 2017, the federal government made a major stride forward in supporting housing for low-income people with the release of the national housing strategy. The strategy contains a number of measures designed to protect and expand the affordable housing sector in Canada. Although CHRA welcomed the strategy and we worked very closely with the federal government in its development, the fact is that there remained barriers and gaps both within and outside of the strategy, preventing people from accessing safe and affordable housing. I'll identify four such gaps.

First, the most glaring gap in the NHS was the lack of an indigenous housing strategy.

The NHS did commit to work with first nations, Métis, and Inuit to develop three distinctions-based housing strategies, and we expect those three strategies to be unveiled this fall. However, there has been no commitment to developing a housing strategy for the 87% of indigenous peoples living in urban, rural and northern settings. The fact is that indigenous peoples living in urban and rural centres face core housing needs and homelessness at much higher levels than the non-indigenous population.

CHRA's indigenous housing caucus has developed proposals for the content, structure and governance of an urban, rural and northern indigenous housing strategy. We'd be happy to share copies of that with the committee.

Second, one of the measures contained in the national housing strategy was an extension of the federal lands initiative. This program transfers surplus federal lands and properties to housing providers to encourage affordable housing development. Under the NHS, its budget was increased to $200 million over 10 years, up from $2 million per year. Although a tenfold increase is, of course, welcome, an average of just $20 million a year remains insufficient.

Furthermore, many communities in Canada, particularly smaller communities, simply don't have federal lands or buildings to be transferred. CHRA is calling on the federal lands initiative to be expanded, and for its mandate to be expanded, so as to allow the program to acquire surplus provincial, municipal or even private lands and buildings, which could then be transferred to affordable housing providers.

[*Translation*]

Third, as part of the National Housing Strategy, a new program was announced, the Federal Community Housing Initiative, which will extend rent subsidies until 2027 for housing providers whose operating agreements end before then. This is an important program, but we are concerned about how it might work. According to certain CMHC proposals, providers whose operating agreements end after 2020 will not automatically have their funding extended. They will have to apply and demonstrate that they will be self-sufficient before 2027.

● (0920)

[*English*]

Self-sufficiency will simply not be possible for all housing providers, particularly those providers who serve the most vulnerable and low-income tenants. As a result, CHRA is asking that all housing providers currently under federal operating agreements be grandfathered into the new program and that there be assurances from the federal government that there will be a continuation of federal operating subsidies to housing providers beyond the 10-year window envisioned in the housing strategy.

Lastly, the NHS contained a new program, the national co-investment fund, that will invest up to $16 billion over 10 years to renew and repair existing housing and build up to 60,000 new units of affordable housing. Again, although 60,000 new units are most welcome, over 10 years that only averages out to about 6,000 units per year. Of course, as you all know, the demand for affordable housing greatly exceeds this number.

As an example, in the city of Toronto, the wait-list for affordable housing is well over 82,000. In Montreal, it's well over 25,000.

[*Translation*]

We need new policy tools and proposals to improve the affordable housing available. There are funding and operations management models, both locally and internationally, that we can consider. We would be pleased to discuss these models with the members of the committee.

[*English*]

Mr. Chair, again we appreciate that the federal government is once again taking leadership in affordable housing through the national housing strategy, but even with this strategy, there remain gaps and improvements that can be made to federal policy to stimulate greater affordable housing capacity, which leads to greater competitiveness for all Canadians.

We look forward to working with you to address those gaps.

Thank you.

The Chair: Thank you, Jeff.

Turning now to the Intellectual Property Institute of Canada, we have Mr. Lynds, president.

Mr. Grant Lynds (Council President, Intellectual Property Institute of Canada): Thank you, Mr. Chair and members.

As mentioned, my name is Grant Lynds. I'm the president of the Intellectual Property Institute of Canada, frequently referred to as IPIC.

Thank you for inviting IPIC to present to you our recommendations for budget 2019 and to answer any questions that you may have about our recommendations.

As you may know, IPIC is the Canadian professional association of patent agents, trademarks agents and lawyers practising in the area of intellectual property.

As this government continues to take steps to support Canadian innovation and economic growth, we believe that our membership is uniquely positioned to help support the government's objectives. Our members help protect investments in innovation that businesses of all sizes make, thereby forming the backbone of this country's innovative industry.

IPIC was also excited to hear that this committee has chosen to focus the theme for the pre-budget consultations on how to ensure Canada's competitiveness. I've often been asked over the past few months, especially over the summer, for my thoughts and impressions on the national IP strategy. I always start by providing credit to Minister Bains and other members of government for recognizing the importance of IP to every stage in the life cycle of a business's growth, and therefore its importance to Canada's economic growth.

Quite frankly, our members are extremely excited that we have a national IP strategy. It's the core of what we do every day, and to have it enshrined in a strategy makes us very excited. They see their ambitions and their clients' work product to be a part of the government's agenda.

I'm also sometimes asked if there's anything I believe is missing from that national IP strategy. In response, I usually say that the strategy is missing what we would call financial policy incentives to encourage Canadian businesses to develop, protect and commercialize their IP.

In last year's Standing Committee on Finance report in preparation for budget 2018, the committee recommended that the government create an incentive for businesses to protect their IP by creating a first patent program with a design that is similar to that launched by the Government of Quebec provincially. This program would assist with the expenses incurred by small and medium-sized businesses when obtaining their first patent.

The committee also recommended last year that the government establish incentives for IP development and commercialization through a commercialization coupon for researchers receiving federal grants, as well as an innovation box tax incentive for business revenue derived from commercialization of the IP. The expression "innovation box" or "IP box" that you've likely heard comes from a check box on tax forms to identify revenues derived from exploiting or leveraging intellectual property and applying a reduced tax rate to that revenue.

These recommendations last year ultimately were not adopted in budget 2018, but we believe that the need still exists, now more than ever, and certainly aligns with that national IP strategy. In fact, there was one recommendation about the need to modernize the Canadian tax system to ensure it drives investment and innovation that came from this government's advisory council on economic growth in the third report, I believe, in December of last year. That was titled "Investing in a Resilient Canadian Economy". The statement there certainly recognized this advancement, stating:

> While investing in physical capital such as factories and equipment once was the primary driver of economic growth, today it is intellectual capital that powers the economy. The value of intellectual property licensed in Canada, for example, has risen from $56 million 30 years ago to over $4.5 billion today—an 80-fold increase. Moreover, Canadian companies increasingly must compete with companies based anywhere in the world.

That report continued by recommending that Canada:

> ...introduce favourable tax treatment of intangible assets and intellectual property; put all sectors of the economy on a level playing field; maintain competitive corporate tax rates in the face of changing global conditions....

IPIC encourages this committee to once again call on the government in your report to create financial incentives for Canadian businesses to generate and protect their IP. Many countries around the world are starting to see success from introducing this type of IP box tax incentive, and Canada's major trading partners are starting to notice.

As an example, just last year the United States introduced a new tax incentive, often referred to and called "patent box light", as they lowered the corporate tax rate on foreign-derived income from licensing IP. It's sometimes called "patent box light" because the U. S. did not go as far on the IP box incentive as some jurisdictions, such as the United Kingdom.

We submit that this presents an opportunity for Canada to ensure our competitiveness by adopting an IP box tax regime in Canada that would be comparable to that of the United Kingdom, not focusing just on revenue derived from patents but also on other forms of intellectual property.

● (0925)

Therefore, our recommendation for the creation of an IP box tax incentive through budget 2019 is enshrined in our written submission.

The second recommendation focuses on what we call the "first patent". This is really a recognition that we're recommending a rebate for small and medium-sized enterprises or businesses that are starting up to take that important first step of attaining patent protection.

Quebec launched its first patent program in 2015. It offers to eligible small and medium-sized businesses a subsidy on expenses related to obtaining their first patent, meaning they had not previously attained a patent. They want to encourage those SMEs to take that step and, if you will, get on the patent regime. The demand for that program was so great that the funds were quickly exhausted in less than a year.

Our submission is that a similar program at the federal level would allow Canadian start-ups and SMEs that are at the critical point of developing an invention but may not yet have the financial resources to do so to seek that patent protection. By protecting their inventions early and allocating their resources to the commercialization of their business, they will be better placed to establish their business and in the future improve their chances of scaling up their business and growing it both in the country and internationally.

In fact, as a patent and trademark agent and a lawyer practising in this area, I often consult with new clients who don't even recognize sometimes that what they're doing may be subject to patent protection and that they have the ability to seek that first patent. It is a real education when dealing with this, and a first patent program would certainly help those SMEs get on the patent program and learn what it takes to commit the resources, financial and otherwise, to get into the patent regime.

We recommend that the federal government create a first patent program through budget 2019.

In conclusion, our members certainly support the government's goals of pushing Canada forward to be leading innovators in today's competitive world economy. A recommendation of an IP box tax incentive would help spark innovation across the country through lower tax rates, with similar programs already offered at home in Quebec and Saskatchewan, as well as internationally—for example, in the United Kingdom.

Our recommendations on the first patent program would help the start-ups and SMEs protect their initial IP and give them the confidence and expertise to build an IP strategy within their core business plan.

Thank you.

● (0930)

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

We'll have to go to five-minute rounds for questions. We'll have Mr. Sorbara first and then Mr. Richards.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair.

Welcome and good morning, everyone.

I think it's probably best, since we're beginning our pre-budget consultations, to discuss where we're at in our economy right now. Having read some of the data and read over Senior Deputy Governor Wilkins' speech from September 6, I'm just going to quote from the speech: “The Canadian economy is now on a solid footing....” I'll stop there.

Second, I quote:

> ...overall Canadian economic performance has been solid and broad-based. Growth has been running close to potential, the rate at which the economy can grow on a sustained basis without sparking too much inflation.

We're seeing growth now in the two batons that the Bank of Canada expected: exports and business investment are taking hold and driving GDP, so we're doing not too badly. I fully understand the need to always push forward and ensure that, we are doing everything we can be doing with reference to any sort of response to what the U.S. did at the beginning of the year.

Yesterday BMO put out this chart entitled “U.S. Fiscal Finances: Feel the Chill”, which recorded a deficit in the U.S. of 5% of their GDP. Our deficit is much lower than that. I believe it's less than 1%. I believe it's about 0.7%, maybe even a bit lower than that, when you think in terms of a $2.2 trillion economy. I know we need to be prudent, be measured, maintain our strong fiscal finances, and ensure that we are making real progress for middle-class Canadians. I think if you look at our record.... I've heard a lot of suggestions today in terms of what we should be doing. I think we do need to do things on the regulatory front, such as capital cost acceleration, but at the same time, I don't think we need to let our knees become weak.

Those are my comments. My question is first of all for the AEM.

You did mention my riding of Vaughan—Woodbridge, so naturally I have to start with you. In capital cost allowance, what would be the bump? Everybody's talking about it. I've had conversations with the chamber, with Perrin and all the folks, and everybody's talking about that one measure. How powerful would it be for what I would call the non-service side of the economy—they're still a service, but the non-service side of the economy—like your members?

Mr. Howard Mains: If I could turn to an example on the agricultural side, as anyone who has some agriculture in their constituencies would know, the equipment that farmers buy today is priced on a global basis. Their commodities that they sell are on a global basis as well, and the prices are set in Chicago for all intents and purposes. A Canadian farmer, when he's competing, is competing against his competitor, whether it be in Michigan or Iowa.

Now if a Canadian farmer buys a combine.... In August, I checked the statistics, and this year to date there have been 599 combines sold in Canada. Those combines typically run around $600,000—

Mr. Francesco Sorbara: I'm going to interject.

What we're really speaking to is looking at capital cost allowance, not only the rates but what's included—what items can and cannot be included in terms of being eligible for the rates or for the CCA.

Mr. Howard Mains: Right. I'm only using an example of a typical Canadian farmer—

Mr. Francesco Sorbara: Yes.

Mr. Howard Mains: —and we can extend that to other sectors.

