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Chair

The Honourable Wayne Easter

Standing Committee on Finance

Thursday, April 14, 2016

● (1100)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): Could we come to order, please?

We ended the last meeting with Mr. Liepert's amendment still on the table. I'd propose we take 50 minutes with the first group. If the second group's here, we'll take another 50, and that'll leave us 20 minutes for business at the end, if that's agreeable.

Go ahead, Mr. Caron.

[*Translation*]

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): From what I understand, we could get this resolved fairly quickly. The discussion was left open at our last meeting. If we follow committee procedure, when a motion is not carried during a meeting, the next one starts with it. I don't think this will necessarily take a lot of time. A resolution and an amendment have not yet been discussed, so I would like us to start with that.

[*English*]

The Chair: That's the procedure. I was just suggesting something a little different, going to the last 20 minutes of the meeting, but if that's your preference, then we'll do that.

Mr. Liepert's amendment was on the floor, and who was on the speaking list?

Mr. Guy Caron: Mr. Liepert didn't have a chance to....

The Chair: Okay.

Mr. Liepert, your amendment.

Mr. Ron Liepert (Calgary Signal Hill, CPC): I'm good.

The Chair: Just so we're all clear, your amendment was...?

Mr. Ron Liepert: I don't have it in front of me.

The Chair: The clerk has it...shortly.

Sorry, gentlemen. We'll get to you in a moment.

Mr. Ron Liepert: It was a matter of inserting from the previous motion the four or five words around having the minister appear as part of this motion.

The Chair: Okay, is there any further discussion?

Mr. Caron.

[*Translation*]

Mr. Guy Caron: I'll be brief.

I hope that the government members will support this motion. I already tried to have one adopted in order to invite the minister, as well as several Canada Revenue Agency officials, but the motion was rejected by the Liberal majority.

I sincerely hope that we will have an opportunity sooner rather than later to welcome the minister to ask her questions. I heard her answer in the House yesterday loud and clear, that she would appear before us “eventually”. I think we should set a date, as early as possible.

The Liberal motion initially mentioned that Ms. Henderson would appear on April 12, a date that has passed. I will suggest an amendment to that motion to propose Thursday, April 21. Obviously, the minister will need to be consulted, but the intention was to have her appear as soon as possible. So let's discuss Mr. Liepert's amendment, and then I will propose my own afterward.

● (1105)

[*English*]

The Chair: You wanted in, Mr. Sorbara?

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

I'd like to take a vote on Mr. Liepert's amendment. After that, I would like to resume discussion on my motion and propose an amendment of my own, please.

The Chair: The question's been called, then, on Mr. Liepert's amendment.

Could you please read it, Clerk, and then we'll go from there.

The Clerk of the Committee (Ms. Suzie Cadieux): The amendment reads as follows. Mr. Liepert moved that the motion be amended by adding, after the words “Canada Revenue Agency (CRA)” and before the words “including Ms. Stephanie Henderson”, the following words: “and the Honourable Diane Lebouthillier, Minister of National Revenue”.

The Chair: All in favour?

(Amendment negatived)

The Chair: I declare the amendment lost.

Go ahead, Mr. Sorbara.

Mr. Francesco Sorbara: Thank you, Mr. Chair.

Good morning, everyone.

After we adjourned Tuesday's meeting and before we could complete a thorough discussion of my original motion, I had further conversations and insight into the motion, so I'd like to propose an amendment of my own to the original motion. I had the opportunity to talk to many colleagues and reflect on the points raised by the opposition.

In the spirit of co-operation, openness, and transparency, I would like to amend my original motion by deleting the words after “That the Standing Committee on Finance call for” and inserting the following:

> the Honourable Diane Lebouthillier,

—excuse my pronunciation—

> Minister of National Revenue, officials from the Canada Revenue Agency (CRA) including Ms. Stephanie Henderson, manager of offshore compliance, and officials from the Department of Justice to appear before the committee to provide the steps being taken by the Agency to combat tax evasion and tax avoidance and provide an explanation as to the current status of the KPMG/Isle of Man file.
>
> That the Committee also call for officials of KPMG to appear before the Committee to explain their role in this file.

Thank you, Mr. Chair.

The Chair: Do you have that motion so it can be passed out, Mr. Caron?

Mr. Francesco Sorbara: We have the motion in writing. Yes, we do.