With regard to a typical Canadian farmer who would buy a $600,000 combine, in the first five years they would be able to write off only 80% of the cost of that acquisition, whereas his competitor in the United States who's selling corn and soybeans at the same price, as set in Chicago, gets to write that off in year one. That competitiveness issue comes into play.

• (0935)

Mr. Francesco Sorbara: Thank you, sir. I do want to move on.

The Chair: You have 30 seconds.

Mr. Francesco Sorbara: Kevin, very quickly, housing affordability is the biggest issue facing millennials in Canada.

Do you have recommendations?

Mr. Kevin Lee: We need to get more supply on track. We need to find ways to help them with down payments and we need to do something about the mortgage rules we have in place right now to recognize that first-time homebuyers are the lowest-risk group of people of all ages in terms of risk and default.

We really need to look at supply, at mortgage rules, and at making sure we don't pile more on in code costs.

Mr. Francesco Sorbara: Thank you.

The Chair: Okay, we'll move on to Blake Richards.

Mr. Blake Richards (Banff—Airdrie, CPC): Thanks, Mr. Chair.

Thank you all for your presentations and for being here. I'm going to focus, at least mainly, on you, Mr. Lee. I have some questions in regard to housing and some of the issues around it.

I'm obviously really concerned right now about first-time homeowners and homebuyers, whether buying new construction or whether it be resale, based on a few things. One of the issues is, of course, some of the mortgage rule changes that this government has made, and one of them is issues with the building code changes being proposed, in terms of the affordability issues that will be created.

I believe you've given some statements in the past that it creates costs somewhere between $30,000 and $50,000, I think, whether it be a new build or renovations required in order to sell a home. Those are significant issues. For the mortgage rules themselves, I've seen estimates that about 20% of people may not be able any longer to get into a home.

That's a big thing, right? That's a huge thing for Canadians. It's a source of pride to be able to say you're a homeowner. It's also often one of the best investments that many people make. This government is going to limit that opportunity for maybe as many as 20% of people who might have otherwise had that opportunity.

You mentioned some of these things in your opening remarks, but maybe I'll give you an opportunity to elaborate a bit on some of those thoughts. I guess I'll start with the mortgage rules, the stress test.

Do you see that significantly decreasing new home construction and therefore potentially employment in Canada as a result? Obviously, as we know, new home construction is a significant source of employment. What are your thoughts on that, and in addition on the ability of people to get into a home for the first time?

Mr. Kevin Lee: There's no question that it's knocking people out of the housing market to a pretty significant degree. That affects jobs. It affects construction. Unfortunately, it affects jobs and construction in the most extreme manner in the areas that can least afford to have it happen, in places like Alberta, which has been facing challenges with oil, forest fires, and so on; and Atlantic Canada, which is still trying to recover from 2009. In those areas where there is still an opportunity to have construction at a decent rate, we're seeing major slowdowns in what should be part of the local economy.

I think the other thing we have to look at when we're knocking people out of the housing market is that we're not just talking about the current economy; we're talking about the future. Where are these people going to be at the time of retirement if they are never able to get into the market? We heard stories, when some of the mortgage rules came in, of people being rejected and then going and buying a car, saying, “Well, we're not going to be able to afford a house; we're going to take the money we've saved and buy a car.” I don't think that that's the way we want to have our financial planning occur in Canada. We would like to see people investing in their future as an investment.

I also think that there's a strange leaning by some right now in suggesting that housing is a bad investment or that it isn't the investment it used to be. We know housing goes through cycles. Prices go up; prices go down; but over the course of time, just like the stock market, it's pretty darn steady, and it's putting shelter over your head. I think that we need to remember why Canadians are where they are in terms of success as a society. Home ownership has been a huge part, and it's time to re-engage in solutions for that.

• (0940)

Mr. Blake Richards: On that same line, with these building code changes that could potentially cost homeowners $30,000 to $50,000, what kind of an impact do you think that will have, both on new home construction and the ability for people to own a home?

Again, we want to try to encourage this, I believe, rather than, as you said, what we're seeing, which is sort of defeating the whole purpose. If people are just, as you said, creating debt in other areas because they can't own a home, I'm not sure that really serves any kind of purpose, or at least not the purpose that we've heard it's supposed to serve.

Mr. Kevin Lee: That's exactly right, and when we look at energy efficiency and housing, particularly new housing, we're doing incredibly well and have been for a long time. We're 50% better now than we were 25 years ago in new housing, and we continue to improve. The next changes are going to be very expensive changes. We've hit all the low-hanging fruit. As a simple example, we can't fit any more insulation in a wall, so we're getting fatter walls. That's not only more expensive to build; it's taking away from floor space.

Land prices, as everybody knows, are what's really driving a lot of the cost right now. You're talking about $30,000 or $40,000 when some of the stretch targets we're talking about are over the next 11 years. Eleven years is not a long time to change technology, and that's really what we're looking at.

Our main point on things like energy efficiency is that the code changes need to occur as they become affordable and not before, when they'll knock people out. We need to invest in research. We need to have affordability as part of the code process so that we don't say, “We're getting there no matter what the cost,” which, while not stated, is exactly where we are right now.

By 2030 we need to be at net zero ready levels. That's a 40% to 50% improvement in energy efficiency. It's $30,000 to $40,000 more on the average house, and that's in the Lower Mainland of B.C. In fact, in northern B.C., the latest studies show it might not even be possible with current technology to get to those types of levels in any way that makes sense.

We really need to look at it in such a way that we say, “If we want to get there, that's fine, but let's do it together. Let's find the affordable ways to do it, let's invest in research, and let's not put code provisions in place until we can show we have an affordable solution that's not knocking more people out of the market.”

The retrofit side is a whole other story. That's where the opportunity is. There is talk of regulation on the renovation side of the market. You have seen nothing in terms of push-back until you try to implement code effects on the retrofit side. Right now, when you change a code requirement, there's not really a voter there. That's why you see less push-back. You see organizations like the Canadian Home Builders' Association saying, “Hey, new homebuyers can't afford that”, but new homebuyers aren't really voters; they don't get that. However, try to say, “When you replace your siding, you're not just going to replace your siding; you're going to put $10,000 or $20,000 of insulation behind it,” and then you will hear about it. That's not going to go over very well. It's going to become very political. A tax credit, though, which incentivizes people to do it, is something we've seen work before, and we could see it happening again.

The Chair: Thank you.

Mr. Julian is next.

Mr. Peter Julian (New Westminster—Burnaby, NDP): Thank you very much, Mr. Chair.

Thank you for your contributions. They were very interesting presentations, with a lot of great ideas.

Mr. Kelly, when you talk about a pathway to permanent residency for temporary foreign workers, that's certainly music to my ears and hopefully to the rest of the committee.

Also, Mr. Lee, when you talk about the energy retrofit program, it's also music to my ears. Those are very important suggestions.

I'd like to start off by asking my questions to Mr. Morrison.

Mr. Morrison, Jagmeet Singh, our national NDP leader, and I met with housing advocates in Burnaby last Friday. What we found from the advocates, the organizations, and the individuals was that the Lower Mainland is in crisis. There are people who have just become homeless. There are people who are on the verge of becoming homeless.

One that struck me was a man named Edward, a tradesman who worked all his life and has a small pension. He said that in 14 days—and that's 12 days as of today—he would be homeless. He has been searching desperately for an apartment that will actually be within his price range.

Coming back to the issue of housing, do you feel we are in a crisis in certain regions of the country like the Lower Mainland, and what should the federal government do immediately to address that crisis?

Secondly, you raised the issue of 125,000 Canadian families being on waiting lists already. The housing plan the government has put forward will only build 60,000 units over 10 years. Where will we be in 10 years if we only build 60,000 units, when there are already 125,000 families waiting for housing? What does that mean over a 10-year period? How many more Canadian families will have to wait?

● (0945)

Mr. Jeff Morrison: Thank you. It's interesting and it's great to hear that you met with those advocates in Burnaby.

There was just the discussion about the private market and home affordability. Yes, of course that's important, and for many Canadians, yes, home ownership is a dream. However, we also have to remember that for millions more Canadians home ownership is not the dream: it's just simply having access to any home that is the dream. For those roughly 250,000 Canadians who are homeless every year, it's any home that is the dream.

Are we in crisis? For many years the federal government had not been investing what it needed to into the non-profit and affordable housing sector. We saw growth in social and non-profit housing in the sixties, seventies and eighties. It was the ending, the completion, of operating agreements in 1993 that really precipitated the decline in both the quality of affordable housing and the supply of it.

Would I say we are in crisis? Yes.

Just to clarify, the wait-lists are more than 125,000 people. I was referring simply to two cities in Canada. When you add in everything else, it's significantly higher.

Mr. Peter Julian: How high would it be?

Mr. Jeff Morrison: The fact is that we don't actually know the national wait-list, simply because jurisdictions both locally and provincially count wait-lists for affordable housing in different ways. At this point, because we have also not had the investment in research we need in affordable housing, we don't have a solid national number. We just have really anecdotal evidence from individual cities and, in some cases, provinces.

Mr. Peter Julian: Would it be fair to say that we're talking about hundreds of thousands of Canadian families?

Mr. Jeff Morrison: It is that at a minimum, absolutely, on wait-lists. These are Canadians who have registered to be in an affordable housing unit. This does not generally often include, for example, homeless people who may not register. It is, I would argue, a crisis.

Also, in terms of the solution, again, I think the national housing strategy started us down that road to increasing access and particularly supply. As I said in my remarks, though, there need to be additional significant tools and policies designed to do that.

One quick example I can give that the federal government could do tomorrow is with the new Canada Infrastructure Bank. Affordable housing developments are not an eligible project under that bank. We have asked the Minister of Infrastructure to do just that. That's one example, but there are others we could use.

Mr. Peter Julian: Coming back to the issue, then, of housing, if we build 60,000 units over 10 years, is that anywhere near adequate to address wait-lists of hundreds of thousands of Canadian families who are desperately seeking affordable housing?

Mr. Jeff Morrison: It's a first step. It is certainly not at all what is required. We definitely need more.

Mr. Peter Julian: Thank you very much for that.

Do I have another minute or so?

The Chair: You can have a short question.

Mr. Peter Julian: It's a short question for Mr. Stratton. You mention in recommendation 17 that the federal government should not look to duplicate work already being done by insurers for a national pharmacare plan. Of course, the Parliamentary Budget Officer actually says that businesses would save about $6 billion and that overall, as Canadians, we'd save $4 billion with a national pharmacare plan. I'm a bit concerned, then, about the idea of not duplicating, because it actually adds to costs.

Is the Canadian Chamber of Commerce opposed to a national pharmacare plan that is universal?

Dr. Trevin Stratton: We're for a filling-in-the-gaps approach to a national pharmacare plan. It depends which study you look at, but most Canadians are covered under a private plan or a provincial plan when it comes to pharmacare. We don't want to duplicate that work that's already being done. Most Canadians also seem to be relatively satisfied with the pharmacare that they have. It's very important that people who don't have access to it do get access to it, so that's why we're for a filling-in-the-gaps approach to national pharmacare.

What we hear from a number of our members—to represent the views of employers on the issue—is that they use their current private plans in terms of attracting and retaining employees, both in Canada and from abroad, and that this is an important aspect of the current system. They don't want to throw out the baby with the bathwater.

The Chair: Thank you all.

Mr. Fergus, you have five minutes.

[*Translation*]

Mr. Greg Fergus (Hull—Aylmer, Lib.): Thank you very much, Mr. Chair.

I would like to thank all the witnesses for being here today to discuss their prebudget consultation submissions. I also commend them for everything they said about competitiveness, which is truly an important issue. It is the general topic our committee has chosen.

I have a lot of questions for you, but I have to select a few.

I will begin with a question for Mr. Morrison about affordable housing.