Mr. Phil McColeman (Brantford—Brant, CPC): I have a point of order.

The Chair: Yes.

Mr. Phil McColeman: I have a question to the chair. That's a substantive change to the motion. I'm wondering if, through you, the member would consider withdrawing his first motion and putting this on the floor as his motion, replacing it instead of an amendment.

It's highly unusual for someone to be doing this in an amendment.

The Chair: I don't see it as changing the intent of the motion, Phil. I don't imagine you have a problem withdrawing the original motion and putting that forward as a new motion, do you? It would be simpler.

Mr. Francesco Sorbara: I agree with the chair on this. We'll put it down as a new motion.

The Chair: You're withdrawing the original motion and moving this one as proposed, as you stated?

Mr. Francesco Sorbara: Pardon me?

The Chair: You're withdrawing the original motion. What has been passed around, the proposed amendment, would be the new motion. Is that correct?

Mr. Francesco Sorbara: Chair, I will only do that in that manner if they consent to bringing the motion to the floor immediately to be voted on.

The Chair: Do we have agreement to that effect?

Mr. Phil McColeman: Absolutely not. We have a right to debate.

Mr. Francesco Sorbara: Then we can continue on the amendment.

The Chair: I think there may be some misunderstanding here. I believe what Mr. Sorbara was saying is that he is willing to withdraw the original motion this amendment proposed to amend, and bring in this amendment as a new motion if it can be dealt with now.

● (1110)

Mr. Phil McColeman: As a point of order, if I'm interpreting that correctly, it removes our ability to debate his new motion.

The Chair: No. It can go on the floor and be debated.

Mr. Phil McColeman: Then I'm fine with that.

The Chair: Are you all right, Mr. Caron?

[*Translation*]

Mr. Guy Caron: Yes.

[*English*]

The Chair: Okay. You are withdrawing your motion.

(Motion withdrawn)

The Chair: You have proposed.... Do you want to read your new motion again, and we'll debate it?

Mr. Francesco Sorbara: Thank you, Mr. Chair.

> That the Standing Committee on Finance call for the Hon. Diane Lebouthillier, Minister of National Revenue, officials from the Canada Revenue Agency (CRA), including Ms. Stephanie Henderson, manager of offshore compliance, and officials from the Department of Justice to appear before the committee to provide the steps being taken by the Agency to combat tax evasion and tax avoidance and provide an explanation as to the current status of the KPMG/Isle of Man file.
>
> That the committee also call for officials of KPMG to appear before the committee to explain their role in this file.

The Chair: Ms. Raitt.

Hon. Lisa Raitt (Milton, CPC): I'd like to know from the mover in the amendment why he's removing the call for a call for documentation. There's reference in the original motion to a call for production of a document, and I'm wondering why. To me, Chair, this would mean this is a substantial change in terms of an amendment to a motion. I'd like to understand why it was removed.

The Chair: Mr. Caron is first, and then Mr. Grewal.

Do you want to answer that, Mr. Sorbara, first?

Mr. Francesco Sorbara: Briefly, Mr. Chair, this is a new motion.

Hon. Lisa Raitt: I'm sorry; I didn't hear that.

The Chair: He said this is a new motion.

Mr. Francesco Sorbara: Briefly, this is a new motion.

Hon. Lisa Raitt: Now it's a new motion. Okay. I get it.

The Chair: Mr. Caron.

[*Translation*]

Mr. Guy Caron: I agree with Ms. Raitt. A substantial element was removed from the original motion and is not part of the new one. We need to discuss it.

I think there are two elements that are important and that are not part of the motion put forward. The first is a date. It's fine to know that the minister is willing to appear with Ms. Henderson, but when?

The original motions, the Liberal one and ours, mentioned a date. It would be relevant to insert a more specific date in the motion. The Liberal motion initially mentioned April 12, which has already passed. We know that we are sitting next week and that we will be in our ridings the week after. So I would like us to have Madam Minister Lebouthillier, Ms. Henderson and other officials from the Canada Revenue Agency ideally next Thursday, given that we are welcoming the Governor of the Bank of Canada and the Parliamentary Budget Officer on Tuesday.

The second thing missing from this motion is the fact of holding a meeting to discuss a report about what will have been discussed. Currently, the Liberal motion focuses on a meeting with the minister, Ms. Henderson and other officials, but without follow-up, without another discussion. I don't understand why. Unless we get an appropriate response, I would like to propose amendments on this.