Mr. Morrison, I have been involved in this area for a long time. I am familiar with your association's work over the years. Thank you for your work in partnership with the government on the National Housing Strategy.

Canadians and everyone here know that this is the first time in a generation that Canada has had a housing strategy; it is a 10-year plan. According to your first recommendation, this program should be extended over a longer period of time.

Can you provide the historical background and tell us more about why this program should be extended over a longer period?

● (0950)

Mr. Jeff Morrison: Thank you for your question. If you don't mind, I will answer in English.

[*English*]

This is the first national housing strategy that we have seen in generations. There is some debate among academics on whether this is the first in history or not; I'll leave that to the academics.

Clearly, as I mentioned previously, the federal government had been involved in affordable housing, and supported it through the implementation of operating agreements throughout the postwar generation—the sixties, seventies, eighties. We saw CMHC and the federal government back out of implementing any new operating agreements in roughly the early nineties, and since that time we've seen very little federal engagement in the social housing sphere. Clearly the national housing strategy marks the return of the federal government to a leadership position with respect to affordable housing.

It is a 10-year plan. I know there has been a lot of welcoming feedback on that long-term element of the plan. However, there are some components of it, as I mentioned in my remarks, that are of concern.

For example, the federal community investment will essentially see operating agreements for federal operating agreement holders being extended up to 10 years, but the federal government has signalled that it wants to then essentially wean itself off the subsidy model. That's raised several concerns, particularly for housing providers who serve the most low-income populations or very vulnerable populations. I think we are looking for some signals from the federal government that, yes, this is 10 years, but that the federal government will remain in the business of social housing beyond that. I know it's difficult for this current federal government to be able to commit to something beyond a 10-year time frame.

One thing we do hope for, which will essentially bind the federal government to maintaining its presence in social housing, will be the introduction—we hope this fall—of the right-to-housing legislation that Minister Duclos has promised. We're hopeful that we'll be seeing that in the House this fall.

[*Translation*]

Mr. Greg Fergus: Thank you, Mr. Morrison.

My next question is for Mr. Kelly and Mr. Mains and pertains to the capital cost allowance.

Mr. Mains, you said the amount should be increased from 30% to 40%. For your part, Mr. Kelly, you suggested 100%.

I do not have much time left, but I would like to hear briefly from you both on this so it is reflected in the record of proceedings.

[*English*]

Mr. Howard Mains: There are certain groups that we've seen ask for the 100% in their submissions, and we're certainly supportive of that. There are times, though, when pure practicality of matters comes into play. Having watched the Department of Finance over the years, I would be cautiously optimistic if they would move from 30% to 40%. I'm sure that would be a welcome change.

Mr. Daniel Kelly: From our perspective, there are certainly many ways to achieve that goal, and I think the business community would be pleased if the government were to take one of those paths toward that end. The method that we prefer, that we've suggested, is to borrow from the U.S. approach, which is to allow 100% deductibility in the first year for certain types of assets.

The way that the government could work to control the costs is by setting a threshold under which there would be a 100% deductibility. For example, in the U.S., it started at $500,000 under Obama; it's now a million dollars in the first year.

We have suggested that the Canadian government could announce a multi-year plan whereby there would be 100% deductibility under $100,000 or $200,000 in year one, and then the bar would go up after that. That's the way that Parliament may find its way to afford it. While the small and medium-sized firms would get the benefit right away, it would be a pathway for the future.

● (0955)

The Chair: Thank you all.

We'll turn to Mr. McCauley.

Mr. Kelly McCauley (Edmonton West, CPC): I want to continue with that line of questioning, Mr. Kelly, because it was one of my questions.

Does CFIB have in writing what the recommendation is for a tiered implementation for SMEs?

Mr. Daniel Kelly: We have not set out a specific plan. We did ask our members, and we gave them the example of starting at $100,000. There was broad-based support.

Slide 5 of our deck shows that 82% of our members supported the idea of a full year deductibility with the example of $100,000. There were only 11% opposed. That would be a starting point. You might consider that if the Obama administration was able to do it with half a million dollars U.S., you might look at a two-year or three-year plan to get there, starting at a reasonable level.

For our members, what has been more important about government policies when it comes to deficit reduction and all sorts of tax measures is not that we get there in one year—although there is some urgency to it—but that governments lay out a plan to get there. I think if there were a meaningful start to it in 2019 and a plan to get, over multiple years, towards the U.S. levels, I think that would address, at least for small and medium-sized firms, a lot of the competitive questions they have.

I certainly agree with you, Mr. Sorbara, that there are some warts in the U.S. system, absolutely, but small business optimism in the U.S. is at an all-time high. That is not the case in Canada.

Mr. Kelly McCauley: What are we at?

Mr. Daniel Kelly: We in fact are kind of middling. Some months it's not bad and other months it's pretty terrible. We've seen this bouncing up and down.

Mr. Kelly McCauley: That leads to my next question.

You touched upon the CPP tax hikes. They are the cost of business. I saw an earlier survey that you did of your members. I think they were saying that because of this hike, they're going to have to cancel wage increases and put off hiring. Has that sentiment changed at all, or is that still—?

Mr. Daniel Kelly: It hasn't.

Mr. Kelly McCauley: Especially when you add in the minimum wage hikes that we see in B.C., Alberta, Ontario....

Mr. Daniel Kelly: You're absolutely right. The cost pressures on small and medium-sized firms are going through the roof right now. Some of them are natural, in that they're competing for labour and having to raise wages for that reason; others are government-imposed.

I don't think right now that anyone fully appreciates how significant the CPP impact is going to be on small and medium-sized firms. The government estimates of the job losses—and there are estimates that there will be job losses as a result of CPP expansion—we believe are vastly underestimated.

We worked with the University of Toronto on an estimate, and it was several times higher than the government's estimates. I think there are going to be a lot of businesses that over the next few years are going to be doing a lot of cost-trimming, and that's going to be felt by workers in the months and years ahead.

Mr. Kelly McCauley: It's almost being pushed as a free lunch coming down the road for a retiree, but there is no such thing as a free lunch, and it's costing businesses thousands of jobs.

Mr. Daniel Kelly: The benefit increases get phased in over 40 years and the premium increases get phased in over five to seven years. That is going to take its toll on the Canadian economy. Again, EI will insulate a little of that in 2019; about a third of the cost increase will be covered by the EI reduction. We're pleased with the EI reduction that has been announced, but an awful lot more needs to happen if we're going to insulate small and medium-sized firms from the effect.

Mr. Kelly McCauley: Mr. Kelly, I have about a minute and a half. You touched upon your article in the National Post today. I'd like you to expand a bit upon it. I know the Prime Minister has commented that people who have private corporations are just tax dodgers. There is a lot of that feeling being pushed out—that people who have income splitting or sprinkling are solely wealthy people giving money to country club wives. That's not the truth. I'd like to hear a bit from your article about it.

Mr. Daniel Kelly: Our concern—and this is noted in my National Post piece today—is really on the practicalities of the new rules that have been put in place. We do not deny for a second that some small businesses were taking liberties with the tax system and doing everything they could to avoid tax, in some cases inappropriately so. We didn't oppose at its core the idea of tightening up some of the rules, but what has happened instead is that the CRA has an absolute challenge in trying to implement these new rules that have been imposed. There are broad sectors of the economy, such as the service sector, that are not going to be insulated from some of the clarifications the government has put in place and the impact on small firms is probably not going be to felt in 2018, but it absolutely will start in 2019 when the audits begin.

● (1000)

Mr. Kelly McCauley: Have you looked at the added costs to these small firms for accounting and auditing?

Mr. Daniel Kelly: We haven't done any aggregation of the overall costs to the economy, but we believe the audit season will start to parse some of that out, and that's not too far away. There will be another round of anger and heat at government as a result of these changes when a lot of small businesses are found offside.

Mr. Kelly McCauley: Great. Thank you.

Thank you, Mr. Chair.

The Chair: I'll call on Ms. Rudd for five minutes.

Ms. Kim Rudd (Northumberland—Peterborough South, Lib.): Thank you, Mr. Chair, and thank you all for coming this morning.

First of all, I just want to say that as a former president of a chamber of commerce and a former CFIB member, I'm quite familiar with your organizations and a lot of the work you do. In my previous role, Kevin, I know we talked a lot about energy efficiency. Those are a couple of the things I'd like to talk about.

I'd like to follow up where Mr. McCauley left off on the Canada Pension Plan contributions.

As someone who is technically a senior and someone who lives in a riding that has a good number of seniors—and the housing issue comes up in terms of affordable housing with seniors as well—I take some exception to the increases being called a tax. I see them as an investment. As we see defined contribution plans fall and defined benefit plans fall, we see seniors coming into a time when they're not able to make ends meet. Yes, it is a short time frame in terms of ramping up, but the reality is that we have to do something.

For those of us on the ground in our communities, we see the results of seniors not being able to afford to stay in their own homes. One of the things we're very excited about—and I know my colleague here, the parliamentary secretary, worked very hard on this—is that we now have a Minister of Seniors, and that minister will take into account a number of these things, the Canada Pension Plan being one.

In exchange for those higher premiums are higher benefits, and the numbers are significant. I think we have to remember what the goal is. It's not a tax; I see it as an investment.

I think the other thing we need to remember is that these increases will also come into effect to support survivors; the survivor's benefit will be increased, as will the disability benefit. As an entrepreneur, as a small business owner myself, I know we all struggle from time to time—there's absolutely no question—but I guess we all have to make decisions about what's important. I would like to get some help as we go through this process in changing some of the language around what it is we're talking about.

Mr. Daniel Kelly: Sure, let me talk on that front.

I can understand from an employee perspective why one might suggest that it's not a tax but in fact the deferring of your income for your benefit later. From a business perspective, however, it is a tax. It is a hit to the payroll budget of the firm that the business itself does not derive any benefit from. It is putting its money aside for its employees, but it is not driving any direct business benefit.

You could argue that a private pension plan or a matched RSP is essentially an employee benefit. The employer may be able to attract workers by offering these benefits, as Mr. Stratton talked about with respect to pharmacare. When it's government-mandated and imposed across the board, it ceases to become any kind of a tool that one could use to attract workers. That's why we use the words “payroll tax” for Canada Pension Plan premiums, workers' compensation premiums, and employment insurance premiums.

One thing I also want to note, though, unfortunately, is that when we did some public opinion polling, we found that 25% of Canadian seniors right now believe their CPP benefits are going to go up. Of course, as we all know, that's not true. In fact, the benefit increases will help seniors over the next 40 years, when the completion plan is started, so somebody my son's age, age 10, will get the additional benefits, but anybody who is retired now or will be retiring in the next 10 years will see no benefit at all.

● (1005)

Ms. Kim Rudd: Actually, that's not correct. The benefits go up in 2019 by $20, so they are starting to go up. We can have a debate about this, and we could probably go on a long time.

One of the things I wanted to talk about is energy efficiency. You talked about the efficiency in new builds, which we know is there, but as we look at the stock of housing, Mr. Morrison, particularly in rural communities and some of the older urban buildings, the efficiency is a challenge. We know that we can get to 50% of our Paris commitment just with energy efficiency. It's a very important aspect of what we need to do.

Could you comment about that importance of energy efficiency, not just in terms of the work we need to do for good housing stock, but also in terms of energy efficiency as it relates to our environment?

Mr. Jeff Morrison: As I mentioned, the most significant program in the national housing strategy is the $16-billion co-investment fund, which essentially will fund payment for repairs and renewal of the existing housing stock. One of the requirements for housing providers to receive funding under the co-investment fund is that they have to demonstrate that the project or the new build they're proposing meets certain energy efficiency requirements.

I want to be very careful here, because of course we fully support the greening of the existing housing stock and of new construction. However, I will say that this requirement has proven to be a challenge for some projects, particularly for repair and renewal types of projects for which an energy efficiency component is simply not there. For example, if you're installing a new elevator in an old building, there may not really be an energy efficiency gain to be had. That's serving as a bit of a disincentive for several housing providers to apply through that fund, which is defeating its purpose. We've asked CMHC to build in a little flexibility in that requirement.