Thank you.

[*English*]

The Chair: Go ahead, Mr. Sorbara.

Mr. Francesco Sorbara: Thank you, Mr. Caron.

We're very confident that the minister will make an appearance before this committee, and we've put forward a motion for her to do so. If that changes at any point, we can insert a date, but for now we are confident that the honourable minister will be appearing before our committee.

The Chair: Could I ask whether that would be before the end of April?

Can anybody answer that?

We have meetings on the 19th already booked, so it would have to be the 21st.

Mr. Champagne.

[*Translation*]

Mr. François-Philippe Champagne (Saint-Maurice—Champlain, Lib.): Mr. Chair, I'd like to clarify something first. The government is making an historic investment of $444 million just to fight tax evasion to ensure that the Canada Revenue Agency has the means, the teams and the technology to investigate and detect and prosecute people engaging in tax evasion.

[*English*]

The Chair: Excuse me, Mr. Champagne, that's not what we're dealing with. What's your point related to the motion?

[*Translation*]

Mr. François-Philippe Champagne: I'm getting there. I'm checking with the minister to give you confirmation. If my colleagues on the other side want to wait a minute, we'll be able to confirm whether the minister can appear on the date indicated. We are checking that as we speak. I will be able to give that information to my colleagues.

The minister wants to come. I am communicating with her to confirm her availability this Thursday. If we continue our discussions, we can confirm this as soon as possible, I hope. We are in communication as we speak.

● (1115)

[*English*]

The Chair: I have Mr. Caron first, and then Mr. McColeman.

[*Translation*]

Mr. Guy Caron: That's an answer I'd like to come back to. However, I didn't get an answer to my second question, about the meeting to draft a report on what we'll have heard. It's good to have an appearance, but if we only have a meeting where we hear arguments and we don't come back later to analyze within the committee what we discussed, I think that's a problem. It's a matter that requires a lot more discussion, which is why our initial motion mentioned a subsequent meeting to, and I quote:

> ... that the committee plan an additional meeting to consider a draft report.

Discussing this within the Standing Committee on Finance is one thing; being able to draft a report to Parliament is another.

[*English*]

The Chair: Mr. McColeman is next, and then Mr. Grewal, and I want to make a point myself after that.

Go ahead, Mr. McColeman.

Mr. Phil McColeman: My comments are in light of the fact that the parliamentary secretary just offered to communicate at this moment with the minister. If Mr. Caron agrees to allowing that to happen, I would like to put forward another motion, which I will do right now just so that the committee is aware of what I would like to put on the table. It relates to the minister directly. I'm thinking that if it could be coordinated, you might have the minister here for both issues.

My motion would be that the committee invite the Honourable Diane Lebouthillier, the Minister of National Revenue, and officials from Canada Revenue Agency to testify about the main estimates 2016-17 on or before May 20, 2016.

Thinking about the value of the minister's time, if she is coming to committee, perhaps she could speak to the main estimates at that time as well, which is traditionally what we invite the minister to do.

I am looking for Mr. Caron's acceptance of this while we have a little bit of time, if the parliamentary secretary is serious about contacting the minister to get a date.

The Chair: Mr. Grewal, you wanted to make a point.

Mr. Raj Grewal (Brampton East, Lib.): I think that the heart of the issue we're trying to get to on Mr. Sorbara's motion is that a lot of the information and the facts are going to come from the CRA officials, including Ms. Stéphanie Henderson. I think that would give us a good baseline.

My understanding is that the minister and the CRA aren't going to come at the same time and that there will be two separate meetings. Is that correct, Mr. Chair?

The Chair: To be honest, I don't know. It depends on what the committee wants to do. If it's your preference to have the minister, then I have no problem with one hour with the minister and then another hour with CRA officials.

I agree with Mr. Caron's point, and I think we can probably do this as a steering committee. If we're going to hold a hearing, there may be an additional witness or two whom we might want to look at, and we also need time to draft some kind of report.

Mr. Francesco Sorbara: Mr. Chair, we're very confident that the minister will be available before the end of April. I would like to call a vote on this motion and the related amendments.

The Chair: Go ahead, Mr. Caron.