Ms. Kim Rudd: Thank you very much.

The Chair: Thanks to all of you.

Five minutes go by so fast when you're having fun, Kim.

Mr. Poilievre is next.

Hon. Pierre Poilievre (Carleton, CPC): Mr. Kelly, your members have suffered a real drubbing over the last three years. They've been hit by heavy new regulations at a provincial level and they're imminently facing new federal carbon taxes with no prospect of any offsetting reductions.

They came under attack with the tax increases of July 18, 2017, which were an existential threat to many businesses. Also, any so-called gains that had been made were already there, of course. The reduction of the small business rate to 9% was already legislated back in the 2015 budget. The current government took it away and then brought it back, under some pressure, so that's not a gain; it's just a reclamation of something that small businesses already had. The only reason the government backed off in the attack on small businesses that it initiated last summer was that there was a spontaneous grassroots uprising across the country of individual entrepreneurs who are otherwise apolitical but who realized that their very businesses were under threat.

My concern is that as long as the political dynamic doesn't change, that won't change. None of what I just described will change either. The trajectory is set and it will continue.

A moment ago, you said that 25% of seniors think their CPP will rise, when in fact we all know that's not true. If we're lucky, somewhere down the road, 10 to 15 years from now, it will be middle-aged people who will then be retired who will get some break. When you stated that fact, you actually encouraged the government to go ahead with its existing plan, because you pointed to a public relations advantage to them in doing so, even though the public policy advantage is not a real one.

I guess my question relates to whether or not the method of just sending politicians briefing notes and making testimony and writing op-eds in newspapers that politicians read is enough, or if it's time to work on changing public opinion.

I can tell you that politicians go out and door-knock, and if they hear something at 10 or 15 doors in an evening, they act on it, whereas if they get a briefing note from an Ottawa lobbyist....

What's the strategy to invest in changing public opinion instead of just lobbying politicians?

● (1010)

Mr. Daniel Kelly: Thank you very much for your question, Mr. Poilievre. We've certainly had this kind of conversation by trading emails back and forth a few times.

CFIB has always been and will always remain a non-partisan organization working with all political parties. Our spirit of criticizing bad government policy and complimenting good public policy will remain. We sent out a news release complimenting the government when it reduced employment insurance rates, shortly followed by a reminder that CPP increases are going to go up.

I take your point very seriously, though, about the fact that many of these issues that are incredibly complicated need to be shared with the Canadian public. That's why CFIB helped lead a coalition, together with the Canadian Chamber of Commerce and 80 business associations, to try to share with the public the impact of the small business tax changes on the business community.

We did the same with the Canada Pension Plan issue. For two straight years we fought that issue, did public opinion polling, sent out news releases, and tried to ensure that we had Canadians behind us on that front. A decision was reached by government. We are still actively trying to undo the decision. For the record, we are lobbying the Ford government to pull out of the agreement for Canada Pension Plan premium enhancements. We only have a few short weeks to do that, but our plans remain the same.

I take what you're saying. There are serious concerns. We're going to call them as we see them on an ongoing basis, complimenting good policy, as there has been some, and criticizing bad.

The Chair: You can have a short question, Pierre.

Hon. Pierre Poilievre: Mr. Lee, we regularly see politicians simultaneously increase housing prices through burdensome regulations, zoning restrictions, taxes and excessive fees, and in the same breath say that they want to spend more tax dollars to reduce housing prices. Do you want to comment at all on this paradox?

Mr. Kevin Lee: I haven't seen much tax spending to reduce house prices. Can you give me an example? I fail to know of one.

Voices: Oh, oh!

Hon. Pierre Poilievre: Fair enough. There has been a lot of spending. I'm not sure any of it has succeeded in reducing house prices, but it is always done as, quote, an affordable housing objective.

Mr. Kevin Lee: Yes, and I think it's really important that we draw the distinction between affordable housing and housing affordability. There have been a lot of investments. Certainly the current government, with its national housing strategy, came out with a national social housing strategy, and that's important. Jeff has spoken to the investment that has been done to support those in need, but let's not confuse that with an actual national housing strategy that addresses affordability and the housing that regular people, new homebuyers with two incomes, should be able to afford but can't.

There has been a lot of talk about investing in affordable housing, but let's not confuse it. Canadians are not unaware of this. We did a recent poll seeking public opinion. Canadians are very well aware of and very concerned about the problems of just being able to afford a house, frankly, and they recognize that governments are not addressing that right now. Taxes, regulations and everything else are driving up those costs. Zoning is driving up those costs. It's time to do something about it.

The Chair: I am going to have to cut you there. We have time for one more questioner.

Go ahead, Mr. Fragiskatos.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Mr. Chair. As a new member of the committee, I look forward to working with you and all colleagues around the table.

My question goes to the chamber, first of all.

Mr. Stratton, in your brief you mentioned the Atlantic immigration pilot. I'm not from Atlantic Canada. I'm a member of Parliament from London, Ontario. In our city, and indeed throughout the southwestern Ontario region, we are challenged by skills shortages. It's very common for me to hear business owners tell me that this is a main problem that they are faced with. Your brief calls for expanding the pilot so that it can—I'm quoting directly from it now—“fill labour force needs” throughout Canada. I wonder if you could expand on that for us.

Dr. Trevin Stratton: Absolutely, yes. The Atlantic immigration pilot was a regional pilot project to figure out what skills were needed in different regions or different parts of Atlantic Canada and to fill those with immigration applications. The idea is to expand that to the entire rest of Canada.

I travel to southern Ontario often and chat with local chambers of commerce there as well. I think it's important to keep in mind, too, that in some areas or some local communities it's not only about the skills challenge: it's also about just finding labour, period.

I hear from a lot of business owners who say that they will train people but are having difficulty just attracting people to their communities in order to be able to employ them, so on top of the Atlantic immigration pilot, we're also talking about the temporary foreign worker program and getting better labour market information on the ground too, so that the matching can be done in a better way. We're also talking about looking at the ability to transfer high-wage jobs and at “trusted employers”, who would then be able to choose workers through the temporary foreign worker program if they are designated as trusted employers.

● (1015)

Mr. Peter Fragiskatos: Thank you very much.

Mr. Kelly, would you echo that sentiment, specifically on expanding the Atlantic immigration pilot? Do you have a view on that?

Mr. Daniel Kelly: Absolutely. That is a terrific suggestion. We have followed that program closely.

It is very similar to the recommendation we made to government to consider something called an “introduction to Canada visa”. It would build on the temporary foreign worker program, but it would start somebody who comes over on a temporary basis on a pathway to permanent residency. I think that was the challenge of the previous program when it was, unfortunately, scaled back.

The Atlantic immigration project proposal really does address many of the design faults in our current immigration system. It allows employers a greater say in terms of bringing immigrants in to fill specific labour market shortages. When we did that in my home province in Manitoba through the provincial nominee programs, we found that a large percentage of those immigrants who came to those communities to take those jobs ended up staying as permanent residents in those communities. That helps spread the benefits of immigration across the country.

Mr. Peter Fragiskatos: Thank you.

Mr. Stratton, I noticed in your brief that you talk about venture capital and the challenges we face as a country around that. You talk about tax incentives as a stimulant for VC.

However, my question is for you, Mr. Lynds. While tax incentives are certainly important, I wonder if there's a place in the conversation, when it comes to venture capital, for intellectual property. I'll quote directly from a Globe and Mail piece: “VC firms put their money where there's IP”. I wonder, sir, if you could speak to the connection between intellectual property and venture capital.

Mr. Grant Lynds: Sure. Certainly when we deal with companies on the investment side, that's exactly it: the investors want to see what you're doing to protect yourselves and build for the future. It's a chess game. They want to see what you're doing now and what you're going to be doing 10 years from now.

I think that's where the importance of IP is, whether on the front end, as in the first patent program—get your first patent in place so you can show the investors you're taking those steps—or on the commercialization end, which improves the R and D side too. If companies know they can commercialize their product, their process, in a country at a preferred tax rate, they are more inclined to apply for intellectual property protection in that country—for example, in Canada. It works at both ends, the front end of obtaining your patent protection and the back end of commercializing it. The investors see that you're building for the future. They see that this is a company they want to be a part of, because it's not just one country; you have to think, “Where's next? What's the next opportunity?” Most IP is jurisdictionally based, and that's what the investors want to see—that you're taking the steps to build for today and the next 10 or 20 years.

Mr. Peter Fragiskatos: Thank you very much.

The Chair: Thank you.

I have just a couple of points I'd like clarification on.

In your presentation, Mr. Lynds, you talked about the first patent program. In main brief that you submitted to us, did you say that the range of the cost for that would be $25 million, plus administrative costs? I'm not clear on this. Is that relating to the first patent program?

Mr. Grant Lynds: That's right. That was the estimate, based on the numbers in the submission, for companies interested in applying for a first patent, with $25,000 suggested as the maximum cap of the financing that would be going to that company in order to obtain their patent protection.

The Chair: Thank you.

Mr. Mains, you're fairly open-ended in your 100% first-year deductibility for investments in farm equipment. Could you give us a little bit of a definition of what farm equipment you're talking about? If you're talking about it all, it's basically impossible to do, I would say, but if you're talking about new innovative equipment, that's a different story.

Second, which is the greater problem in terms of competitiveness with the United States, the corporate tax rate or the first-year deductibility that they're applying there?

● (1020)

Mr. Howard Mains: I will take the last question first. I think others on this panel may be better able to answer that question, but from what I've seen, there certainly is quite a call for harmonization or at least equalization between what our competitors in the United States are dealing with and what we have to deal with in Canada.

If we consider equipment in particular, there have been comments made around this table that when it comes to equipment, there's quite a broad range. It could be anything from lab equipment that is used by start-up companies on through to the equipment we see outside this building. I think we need to look at it with a broad lens.

The Chair: With that, I thank each and every one of you for your presentations this morning. We appreciate them very much.

We'll suspend for a couple of minutes while we bring up the second panel.

● (1020)

(Pause)

● (1025)

The Chair: Let's get back to the table, please. If we're late starting, we run over on the other end, and we're already late.

The bells are ringing. What time is the vote? It's at 10:55.

Are people agreeable to continuing until about seven minutes before? We usually do so at this committee because we're just down the hall.

Mr. Kelly McCauley: Can you walk fast enough to get there in seven minutes?

The Chair: Yes, we can do that, and we'll get through most of the submissions by then. Perhaps somebody could watch the time. Did we agree to that?

Some hon. members: Agreed.

The Chair: Thank you all.

Welcome to all of the witnesses for pre-budget consultations in preparation for the 2019 budget.

We'll start with the Assembly of First Nations. We have Mr. Wilson, special adviser, research and policy.

Go ahead, Mr. Wilson.

Mr. Daniel Wilson (Special Advisor, Research and Policy Coordination, Assembly of First Nations): *Kwe*. Good morning, Mr. Chair. I thank you and the committee for the opportunity to appear today, and I thank the Algonquin nation for welcoming this meeting here on their unceded territory.

On behalf of the Assembly of First Nations, we begin by recognizing the unprecedented level of investment in the last three budgets. These investments have begun to address Canada's commitment to end the two-decade-long 2% cap, a temporary measure applied without regard to population growth, inflation and other cost pressures. Lifting that cap was the right thing to do. However, first nations' outcomes in social and economic development have been flat or have regressed during that time. As a result, this work is not complete. Additional investments are needed. As we will explain, the monies identified in the last three budgets must reach first nations more efficiently and effectively so that the impact can be felt on the ground, where it is needed.