[*Translation*]

Mr. Guy Caron: I have no doubt that the minister will want to appear because she mentioned it yesterday. However, what she said yesterday is that she will appear “eventually”. What does that mean, “eventually”? Does it mean between now and the end of April? Now and the end of May? Between now and when we wrap up our meetings in June? Next fall? We have no idea. “Eventually” can mean many things. We need to act with rigour.

I heard what Mr. Champagne said, that he is currently checking the minister's availability. The question was raised on Tuesday. We've known that the minister is interested in appearing before the committee since Tuesday. We also knew the schedule, which is public. We knew that there is only one slot available between now and the end of April, and that is Thursday, April 21. If we want the minister to appear before the end of April, not only is the 21st the only date, but honestly, there was probably a way to contact the minister in the last 48 hours to confirm that she was available.

[*English*]

The Chair: Mr. Caron, I'm not sure, so the procedural clerk may have to tell me. Could we either table this discussion where it's at or set it aside or whatever, and hear the witnesses until 12:05 or so? By that time, maybe we'll have some information from Mr. Champagne. Are we agreeable to do just...? Do we need a motion?

● (1120)

Mr. Phil McColeman: I can put a motion on the floor to do exactly that. I move that consideration of the motion of Francesco Sorbara be postponed to the end of the first panel of witnesses.

The Chair: The motion is to postpone the discussion until 12:05. Okay.

(Motion agreed to)

The Chair: Mr. Caron.

Mr. Guy Caron: I just want to be clear. How much time will we have at the end to discuss this?

The Chair: It will be before we start the next witnesses, so we're not going to run into the problem of running out of time. We'll hear from Mr. Macdonald and the first four witnesses on our list. We'll go until 12:10, and then we'll come back to this question. Is that agreeable?

Mr. Guy Caron: Yes.

The Chair: Okay.

Thank you, witnesses, for being patient, and we will tighten up the time a little. We will have 50 minutes for discussion.

We have Mr. Alexander with us from the C.D. Howe Institute. From the Canadian Centre for Policy Alternatives, we have Mr. Macdonald. By video conference from Toronto, we have Ms. Morris from the Canadian Association of Retired Persons, and also by video conference from Toronto, from the Chartered Professional Accountants of Canada, we have Mr. Ball.

Thank you for appearing, and we are now discussing the related order of reference of Bill C-2, an act to amend the Income Tax Act.

We will start with you, Mr. Alexander. My apologies for the delay.

Mr. Craig Alexander (Vice-President, Economic Analysis, C. D. Howe Institute): Thank you, Mr. Chair. No apology is required. The business of government precedes the business of witnesses.

Thank you very much for the opportunity to speak to you today about the proposed amendments to the Income Tax Act. I can look at each of the measures in terms of the pros and cons, but I also would like to provide a couple of comments about the efficiency of the items in terms of fostering inclusive economic growth in the years ahead.

I'm really going to focus on three items. The first one is the cut to the middle-income tax bracket, the second one is the introduction of the high-income tax bracket, and the third is the reduction in the contribution limit ceiling for TFSAs.

In terms of the middle-income tax bracket cut, the estimated revenue impact to the federal government is $3.5 billion. That's a tax saving that will go into the hands of households. As an economist and a former forecaster, I have little doubt that the bulk of that tax savings will in fact go into expenditure and will be stimulative to economic growth. To the extent that some of the money is saved, although it won't add to economic growth or real GDP growth, it will come at a time when Canadians are carrying an awful lot of debt. I think, then, that there is a strong economic rationale for providing tax relief to middle-income households.

As for the introduction of the new income tax bracket, there are really two different dimensions that have been discussed or focused on. The first is the revenue capacity of the tax revenues that will be generated by the high-income tax bracket. There was a suggestion that the middle tax bracket cut could be paid for largely by the implementation of a high tax bracket. The Department of Finance's estimate on the revenue generation from the high tax bracket is roughly $2 billion, so there is a revenue shortfall.

However, analysis by the C.D. Howe Institute suggests that there is a downside risk to the amount of revenues that will be generated by the high-income tax bracket. This fundamentally has to do with what you estimate will be the behavioural response of high-income earners who are facing the higher tax rate. There's a sort of economic jargon expression, the “elasticity of taxable income”. You fundamentally have to make an assumption as to what the reaction function is going to look like.

Alexandre Laurin of our institute did work on this. He looked at 11 different studies, some from Canada, some international, and what he found was that the response of high-income earners could be more pronounced than the Department of Finance is currently anticipating. As a consequence, his estimate is that the high-income tax bracket could generate perhaps only $1 billion in new revenues. This is not to suggest that the Department of Finance is wrong; it is really about what assumption you make with respect to the behavioural response. As a consequence, what I want to flag to the committee is a downside risk to the revenues that might be generated.

However, you might argue that the introduction of the high-income tax rate is not just about generating fiscal revenues. You could argue that it is about increasing the progressivity of the tax system. We really should ask questions about whether this will create more inclusive growth and whether it will actually reduce income inequality.

If we think about it from this point of view, one big risk related to the behavioural response is the level the tax rate is going to get to by way of a combined federal–provincial tax rate in various provinces. It will be above 50% of income in a number of jurisdictions. This can lead to distortions, and in fact it could lead some provinces to cut their high-income tax rates. As a consequence, what you have to wonder about is whether this creates an environment in which we end up with a transfer of tax points from the provinces to the federal government, when in actual fact I'd argue that given the fiscal pressures on provinces to deal with education and health care priorities, if anything, we should be seeing a transfer of tax points going in the opposite direction.

Nevertheless, there is no question that when you look at the empirical data, the high end of the income spectrum has seen more income growth over the last decade or longer. This is a reflection of a global trend. It represents a global competition for talent, as a consequence of which labour is now being marketed in the global arena, and this is putting pressure on high-income earnings.

● (1125)

From a financial capacity point of view, one could argue that the high-income tax bracket is reflecting the fact that high-income earners have more capacity to contribute to tax revenues, but there are a few potential unintended consequences I would like to flag to the committee.

The first one is that Canada is in a war for global talent. We are competing to attract and retain talent, and the high-income tax bracket may deter that—

The Chair: Sum up pretty quickly, Mr. Alexander.

Mr. Craig Alexander: I will be very brief.

Second, the earnings also reflect risk-taking, and as a consequence, while the government wants to promote increased productivity and innovation, we need to be sensitive to the fact that higher taxes on high-income earners are basically a tax on success and are also a deterrent to taking additional risk.

In point of fact, I think the government is absolutely right to be focusing on trying to create more inclusive growth. I would argue that the tax system is not the most effective way of achieving this. I think removing barriers to opportunity from low-income Canadians, from aboriginals, from youths, from immigrants and others would be a more effective way of having an impact on income inequality.

Lastly, on the TFSA limit reduction, the two points I would make are that TFSAs are used across the entire income spectrum. They aren't just used by high-income individuals. Many lower-income households are actually pushing up against the contribution limits, and I would be happy to discuss that further during the Q and A.

Lastly, I would flag the complaint that the government will face large lost potential tax revenues from the TFSA as a bit of a perverse position to take on the TFSA. Basically, you're saying that if it's successful in encouraging Canadians to save, we should effectively take measures to ensure that they don't do that. I think that the opportunity cost revenues that are being estimated to the government from the TFSA are probably overstated, because if the incentive isn't there, Canadians won't save as much.

The Chair: Thank you, Mr. Alexander.

Mr. Macdonald, try to keep it to five minutes if you can.

Mr. David Macdonald (Senior Economist, National Office, Canadian Centre for Policy Alternatives): Thank you, Mr. Chair. I timed it to five minutes. Hopefully I can keep it to that this time around.

I'd like to thank the committee today for their invitation to speak. There are certainly a great many interesting topics that emerged from this year's budget. The focus on on-reserve infrastructure, particularly schools, clean water, and housing, is very positive and long overdue. The improved child and senior benefits will both reduce poverty rates among those groups by several points. I was surprised to see this fact was not better highlighted in the budget, actually.

However, today I'd like to focus on the tax bracket trade, specifically the creation of a new top income tax bracket whose proceeds are used to pay for a cut in the second bracket.

Now to be clear, we've advocated for a new top bracket for some time, particularly given the large income gains enjoyed by the wealthiest over the past two decades, although to maximize revenue from this new bracket, two additional measures are necessary. One is the prosecution of illegal tax evasion, and the other is the closing of tax loopholes.