The committee's theme this year is economic growth ensuring Canada's competitiveness. In 1996, just as that 2% cap began, the Royal Commission on Aboriginal Peoples published a study identifying the lost opportunity cost to Canada as well as the social cost of failing to invest in first nations. Here last year, the AFN cited to this committee studies showing that closing the socio-economic gap for first nation citizens, Canada's youngest and fastest-growing demographic, would in fact increase Canada's GDP by 1.5% per annum. This year we would balance that thought with the risks of not continuing to invest to close the gap.

From a continuing string of court wins by first nations, it is clear that economic growth and competitiveness rely on stronger co-operation with first nations and on the respect of our rights. It is important for this committee to understand the relationship between the fiscal capacity of first nation governments and the human rights aspect of closing the socio-economic gap.

The Prime Minister committed this government to working with us to realize a new fiscal relationship in order to ensure that essential government services comparable to those received by other Canadians can be provided by first nation governments. We have made some positive steps in the direction and we will be continuing that work. At a minimum, there is a need for transfers to keep up with inflation and total population, to address real needs and respect treaty obligations.

Canada was founded on agreements to fairly share the benefits of the lands and resources, a promise that has not been kept yet remains the way forward. Better partnerships mean stronger first nation governments and a stronger Canada. Continued investment will help build the new fiscal relationship to the benefit of all, fuelling growth and improving Canada's competitiveness.

We have provided this committee with copies of the AFN's pre-budget submission for 2019. The numbers you see, we recognize, are large, reflecting the size of the continuing need arising from decades of underfunding of essential government services.

Canada tells us that the 2% cap on annual increases to first nation budgets has been lifted, and we are pleased to hear that. But in some of the areas identified, such as core governance programs and services, band support funding, operations and maintenance, as well as post-secondary education funding, we have yet to see an annual increase of more than 2% since 1997. These are priorities. The investments identified in our submission would help to redress the damage done over those 20 years to level the playing field and to build the capacity in first nation governments that is needed in order to participate as a full partner with industry or other governments in economic growth.

Before I conclude, I must also highlight the needed investment in languages, both at Canadian Heritage and within the education program in Indigenous Services Canada. This is essential in order to implement the upcoming legislation on indigenous languages. It will help Canada address the effect of the residential school policy that robbed so many of their languages. Studies tell us that a strong base in their first nation languages will help our young people achieve more in school, contributing more to Canada's competitiveness and economic growth. It will help communities to restore pride and to heal, to become stronger and more empowered partners within Canada's economy.

● (1030)

Canada's economic growth relies on better partnerships with first nation governments. The investments outlined in our submission, and in particular those I've highlighted today, will contribute to building those partnerships.

Thank you. *Wela'lioq*.

The Chair: Thank you very much, Mr. Wilson, and I do appreciate how you broke down the figures in chart form in your main submission. It's helpful.

From the Business-Higher Education Roundtable, we have Ms. Walker, executive director.

Ms. Valerie Walker (Executive Director, Business-Higher Education Roundtable): Mr. Chair and committee members, thank you for inviting me here today. The Business-Higher Education Roundtable, or BHER for short, brings together leaders from some of Canada's largest companies and top post-secondary institutions from all regions of the country and a wide array of industries.

Created by the Business Council of Canada in 2015, BHER has three central objectives: to assist young Canadians as they transition from school to work, to strengthen Canada's research and commercialization capacity, and to help employers adapt to the economy of the future.

When we think about Canada's economic future, there are a lot of uncertainties. Our biggest trading relationship is under a cloud, digital disruption is eliminating some jobs while creating others, and whether we like it or not, our population is aging. That's bound to create serious labour market and fiscal challenges.

In the face of this uncertainty, we believe it is time for the Government of Canada to focus on something that it can control: helping young Canadians prepare for the skills economy of tomorrow. We believe that the most efficient and effective way to prepare Canada's youth for the coming skills revolution is to embrace work-integrated learning or WIL. Our research shows that WIL experiences like co-ops, internships, apprenticeships and applied research projects provide meaningful learning opportunities for students and a pathway for career success.

My colleagues and I spent the summer building a coalition of more than 25 national organizations and associations representing students, employers and institutions, and all agree that now is the time to act. Now is the time to ensure that every post-secondary student in Canada has the opportunity to complete a meaningful work experience before they graduate. Because these groups all feel so strongly about the importance of WIL, they joined together to formally endorse BHER's recommendations to this committee, one of which is to recognize the need for a national WIL strategy.

What does this look like in practical terms? Right now roughly four out of 10 PSE students have an opportunity to participate in WIL. That gap in real numbers represents 150,000 students per year who do not. Therefore, they're missing out on that opportunity. A national WIL strategy would focus the efforts of employers, educators and governments, both federal and provincial, and it would allow us to achieve our goal of 100% WIL in the most effective and efficient way possible.

In recent days I've been asked questions that perhaps some of you are wondering about as well. Why should the Government of Canada get involved in this and how? My answer is pretty simple. The federal government is already involved in WIL. Budget 2016 committed $73 million through their student work placement program. This program provides funding to industry associations that in turn create WIL pilot programs, including wage subsidies, to employers who offer quality WIL placements.

The wait-list for participation in these pilots is long, and early evaluation outcomes are positive. We believe there's a huge opportunity to expand those programs that are already taking place, and to help us close that gap of 150,000. Employers and educators are already acting and they're willing to step up these efforts, but there is an important role for the federal government as well.

To get us there, we're asking the federal government to do four things. The first thing is to expand the programs that you are already funding to increase employer participation. These incentives are especially critical for small and medium-sized companies, and under-represented groups including first nations, Métis and Inuit students.

Second, we need to fund a national platform that helps connect employers, educators and students. This will increase the supply of quality placements that employers are able to offer, in turn motivating post-secondary institutions to adapt and build more WIL into their programs.

Third, build WIL into the innovation superclusters initiative and the economic strategy table recommendations. These initiatives already have committed industry leaders around the table, men and women who are anxious to help develop the talent pipeline they need to succeed.

Fourth, work with us. I'm not here today to ask you to create a strategy, and we're not looking for the government to do the heavy lifting. We need your support to get started. As I said off the top, we spent the summer building a broad coalition of partners ready to come together to execute this national WIL strategy that we've created. The federal government has an important role to play, but this is certainly not its responsibility alone.

● (1035)

We recognize and thank the Government of Canada for the commitments it has already made and urge you to continue creating new opportunities for young people, breaking down barriers that prevent Canadians from reaching their full potential.

Thank you for this opportunity to speak to you today. I'd be happy to answer questions.

The Chair: Thank you very much, Valerie.

We'll now turn to the Conference for Advanced Life Underwriting. Mr. Legault is the president and Mr. Wark is the tax adviser.

Mr. Legault, go ahead.

Mr. Guy Legault (President, Conference for Advanced Life Underwriting): Thank you, Mr. Chairman.

● (1040)

[*Translation*]

CALU was very pleased to accept your invitation to present its recommendations for the 2019 budget.

To begin, let me tell you a bit about our organization.

CALU has 670 industry leading members including insurance and financial advisors as well as accounting, tax, legal and actuarial experts.

Our goal is to protect Canadians' financial future through sound long-term planning. Canadians rely on the expertise of these professionals for their investments so they can live a more secure and prosperous life.

Through a strategic partnership with Advocis, CALU represents the interests of more than 13,000 advisors on advanced planning issues to protect the financial future of millions of Canadians. Our advisors support small and medium-sized businesses by providing expert advice on essential financial products such as investment and retirement solutions, employee benefit programs, and life, critical illness, and disability insurance.

It is from this perspective that we prepared our brief, which addresses three themes. I will get straight to it.

[*English*]

We have highlighted in previous pre-budget submissions the pending long-term care crisis in Canada. As Canadians live longer, they are more likely to be managing a chronic disease. They will need some degree of long-term care support in their homes or in institutional settings. Anyone who has cared for an aging parent is acutely aware of both the emotional and financial toll. CALU is working with the financial services industry to explore initiatives to educate Canadians on their funding obligations for long-term care and identify suitable investment in risk-based product solutions.

We believe the federal government has a leadership role to play on the issue. Specifically, we suggest that the federal government undertake a number of initiatives. These could include convening a federal-provincial-territorial ministers committee to identify and develop a national approach for dealing with long-term care funding, and holding a national stakeholders symposium to discuss and debate seniors issues and develop appropriate recommendations.

I would like to turn briefly to the 2018 budget commitment regarding the implementation of national pharmacare. We are currently working on this critical issue. We will have more to say in the months to come. In general terms, we believe a national approach should strive to close the gap for those without drug benefits while maintaining existing systems of coverage. We also caution, however, that funding a national program must be carefully considered and taxation of group health insurance premiums not be considered as a means of funding this program.

Mr. Chair, we sincerely appreciate discussions with you and other parliamentarians over the past year with respect to the taxation of private corporations, as you've heard from the previous panellists. This is an important issue for not only our members but all Canadian business owners. While CALU appreciates the government's response to concerns expressed during the consultation period relating to the tax on split income, or TOSI, and passive investment rules, we believe the government needs to make further changes as part of a commitment to undertake a comprehensive review of the system governing private corporations. This would give immediate reassurance to the small business community and ensure in the longer term that tax rules continue to support the growth of the small business sector in Canada.

Our submission identifies six specific areas that could be part of any such review. These include the tax on split income rules; passive investments and small business deductions; employee benefits for employees of a small business; tax integration; intergenerational transfers of a business; and tax competitiveness with the United States.

My colleague Kevin Wark and I would be pleased to go into further detail during the question period.

[*Translation*]

The tax changes announced over a year ago radically changed the tax regime for SMEs. We must always ensure that the regime is fair, consistent, and predictable, so that SME owners can invest in their business, save for retirement, and support their family and community.

Thank you for your attention.

[*English*]

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

We'll hear one more brief before we go to vote.

From Diabetes Canada we have Ms. Hanson, director of federal affairs.

Ms. Kimberley Hanson (Director, Federal Affairs, Government Relations and Public Policy, Diabetes Canada): Good morning. Thank you, members of the committee, for the opportunity to speak with you today.

A hundred years ago, two of my great-aunts died of untreatable type 1 diabetes. Shortly thereafter, Canada's Dr. Banting discovered insulin and saved the lives of millions, including mine. While I'm grateful for the life-saving innovations, there are still immense challenges to living with chronic disease.

I was diagnosed with diabetes when I was 20. Living with the disease since then has taught me many valuable lessons, but it has also taken a toll. Imagine going to work every day feeling like you have the flu. That's the reality for many people with diabetes, and it affects our economic productivity. Just a couple of years ago, I had to leave a job because my employer would not accommodate the effects that diabetes has on me. My experience is far from unique.

When I was last here, Mr. Fergus rightly observed that diabetes is a scourge. It directly affects one in three Canadians and costs our health care system $27 billion each year. It's growing in prevalence, and costs are rising at a rate of about 40% per decade now and showing no signs of slowing. It claims thousands of Canadian lives and disables tens of thousands more each year. It affects indigenous Canadians far more adversely.

What we are doing now to address this epidemic is, quite simply, not working. That's why Diabetes Canada and nearly 100 partner organizations believe that Canada needs a nationwide strategy to prevent and manage diabetes now. In simple terms, Canada is failing its citizens and unnecessarily jeopardizing their health the longer we wait to develop and implement a national strategy. It's not just our community that thinks this is the best approach. A national strategy is a best practice widely recommended by the World Health Organization and other global leaders.

Diabetes 360° is that strategy. It is based on the hugely successful 90-90-90 model implemented globally to combat HIV/AIDS, and it is the product of collaboration among 120 stakeholders, including nine provinces.

Developed over more than a year of rigorous effort, Diabetes 360° contains evidence-based recommendations aimed at improving patient outcomes. It will enhance the prevention, screening and management of diabetes to achieve better health for Canadians. It will reduce unnecessary health care spending by billions of dollars, improve the lives of millions of Canadians, and protect Canada's productivity and competitiveness.

Diabetes 360° can save our health care system billions of dollars in both the short and long terms. For example, if every Canadian who has prediabetes had access to the proven diabetes prevention program, every year we could prevent more than 100,000 Canadians from receiving a diagnosis of diabetes. If we improve the care that those already living with diabetes receive, research shows that we could prevent a minimum of 5,000 amputations and 35,000 hospitalizations every year. That would save $18 billion in the next decade alone.

There are also significant savings to be realized by Canadian businesses. According to Benefits Canada magazine, employees living with diabetes cost their employers an average of $1,500 per year in lost productivity and a further $1,500 per year in additional benefit costs. Preventing those 100,000 Canadians per year from developing diabetes will save Canadian businesses a further $18 billion in the next decade.

Canada's economic prosperity depends on a healthy workforce. Not a day goes by that we aren't bombarded by alarming accounts of our labour shortage and resulting concerns about productivity, innovation and global influence. Many of the five million Canadians living with diabetes today are of working age, and we know that the effects of living with this challenging disease impede their ability to fully participate in the workforce. For employees who must take disability leave because of their diabetes, their leaves are on average 15% longer, and many remain on disability until death.

The implementation of Diabetes 360° recommendations can ensure Canada's economic health at the same time that it ensures our physical health. To implement these recommendations, Diabetes Canada suggests that a seven-year national partnership be created. The partnership will collaborate with provinces and territories, civil society and the private sector to prioritize and implement programs to achieve Diabetes 360° targets and then sunset: a realistic and evidence-based approach that can work for Canada.

For a strategic investment of $150 million over seven years, the federal government can achieve at least $36 billion in cost reductions, ensure the future health and prosperity of Canadians, and truly make a difference for Canadians affected by diabetes, Canadians just like me.

● (1045)

Thank you.

The Chair: Thank you very much, Ms. Hanson.

We will go to vote and come back for the other two presentations.

The meeting is suspended until after the vote.

● (1045)

(Pause)

● (1110)

The Chair: We are going to reconvene.

Thank you, folks, for your patience. It's funny how these votes happen once in a while.

From Oxfam Canada, we have Ms. Sarosi, policy manager.

Thank you very much. The floor is yours.

Ms. Diana Sarosi (Policy Manager, Oxfam Canada): Dear committee members, thank you for the opportunity to present Oxfam's recommendations for Canada's next federal budget.

At Oxfam Canada, we put women's rights and gender justice at the heart of everything we do both here at home and in our work with some of the poorest communities around the world.

I would like to start by providing a glimpse into the lives of women who are at the bottom of the economic ladder. Tasmia, a medical doctor, came to Canada in April 2017 from Bangladesh under the skilled visa program. After months of searching for a job, she found employment in a cosmetics factory, but at eight months pregnant was laid off being just five hours short of 600 hours needed to be eligible for parental leave. Tasmia tried to convince her employer to give her one more day but to no avail. Now that her child is born, she is struggling to juggle work and care for her baby, being ineligible for child care subsidies as she can find only part-time work.

Lae Lee, on the other hand, paid a smuggler to leave Myanmar for Thailand when she was 21 years old, hoping for a better future. After six years working on a rubber plantation, she found work as a hotel housekeeper. Despite her extremely long hours and back-breaking work, it is impossible for her to save money. Strapped for money and time, she had no choice but to send her two children, now six and eleven years old, back to Myanmar to stay with relatives. She hasn't seen her children in four years.

These stories are heartbreaking, but sadly not uncommon. Too many women around the world are stuck in jobs like these. They work so hard yet they cannot escape poverty.

At the other end of the spectrum are the super-rich who continue to accumulate excessive amounts of wealth. Last year, of all the wealth created globally, 82% went to the richest 1% of the global population while the 3.7 billion people who make up the poorest 50% of the world's population saw no increase in their wealth at all, nothing. Here in Canada, the richest 1% saw their wealth increase by 32%, and Canadian billionaire fortunes grew by a staggering $28 billion in just one year.

Inequality is one of today's greatest challenges, obstructing poverty reduction and sustainable development. It undermines social, environmental and economic sustainability and fuels poverty, insecurity, conflict and xenophobia. Inequality is bad for everyone but it is especially bad for women, who are being exploited providing endless hours of free and cheap labour.

We know economic inequality and gender inequality are inextricably linked. To make progress, we must tackle both simultaneously. It is for these reasons that the federal government must invest in making economic growth truly inclusive and in advancing gender equality.

Oxfam Canada would like to highlight a couple of the recommendations it recently submitted to the finance committee.

The first is to invest in women's economic equality in Canada. The International Monetary Fund recently conducted a study that demonstrated that increasing female labour participation is critical for Canada's economic growth and it made the case for Canada to invest in child care to free up women's time for productive labour. The study predicted that the cost of child care would be fully compensated for by the growth in GDP, yet Canada continues to spend less on child care than any other OECD country does, a meagre 0.2% of GDP, way below the OECD's recommended target of 1%.

Investing in child care is the most effective and transformative investment the federal government can make to engage women more productively in the Canadian economy. It's the best bet for closing the economic gap between men and women and significantly advancing women's economic security. We are calling on the government to, first, invest $1 billion in 2019-20 in child care and to move towards universal child care by setting a 10-year timetable for reaching the OECD target of 1% of GDP. This should include enacting national legislation grounding child care in universality, quality and comprehensiveness, and protecting caregivers' rights.

The second is to demonstrate global leadership on women's rights. Around the world, hard-won gains to advance gender equality are under threat. In this context, it is critical that Canada continue to champion gender equality especially in areas that align with its values and commitment to human rights.

● (1115)

However, leadership requires resources. Last year's budget announcement of an additional $2 billion over five years in international assistance was welcomed, but this amount will do little to budge Canada's current aid-to-GNI ratio of 0.26% or improve its ranking on international assistance among OECD peers, where Canada currently ranks 16th.

We're calling on the government to develop a robust 10-year plan to achieve the UN aid target of 0.7% of gross national income and make investments in two particular areas: $700 million a year over 10 years, starting in 2020, in sexual and reproductive health and rights; and $220 million a year over 10 years in women's organizations and feminist movements.

In closing, I would like to encourage you, honourable members of the finance committee, to show leadership as well. Earlier this year, you received a letter signed by 50 Canadian women's rights organizations calling on you to include gender equality as a topic in your call for pre-budget consultation submissions, and ensuring that at least 15% of witnesses in the pre-budget consultation hearings are feminist or women's rights organizations. Women's voices must be front and centre when it comes to governments making decisions that affect their lives. You have the opportunity and responsibility to ensure that women's voices are heard.

Thank you so much.

The Chair: Thank you very much.

Turning now to the U15 Group of Canadian Research Universities, we have Mr. Patry, executive director.

[*Translation*]

Mr. Gilles Patry (Executive Director, U15 Group of Canadian Research Universities): Thank you, Mr. Chair.

I would like first to thank you for inviting me to present the measures that the federal government could take to encourage Canadians to contribute to economic growth in a changing economic environment.

We are in a period of strong international competition. A key focus of our economic strategy must be a workforce that is among the most effective, creative, adaptable and innovative in the world.

[*English*]

Recently, Canada has been reaping the benefits of our investments in research and innovation. Google, Facebook, Tesla, Amazon and other global-leading companies have made major investments in Canada because of our unique research expertise, our highly educated workforce, our exceptional quality of life, and our focus on diversity and inclusion.

The numbers tell an important story. According to StatsCan, between 2013 and 2017, Canada netted 212,000 new full-time jobs. However, these gains were not evenly distributed: 581,000 new full-time jobs were created among those with a bachelor or graduate degree, while 343,000 jobs were lost among those without any post-secondary education. The employment rate of graduates with a master's or Ph.D. grew by 20% over that same period resulting in an unemployment rate of slightly over 4%.

This reflects a tight labour market. It is also one that Canada is ill-equipped to respond to. Canada ranks 26th in the OECD when it comes to the proportion of our workforce with a graduate degree. Closing this talent gap, especially in the face of increasing demand, is both an opportunity and a challenge for Canada. It will take time, making action all the more urgent.

The good news is that important investments in basic research from budget 2018, as well as those from previous budgets, will make important contributions towards this goal.

Accordingly, we are recommending a set of measures that are focused on young people, a set of measures to support graduate students, improve their training and research environment, and give them the skills they need to compete.

To increase the proportion of our workforce with graduate degrees, we need to ensure that graduate students are adequately supported. Canada's core scholarship programs have stagnated in numbers and value for more than 10 years. The U15 was pleased with the government's commitment to review the scholarship and fellowship program as part of budget 2018. In that spirit, and in accordance with the 2017 fundamental science review, we recommend that the scholarships and fellowships program be increased by $140 million per year over the next four years.

The quality of the research and learning environment of our students is dependent on how governments support the full cost of research, what many of you and us also call the indirect cost. Currently, the design of the indirect cost funding formula means that some 30 universities in the country receive much less than their full cost of research. These 30 universities conduct 95% of the research and train the vast majority of Canada's graduate students. If research-intensive universities are to attract the best students and professors, and invest in activities that support our ability to commercialize research and partner with industry, it is important that the government make an effort to address the full cost of research for all universities.

As we work to increase the proportion of people with graduate degrees, we should also seize the opportunity to develop additional skills that are essential in an innovative, globally connected economy. That is why The U15 2019 pre-budget submission recommends the following student-focused strategic investments.

One, encourage and support students wishing to benefit from an international learning and research experience. Two, support graduate students and faculty members in bringing cutting-edge discoveries to market by providing them with robust entrepreneurship training and opportunities. Three, expand the undergraduate student research awards program to all councils in an effort to give undergraduate students experience working on cutting-edge research projects across all disciplines. Finally, the U15 supports BHER's proposal for expanding work-integrated learning, which you heard about from my colleague previously.

● (1120)

Once again, I thank you for your time and look forward to your questions.

The Chair: Thank you, Mr. Patry.

I wonder if committee members would be okay with going to 12 o'clock, with a hard stop there. That's 15 minutes over normal. Are we okay with that?

Some hon. members: Agreed.

The Chair: Okay. We will get eight questioners, for about four and a half minutes each.

Mr. McLeod is first.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, Mr. Chair.

Thank you to all of the presenters who are here today. I appreciate all of the information you're providing us.

I represent the Northwest Territories and over half of my population is indigenous, so I'm going to go right to the Assembly of First Nations.

I'm very happy to see the submission you've made. You've raised concerns over many issues that are important to my constituents: all-season roads, language, education, employment and training. All of these things are very important to us.

We have many issues. It has been recognized that we have the highest per capita crime rate in the country. We probably have the second-highest rate of crowding in housing. We have probably the highest suicide rates in the country. Also, homelessness is a real big issue for us.

I'm really happy that you brought this budget forward, but I'm wondering if your cost estimates for the issues you've raised and for other things include communities north of 60, given the relationship between the northern first nations and the AFN.

● (1125)

Mr. Daniel Wilson: Thank you for the question.

Yes, in our presentations, we do absolutely calculate the representation of first nations in both of the territories, and I would like to highlight something. I had an opportunity to spend some quality time with the Dene Nation not very long ago, discussing the challenge with regard to the financial structure in the Northwest Territories specifically.

They were quite clear that the devolution that occurred of responsibility to the territorial government is not aligning with the needs of the actual first nation governments. The consequences are a series of policy or regulatory decisions that don't apply the funding in the same way that they would south of 60 for first nations across the country.

A consequence, for example, is with regard to housing, where decisions are made to set affordable housing cut-off limits at a certain level and leave the rest to the market. You end up with housing in a first nation community that is unoccupied to the point of going into disuse, because the cut-off is too high for most earners.

Mr. Michael McLeod: I don't know if I agree with you.

We heard a presentation from a delegation just before you, from Jeff Morrison, who is with the Canadian Housing and Renewal Association, and they are calling for an indigenous strategy. That's as a result of $1.5 billion being invested in this space, in national indigenous organizations, and that is not flowing to all of the members, even though you count all of our members as part of your delegation. As your membership, we're still looking for another way to flow money. I'm nervous that we're creating another Indian Affairs that's almost the same as what's in place now, but held by the AFN.