Successful prosecution will be substantiated by new auditors budgeted for in this budget, and hopefully this committee will also examine and close tax expenditures or tax loopholes that allow the richest to avoid paying the statutory rate, a rate which most Canadians pay.

While I am in favour of a new top bracket, using its proceeds to reduce the rate in the second bracket is in effect an upper class tax cut, as I show in more detail in my paper “Real Change for the Middle Class”, which I believe you have a copy of.

I should point out that there's no official definition of the “middle class”, but undoubtedly it is going to have some relationship to the middle of the income spectrum, or median income, which is just over $60,000 for families or just over $30,000 for individuals.

Now, the second bracket doesn't even start until one makes at least $45,000, or 50% more than the Canadian median individual income. Without being in the second bracket, there can be no benefit from the rate cut proposed here. However, the full benefit of that rate cut isn't available until one makes $90,000 individually, or three times the median income, and that full benefit will be available to those making up to $200,000 when the new bracket kicks in.

I'd like to call your attention to Figure 2 on page 5 in my report, which shows quite clearly that the largest benefits go to the top 10% of families, who are making over $170,000, excluding, of course, the top 2% of families, who are making over $300,000 and will pay substantially more due to the new top bracket.

The upper-class 10%, excluding the very top, will see, on average, almost $800 more per family after the bracket trade. Families making between $170,000 and $300,000 are, I hope, no one's definition of the middle class, but they are by far the largest beneficiaries of this bracket trade.

However, the middle deciles that you can see better in Figure 2 on page 5 see surprisingly little of the benefit of the bracket trade. For instance, the lower middle class, the fourth and fifth deciles, see an average benefit of only $30, compared to the richest's almost $800. The upper middle class of deciles 6 and 7 do better, making about $175 a year, but again this is only a quarter of what the wealthiest make, at $800 a year.

The paper examines four other possibilities that use pre-existing tax transfer mechanisms to spend roughly the same amount, or roughly $3 billion, while attempting to better target the middle class.

The options examined are dropping the rate in the lowest bracket, increasing the basic personal exemption, increasing the GST credit, and increasing the working income tax benefit, or WITB. Any of these measures provides more benefit to middle class families. For instance, the WITB option would provide $350, on average, to lower-middle-class families, or 10 times more than the $30 they would make with the cut in the second bracket.

I'd encourage committee members to examine these alternative possibilities as more effective options than a rate cut in the second bracket, as described in the budget.

It is worth pointing out that roughly $3 billion raised by the new top bracket is a fair amount of money. I'm not sure that money should be spent on a tax measure. For instance, $3 billion annually would be sufficient to eliminate undergraduate tuition. It would also be sufficient to halve the fees for long-term care for the elderly or dramatically increase home care and caregiver respite supports, measures that will likely have more visibility than changing how much is deducted at source for most Canadians.

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

● (1130)

The Chair: Thank you very much. You had it timed wrong. You are 30 seconds under.

Thank you very much, Mr. Macdonald, and thank you for the paper as well.

From Toronto, we have Ms. Morris for five minutes, if you could.

Mrs. Wanda Morris (Chief Operating Officer, Vice-President of Advocacy, Canadian Association of Retired Persons): Thank you very much.

With respect to the provisions in the change, our members are very pleased with the concept of tax relief. We polled them about the different parties' election promises, and a quarter of them said tax relief for the middle class was their highest priority. That was second only to increasing funds for home care.

In terms of how effective the budget has been in achieving that goal, we didn't poll on those specifics. Where we have some concerns about the proposed changes is with respect to the reduction in the TFSA limits. Before the limits were increased, we polled our members to see if they were supportive of the increase, and fully two-thirds of them were. With the announcement of a potential reduction, we polled again, and about 54% were opposed. Possibly the gap there may be attributed to people who anticipated using the higher limits and weren't able to do so. Approximately 81% of our members have a TFSA, so this is a proposal that is near and dear to their hearts.

Our concern is primarily about an ad hoc approach to changing the retirement framework for Canadians. What we know right now is that there is much poverty among Canadians, particularly seniors, particularly single seniors, particularly female single seniors. What we would prefer to see the government do is to take an overall strategic approach to look at retirement savings as a whole, rather than tinkering with one particular element and reducing the relief available.

CARP is a strong advocate for an enhanced Canada pension plan. We see movement happening in Ontario for a made-in-Ontario solution. There's a strong preference for a Canada-wide solution that covers all Canadians.