There are many things that need to be sorted out in terms of how the money flows in the north. We're dealing with a lot of social issues as a result of having a poor economy in the north. As we talk about reconciliation, we can't really have reconciliation without economic reconciliation. How does the AFN view that? How are we going to tackle that?

Mr. Daniel Wilson: The work we're doing with regard to a new fiscal relationship between the Government of Canada and first nation governments is entirely aligned with supporting those specific first nation governments in exercising direct accountability to their citizens. The funding that is available flows directly through those governments, as they choose to aggregate or not, so that the decisions are made by the government closest to the actual citizen. That is not a structure that has existed in the history of the country since contact, really.

This is a work in progress but we have taken some initial steps. What we're hoping to do is to change that structure to wrest control over that decision-making from centralized bureaucracies of any kind—and I can assure you that the AFN certainly does not want to become a new INAC—and actually provide that power to the first nation governments so that they can make those decisions and they receive the funding directly, and their citizens hold them to account for results.

Mr. Michael McLeod: Thank you. I was hoping that was where you were going to go, because we need to see direct funding flowed to the first nations and not through organizations and conduits that are going to take part of the money and then try to filter the rest out.

The Chair: Thank you, both.

Mr. McCauley.

Mr. Kelly McCauley: That was a very good comment at the end there about direct delivery of the funds, Mr. McLeod. I like that.

Gentlemen and ladies, thanks for joining us today.

Mr. Legault, I just want to ask you to expand a bit.

Mr. Wark, do you want to expand a bit on some of your comments? You were talking about the changes to the small business tax that came about. We heard from other witnesses about a possible coming storm when the audits of the small businesses that are having their taxes changed under the new format start rolling in, and about how it's hurting small businesses. I wonder if you could just expand a bit more on that.

● (1130)

Mr. Guy Legault: Actually a lot of our members are also accountants and the main active members are tax advisers, so they are small businesses themselves. They will be affected. Their clients will be affected. Through our network we've heard that the ongoing cost to deal with the additional compliance for a small business will be between $5,000 and $10,000 a year with an additional investment this year, in year one. As we've heard from previous witnesses, companies are not ready. Small businesses are not ready yet. There is a lot of complexity and a lot of questions that are still outstanding, and people are not quite ready.

Mr. Kelly McCauley: Are you saying $5,000 to $10,000 next year and an added bump this year for the start of it?

Mr. Wark.

Mr. Kevin Wark (Tax Adviser, Conference for Advanced Life Underwriting): The issue this year will be restructuring arrangements that are currently in place that complied with the law the way it was at the time but that now need to be restructured. For example, if people have put in place family trusts, they need to be wound down or restructured. If they have certain corporate share structures, they need to create new classes of shares. All of that requires engaging your accountant and your lawyer to implement it.

Mr. Kelly McCauley: What do you think will be, for your members, the negative outcomes of that, besides coughing up that extra $10,000 on top of higher CPP, taxes, higher minimum wages, etc.? There is the lost productivity as well of winding down corporations and of restarting. I've chatted with several members who have said, “We're just going to retire and fold things up at age 60 rather than continue.” Are you getting that kind of feedback from your members with regard to the negative impact of these tax changes?

Mr. Guy Legault: Significantly, our members are telling us that their clients are basically affected by the uncertainty created not only by those rules but also by the economic climate, the trade negotiations, and so on and so forth, and the changes to the taxation system in the U.S. Basically when people are looking at the future, right now there is so much uncertainty that not a lot of investments are being made in Canada, and some of them, who have the luxury of looking at making investments, are looking elsewhere, in the U.S. or Mexico for that matter.

It's just creating a very difficult climate currently. Inasmuch as some people are affected, as you said, they are either considering retirement or making investments elsewhere.

Mr. Kelly McCauley: We're suffering through a time of uncompetitiveness against our American neighbours and other countries. We're seeing massive disinvestment in Canada, obviously from the oil business, but also throughout the country we're seeing investment fleeing the country. Is it fair to say these tax changes are going to add to that disinvestment in Canada?

Mr. Kevin Wark: Well, I don't know if—

Mr. Kelly McCauley: I realize I'm putting words in your mouth. Feel free to discuss that, but I want to hear from you.

Mr. Kevin Wark: —we can go that far, but clearly there is uncertainty and it's affecting.... We're hearing from our members who are consulting with small businesses that they are looking at a variety of options going forward. Canada continues to be a good place to do business, but they may reinvest some of their dollars elsewhere.

Mr. Kelly McCauley: If it were up to you, if you were sitting on this side and you were making the changes, what would CALU do with this tax situation?

Mr. Guy Legault: In our brief we've identified six areas in which there really need to be some adjustments. Again, Kevin could go into some of the details in terms of the TOSI rules, tax on split income. We think that it could be up to age 25 but not include the spouse. You've heard that already this morning from some of the other witnesses.

With regard to the intergenerational transfer, you're talking about retirement. Basically it costs more money to try to leave it within your family than it does if you try to sell it to a stranger. It's unacceptable. At a $2-million level it costs $500,000 more in taxes. We're pleased that the government is doing consultation right now. They said last year they would do it within 12 months, so we hope it's coming.

Mr. Kelly McCauley: I'm out of time. Thank you very much.

The Chair: Mr. Dusseault.

[*Translation*]

Mr. Pierre-Luc Dusseault (Sherbrooke, NDP): Thank you, Mr. Chair.

I would like to thank all the witnesses here today. I may not have time to ask everyone a question.

I would like to delve further into the topic of intergenerational transfers. I would like to know where things stand. You said the government conducted a consultation. It announced that it wanted to make changes or study the issue. Unfortunately, this is another example of an issue that the government studies, but never makes a decision on. It did have the opportunity to do something, however. You may not know this, but one of our colleagues introduced a bill on the topic. We debated it, but it was defeated by the government.

I would like to know where things stand with intergenerational transfers.

● (1135)

Mr. Guy Legault: It might be better to ask the government that question.

I would simply say that we submitted a brief on the matter last year, when Minister Morneau's recommendations regarding private companies were tabled. We were consulted again on more specific issues.

We know there was a consultation this summer. We are waiting to see what happens. I think the signs are positive and that something should happen very soon.

Mr. Pierre-Luc Dusseault: I have another question about taxation before I move on to another topic.

When you compare Canada and the United States on tax competitiveness, do you also consider that in Canada we have a public, universal health care system and better infrastructures? There is a whole range of other factors that afford Canadians a better quality of life, and sometimes make it less expensive, if not for businesses, then certainly for individuals. Does that enter into your comparative analysis?

Mr. Guy Legault: The important point is that you have to look at the whole context. You raised some of the factors.

For our part, drawing on our expertise, we raised certain concepts that should be reviewed, such as the concept of integration. My colleague could elaborate on this if you are interested. We think it is important to evaluate taxes rules and taxation not only for private companies, but also for individuals. The whole system has to be reviewed, along with the whole issue of quality of life, I agree. I do believe in integration, however; it is important overall.

Mr. Pierre-Luc Dusseault: With respect to inequalities, I want to thank Ms. Sarosi for what she presented and for reminding us that our committee is sometimes in a bubble. She talked about specific cases of individuals facing growing inequalities across Canada. They may be people working for multinational hotel chains, for instance, whose bosses earn millions if not billions of dollars, whereas down at the bottom of the ladder, where the real work is done, these workers cannot even make ends meet and have trouble seeing their kids.

I was wondering whether, at Oxfam Canada, you have any ideas on how to reduce the inequalities. What should the committee focus on primarily to address them and perhaps even go in the opposite direction to the one Canada is headed in?

[*English*]

Ms. Diana Sarosi: Thank you so much. That's an important question.

Of course, as with many complex issues, there isn't a silver bullet that we can go for there. Our research shows, however, that there basically needs to be action in three areas. One is taxation, making taxation more progressive, meaning those who can pay more taxes pay more. The second area is investing in public services that help the poor access certain services—for example, child care, transportation and so on. The third area is labour rights. I think that area is really important for us. We've seen a real decline in that area as corporate interests are put as a priority over workers' rights.

In all three areas, there's a lot that the government can do. For example, Canada's taxation system is very complex. Lots of things have just been added, but there hasn't really been a good review of the system to see where, overall, there can be changes made to make it more progressive but also to get rid of incentives or tax credits or deductions that really hurt women, for example. With pension splitting, for instance, husbands can basically just split their pension by saying so, without actually having to do it, and then go with the lower tax rate.

The second area is public services, focusing on the kinds of services that really help these women and making it more accessible for them to access employment insurance. It's still based on earnings rather than need, which makes it very difficult for women to access the system, especially the ones I gave as examples.

In terms of labour rights, it's about really moving on pay equity here in Canada—the government here in Canada has committed to pay equity, but the women are still waiting—and making sure that collective bargaining and labour rights are respected.

● (1140)

The Chair: We'll have to leave it there.

Ms. Rudd.

Ms. Kim Rudd: Thank you, Mr. Chair.

Thanks to all of you for coming today.

I'll start with you, Ms. Walker. There were just a couple things in your comments that I'd like some clarification on. You talked about young people and you talked about the work placements. Everything has an acronym, so I won't pretend to remember all of them. As you know, our government invested about $221 million in Mitacs, which created about 10,000 paid internships. The other thing is cybersecurity and training in cybersecurity, with recently $8 million for about another thousand spots.

Mr. Patry talked about who had the job increases and who had the job decreases in terms of post-secondary education versus non. I guess what I see is a lot of transitioning of what I will call middle-aged workers into new careers. I wonder if your organization has identified that cohort and if indeed that is part of your process.

Ms. Valerie Walker: Thank you for the question.

Just to make sure I understand, have we also thought about how we can help support the current people in the workforce, as they likely need to transition the types of skills they have? Yes. It's a critical consideration for us as well.

I have been told many times by my members, “Focus on one thing. Do that well. Then think about how that fits with the broader picture.” Primarily, at the moment, our focus is around students. I don't have the numbers with me, so I won't make them up, but a good proportion of people in the PSE system aren't just young people. There are people who choose to go back to school and upskill or re-skill so that they can maintain a competitive edge in the workforce.

Specific to your question, though, there is one thing our employers who are committed to working with us are doing. As they build out the training programs that supplement the work placements for students themselves, they have committed to us to provide those training programs to their current employees as well as the students who might be there for just a few months. That's one specific thing they have committed to doing.

Ms. Kim Rudd: Maybe I can get some clarification. You mentioned in your verbal report that you were focused on young people, and I guess what I'm asking is, what about transitioning adults who have gone back to school? Do they still have the opportunity to access your programs, similar to the young people?

Ms. Valerie Walker: Again, we have our coalition of 25. We don't presume to tell them how to operate those programs. The answer would be that, honestly, it depends on which group you're talking about specifically. Some are targeting youth, and one can define youth in different ways, depending on who you are, and there are others that are much broader in their approach.

Ms. Kim Rudd: Okay. Thank you very much.

Ms. Hanson, I very much enjoyed your presentation. It was very personal and impassioned. I always think that a story is a way to tell us what the reality is.

You mentioned Diabetes 360°. I am familiar with that model. You also mentioned that nine provinces are part of that. Can you tell us what the other province and territories are and what you're doing to bring everyone in to support this program?

Ms. Kimberley Hanson: Thank you. That's an excellent question.

The province that was missing at the table in the first phase was New Brunswick, primarily due to their not having the human resources to dedicate someone to our working group.

Also, unfortunately, we weren't able to identify any individuals from the territories to participate in the first phase. That was largely a product of two things. One was that we were working under a pretty aggressive time frame in order to ensure that we had done the full consultation that we wanted to do in time to present a pre-budget submission to this committee. The other factor was a lack of funding. We did the first phase and the consultation with 120 individuals and 100 organizations almost exclusively with money from Diabetes Canada.

We're hoping that if the government elects to resource this strategy in budget 2019 one of the first things that the partnership we're recommending be created will do is engage directly with the health departments of each of the territories and provinces to create a plan forward, because it's critical that we're engaging with each of them.

● (1145)

The Chair: We'll have to end it there.

Mr. Poilievre.

Hon. Pierre Poilievre: Thank you.

My question is for you, Ms. Hanson. Thank you for being here today. You advocated for members of your organization and others who have diabetes who had inexplicably lost their access to the disability tax credit last year. You amassed an enormous file of anecdotes showing that this was a phenomenon right across the country.

The government appeared to back down about six months ago from that unstated decision. What is the status of the situation for Canadians with diabetes in accessing the disability tax credit today?

Ms. Kimberley Hanson: In December, Minister Lebouthillier announced that the CRA would revert to its May 2017 practices of assessing applications for the DTC from people with diabetes. They also announced that they would review all of the applications from people with diabetes that had been rejected between May and December. They have completed that review and have announced that they reviewed a little over 2,300 cases. They subsequently approved about 1,400 of those, or 58%. The remaining 42% of applications will remain disallowed.

We have been engaging with the bureaucrats at CRA to ensure that the folks who remain disallowed are notified of that status. They have indicated to us that it is their plan not to notify those 42% because, they say, that might be confusing for those applicants. Our contention is that this creates a lack of transparency and also impedes the ability of applicants whose cases have been denied to appeal, which is a time-limited ability. We are reaching out to them to indicate that it is our strong view that all of the applicants should be notified.

I know that the disability advisory committee, which was also reinstated late last year, continues to work on a number of issues, including challenges to accessing life-sustaining therapies by people such as those with diabetes. We're optimistic that this advisory committee will have some good recommendations, but it is necessarily and understandably a lengthy process that they are engaged in. They're volunteers and meet only a few times a year, so we're hoping that the bureaucracy can respond and make more time-sensitive changes as the disability advisory committee is doing its work.

Hon. Pierre Poilievre: Now, you say that the universe of cases reconsidered by the department was about 2,400?

Ms. Kimberley Hanson: Yes.

Hon. Pierre Poilievre: Does that cover everyone, in your view, or are there others who were denied who ought to have been at least reviewed but weren't?

Ms. Kimberley Hanson: It's difficult to be certain of the numbers, because there are challenges in getting real numbers of applications from the CRA, etc. We know from a study that was done by the University of Calgary late last year that across the board, for people with all forms of disability, there are very low levels of application for the disability tax credit. It's even lower for the registered disability savings program.

It is plausible that only 2,300 applications were denied during the second half of last year, but one of the things Diabetes Canada is committed to doing is raising awareness among all people living with diabetes that they are potentially eligible for this program.

● (1150)

Hon. Pierre Poilievre: You say that 42% of the reviewed cases were once again rejected.

Ms. Kimberley Hanson: Yes.

Hon. Pierre Poilievre: That means just slightly over a thousand. I know you weren't provided with a list of who these people are, but to your knowledge, do any of those thousand who were rejected the second time require more than 14 hours of life-sustaining therapy and, therefore, otherwise qualify under the act?

Ms. Kimberley Hanson: From what they tell me, they certainly do. I think, based on how diabetes is normally treated, it is highly probable they do. I can't attest to whether their applications were filled out completely clearly or whether they avoided using terms the CRA objects to, some of which we're working to try to have allowed. For example, the CRA explicitly does not allow anybody to count the time they spend counting carbohydrates in order to calculate their dose of insulin against the 14 hours. That is an interpretation. It's not written into the Income Tax Act that you can't count that, but it's an interpretation of the CRA that you can't count that. Because it is actually impossible to calculate a dose of insulin without counting carbohydrates, some people, quite rightly, make mention of doing that in their application. That instantly gets them rejected.

It is possible that those thousand or so applications included the mention of things that may make them not eligible. It's also probable that some of those applications were rightly disallowed, but there's a real gap between the understanding of the eligibility criteria and the application of them that we're trying to fill.

The Chair: I hate to end it there, but I have to.

Mr. Fragiskatos.

Mr. Peter Fragiskatos: Thank you, Chair.

Thank you to the witnesses.

My first question goes to you, Ms. Hanson. London, Ontario, is where I'm from. It's the city I represent in the House of Commons. As you know, Western University is a leading centre in terms of diabetes research as far as universities are concerned, so I'm prompted to ask about diabetes and the connection between individuals suffering diabetes and pharmacare.

Some estimates have put forward the idea that medication and diabetes supplies range between $1,000 and $15,000 per individual on an annual basis. When I think about low-income Canadians, when I think about middle-income Canadians, that's an enormous cost, an enormous burden to bear for individuals and families. I wonder if you could tell us your organization's view on pharmacare, given that context.

Ms. Kimberley Hanson: You're absolutely right that the economic burden to the individual living with diabetes can be really very significant, depending on their form of treatment. Diabetes Canada has statistics to suggest that more than 30% of those living with diabetes report having been unable to follow their doctor's prescribed treatment plan due to the cost of the devices, the supplies and the medications required.

Obviously, the consultations on an approach to national pharmacare are of great interest to us and to the people we represent. Diabetes Canada believes strongly that every Canadian needs access to the right medications at the right time. Access also needs to be provided at the minimum possible cost to the individual. I think there are significant gaps right now in access to medications, devices and supplies, all of which are currently getting in the way of the people who live with diabetes from achieving their best health longer term. I think those must be addressed. They represent a significant part of our recommendations under Diabetes 360°, in consequence.

Mr. Peter Fragiskatos: Thank you very much for that insight.

Mr. Patry, I have a question relating to one of your recommendations, which is for $140 million a year by 2023 to increase the number of master's and Ph.D. students. That's a lot of money. I sympathize, because prior to going into politics I was teaching at Western University, so I know how critical it is to have that support.

I'm also a bit concerned, because I know that in my own experience—and there is some research to bear this out as well—I've seen a lot of my former students, and a lot of friends, in fact, who have received scholarship support to pursue masters' degrees, and in particular Ph.D.s, and they end up not finding work. I wonder, as part of your recommendation, is it simply a matter of handing over money to universities on the part of the federal government? Or would there be a condition that there's a link between the scholarship support and connecting those students with employers?

I think there's a lot to be said in terms of what master's students and Ph.D. students indeed can offer the wider economy. We have a growing tech sector in London, for example, that has really tapped into the Ph.D. market at Western and has done very well.

I wonder if you could speak to that. My fear is that by simply providing scholarships with the hope that these students would appear to be more employable because they have advanced degrees, we're not going that one step further to ensure that they actually are connected with employers and have that pathway to employment.

● (1155)

Mr. Gilles Patry: That's an excellent question. It piggybacks on what Valerie was talking about earlier in terms of making sure that in the process we also connect students with the potential employers going forward.

Let me address the question by also trying to clarify that among the various groups, as I tried to indicate, those with advanced degrees—graduate and master's degrees and Ph.D.s—have the lowest unemployment rate. It's at 4% or 4.1% currently, as of 2017. This is what we would call close to full employment for these individuals.

I should also clarify that there is a current scholarship program within the tri-council of NSERC, SSHRC and CIHR, which I think, if I look at NSERC and SSHRC, is probably in the $400-million range a year, but that program has been essentially flattened for the last 10 years. It has not seen an increase in the number of awards, nor in the value of the awards. What we're recommending here is essentially to recognize the financial burden that a student has to go through when they're doing a master's degree or a Ph.D., when for many years of their lives they're forgoing a potential salary, and to help the students directly. The money does not go to the university and does not go to the faculty member. It goes directly to the student, in support of that student, to complete his or her advanced degree—

Mr. Peter Fragiskatos: Very quickly, I'm sorry to interrupt you, but I know my time is limited. When you say that there's a very low —

The Chair: I hate to tell you this, Peter, but you're out of time.

We have time for one question from Mr. Richards and one from Mr. Fergus.

Mr. Blake Richards: Thank you.

I'd like to use a little of my time for Mr. Legault and Mr. Wark. In an earlier response to my colleague Mr. McCauley, you didn't have a lot of time to finish off where you were at. You mentioned that if you were given the opportunity to be the ones making the policy, you had six key points that you feel.... You mentioned that you had a bit more detail that you wanted to provide. There wasn't time to finish that. I want to give you the opportunity to do that.

Mr. Kevin Wark: We've already talked about the TOSI and passive investment rules. We think there are some improvements to make them simpler and easier to administer by the small business owners and to be fairer to them.

In the 2018 budget there are proposals to wind up what are called “health and welfare trusts” by 2020 and have them integrated into a new regime called “employee life and health trusts”. We estimate there are about 4,000 of those health and welfare trusts in existence that are primarily being employed by small business owners. We're concerned that the employee life and health trust rules do not accommodate the needs of small business owners, so we are asking the government, as part of that process, to take a closer look at how these rules apply to small business owners and to make sure the owner-manager or their employees do not lose protection through this process.

We talked about the intergenerational transfer rules. We believe there's a good middle ground, where the government is concerned, on the loss of tax revenues, but there is an opportunity to create an exception that will accommodate true transfers of businesses so that small business owners aren't in this funny situation where they have to sell their business to an arm's-length person to get a better tax result.

There's a lot of discussion about Canada-U.S. competitiveness. I don't think we've seen any significant analysis that would suggest that the U.S. has a significant advantage. However, if you look at all of the pieces of what the U.S. offers to business owners versus what Canada may offer, the dynamics have changed. We need to recognize that the dynamics have changed and react to those changes.

● (1200)

The Chair: Thank you.

The last question goes to Mr. Fergus.

[*Translation*]

Mr. Greg Fergus: Thank you very much, Mr. Chair.

I have a number of questions for Mr. Patry, but first I would like to ask Ms. Walker for a clarification. I really like her idea for work-integrated learning. I would like to know whether she has connections with universities, colleges or CEGEPs in Quebec. She could provide this information to the committee clerk later on.

Mr. Patry, I know that U15 and all universities are very concerned about indirect research costs. Please tell us how investments in this area could improve the competitiveness of the Canadian economy.

Mr. Gilles Patry: Thank you so much for your question.

This is indeed a concern to universities, and not just to our group, U15. I mentioned that 30 universities receive less than their share of indirect costs, what we call the full costs of research. I do not want to get too technical, but you have to understand that, under the current formula, indirect costs are inversely proportional to research activities. The more research a university carries out, the lower the percentage of funding it receives for indirect costs.

Let me give you a few examples. We mentioned Western University earlier, one of the research-intensive universities. It receives a maximum of 20% or 21% of investments in indirect costs. This funding is put toward the cost of electricity, heating, maintenance contracts, university facilities technicians, and so forth. Other, smaller universities that do not conduct a lot of research can receive up to 80%. In other words, they receive 80¢ on the dollar, while others receive only 20¢. The University of Toronto, which conducts the most research, receives 19%.

Limiting investments in indirect costs essentially means taking money away from other services to fund research activities. If we want our internationally recognized universities that rank among the best in the world to be globally competitive, we have to make sure they all receive the appropriate indirect costs.

The average for the 15 member universities of U15 is 20%. Some research projects are carried out with the United States. That is the case for Western University, which works with the NIH. It receives about 52% for indirect costs. There is a huge gap between the real indirect costs, which are about 40% to 45%, and what the research-intensive universities get.

As a former rector, I tried on several occasions to get the formula changed. The formula should at least set a minimum, so that universities receive a minimum of 25%. We do not want to take anything away from the other universities, but we want to make sure a minimum is established. A minimum of about 25% is what we recommend to the government.

● (1205)

[*English*]

The Chair: With that, thank you to all the witnesses.

Committee members, we meet tomorrow afternoon at 3:30 in room 330, Wellington.

The meeting is adjourned. Thank you very much.

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