We're also deeply concerned about the way that registered retirement income funds are currently structured. Even with the changes that have been made in the past years to lower the mandatory rates, they are not low enough. Seniors are very vulnerable to changes in the market under the current structure. The assumption of a 5% real return, which the current rate seems to be based upon, does not reflect the reality of a low-risk portfolio, which seniors want and would be wise to adopt.

We cannot support a reduction in TFSAs as a stand-alone measure. We are aware that there are over a quarter of a million Canadians right now who are aged 90 and over; that number is projected to increase, particularly among women, again, a group very vulnerable to living in poverty as they age. We think that the RRIFs are falling far short of meeting their needs, so reducing an alternative vehicle that might offer some relief doesn't have the support of CARP.

● (1135)

The Chair: Thank you very much. We're making great time.

Mr. Ball, the floor is yours for five minutes, if you could.

Mr. Bruce Ball (National Tax Partner, BDO Canada LLP, and Member, Tax Policy Committee, Chartered Professional Accountants of Canada): All right, thank you. On behalf of the Chartered Professional Accountants of Canada, I wanted to thank you for the opportunity.

As a bit of background, I'm a member of CPA Canada's tax policy committee, I'm a national tax partner of BDO Canada, and I'm also a chartered professional accountant.

I did want to point out that the CPA designation is now, with the amalgamation, the single accounting and business designation in Canada. This was accomplished by the merger of the three legacy designations: CA, CMA, and CGA. We have over 200,000 members now.

One thing I wanted to make clear is that we do recognize that the government was elected in terms of a fairly specific platform, and the main tax changes I'm going to focus on were part of that. We do respect that and we do recognize that they received a majority.

Bill C-2 has three main important tax changes: the reduction of the middle-class tax bracket that's been discussed, the new top bracket, and the decrease in TFSA contribution room. From a more general point of view, what we really wanted to point out and talk about was the fact that when you do change the tax system it can have various effects, positive, negative, and maybe some unintended effects as well.

We wanted to talk at a more general level, I think, and reinforce that the tax system is a key lever in terms of ensuring that we have a business environment that remains competitive, that we attract and retain the best and brightest minds, and that we also achieve economic growth and prosperity. Our main message today is that it is difficult to talk about three pretty specific tax changes in isolation without considering the tax system as a whole.

Going forward, our key message today really is that before any other tax measures are introduced or changed, we'd like to see a review from top to bottom of the tax system. The review should focus on a number of important factors, with reducing complexity, improving efficiency, effectiveness, and competitiveness being some of the key factors.

We think such a review would actually benefit taxpayers, businesses, and the government as well, the goal being to make Canada the most attractive place possible in terms of a place to live, invest, and do business in. We think that this is squarely in line with the government's agenda for growth. We also think there's no better time than now to do it, for a few reasons, the main one being that there hasn't been a real review of the entire system for over 50 years. The last one was the Royal Commission on Taxation in 1966. Clearly things have changed a lot since then.

The other thing, and I think this has been recognized, is that the tax system now is actually very complicated. It's complex. It's difficult to understand. It's very labour-intensive to deal with, and there are inefficiencies and costs associated with that. In our summary we point out that the compliance cost, according to the Fraser Institute, is probably somewhere around $25 billion for taxpayers and businesses, and perhaps almost $7 billion for the government.

The third reason, really, is that we think there's a lot of support right now for a significant review of the tax system as well. We note in particular for four years now this committee has called upon the government to explore ways to simplify the Income Tax Act and the tax system. Just this past February, it was recommended that the government initiate a comprehensive review of Canada's tax laws with the objective of making the country's taxation system simpler, fairer, and more efficient.

We just can't support that enough.

We were also encouraged that there was reference in the 2016 budget to the government's intention to review the tax system, and we wanted to recognize the chair's recent comments as well that there's a need to look at taxation as a whole, including everything from consumption taxes to income taxes, and corporate taxes to boutique tax credits or tax breaks. Again, that's exactly where we sit and I think a lot of other experts do as well.

Getting into how such a review would work, we believe there should be a panel and it should be guided by the following principles: to keep tax rates as low as possible, the tax bases as broad as possible, and eliminate inefficiency or ineffective tax preferences. We also echo the comment made earlier that the rate is exceeding 50% in a lot of jurisdictions and that is getting fairly high to levels that haven't been seen for some time.

● (1140)

The next key thing when reviewing the tax system is to take a look at the tax mix, especially between income taxes and consumption taxes. We believe that Canada is out of step with the other OECD countries in terms of that.

We don't have specific comments on the TFSA, but we do have the comment that the tax system should not tax personal savings. There should be some sort of enhanced incentives to make sure that Canadians are saving properly for their retirement.

Another key objective, we believe, is to try to keep corporate rates as low as possible to maintain Canada's competitive edge, attract new investment, and create jobs. We also believe that a review should focus on a pro-growth approach that encourages innovation, productivity, and prosperity.

Finally, with regard to working with the provinces and territories, a lot has been done, but we still think more could be done in terms of a more coordinated approach that will benefit everyone.

Just to sum up, Canada needs a tax system that is built for the 21st century, not what, we think, is a patchwork of original rules, amendments, and fixes that have accumulated over time and can cause uncertainty and unintended results. With a four-year mandate, we believe that now is the best time to deal with this, to work on a tax review and possibly tax reform. We would call on the government to have the vision, commitment, and focus to move forward to it.

I would be happy to address any questions on these issues.

The Chair: Thank you all.

We'll turn to our first round of questions.

Mr. MacKinnon, the floor is yours.

● (1145)

[*Translation*]

Mr. Steven MacKinnon (Gatineau, Lib.): Thank you, Mr. Chair.

I would like to thank all the witnesses. It was very interesting, even though there was some contradiction.

Mr. Ball, I was a business student a very long time ago, too long ago. I remember that one of your predecessors, Lyman MacInnis, who was the president of the Chartered Accountants of Canada at the time, spoke to us about the duty or the need to simplify the tax code. I am taking this opportunity to acknowledge the reforms that have taken place in your profession. You have the merit of being consistent across the decades, and I salute that.

You made a comment and I would like you to expand on it, if possible. You said:

[*English*]

“Canada is out of step with other OECD countries.”

[*Translation*]

Could you tell us about the OECD countries that you think are models when it comes to simplification or efficiency of their fax system, and I'd like you to go more into the principles that you touched on in your testimony.

[*English*]

The Chair: Mr. Ball, go ahead.

Mr. Bruce Ball: I'd have to say, the approach I would use would be to take a look at all the OECD countries and determine which aspects of which country we like. Personally, I don't think it would be so much an issue of picking one country and deciding if that is the one to follow. Maybe I am not really answering the question because I would probably use an approach that's a bit different.

I think that one of the key things for a tax review panel would be to look at how all the other countries work, take the best from the best, and come up with a system that makes sense that way.

In terms of the tax-mix part, we believe that, generally, most of the OECD countries, and especially over in Europe, have a lot more emphasis on commodity tax than personal income tax, and that is something we support.

The Chair: If anybody else has a point they want to add, just raise your hand on the question, and I will let you in.

Mr. MacKinnon, go ahead.

Mr. Steven MacKinnon: Just building on that, Mr. Chair, perhaps I would ask the other witnesses if there are international models of taxation they believe stand out as clearly superior to Canada's.

The Chair: Mr. Alexander.

Mr. Craig Alexander: There is a large body of academic research that has been done on tax efficiency internationally, an awful lot of it looking at OECD countries and comparing the various tax systems and the effects. One lesson from the review of that literature is that consumption taxes are the least economically distortionary taxes to the economy. You see this across countries.

The United States is unique in not having a consumption tax. As a rule, economists prefer consumption taxes over personal income taxes and business taxes, although you have to address the aggressiveness of the impact of consumption taxes, in terms of the income distribution. You need to be sensitive to those issues.

Beyond that, however, the literature basically argues that the next least distortionary economic taxes are personal income taxes, and then the most distortionary are business taxes. Beyond that, it's a matter of figuring out not just what the tax mix is going to be but also the simplicity of the system, because there's a lot of economic cost to abiding by a very complex tax system.

It is here that we get into questions about whether.... I was encouraged that the budget eliminated some of the boutique tax credits, simply on the basis of simplifying the overall tax system, but I think that's where you end up, over time. The tax system incrementally tends to want to become more complex.

I would echo the comment that a review of the tax system and looking for ways to create more efficiencies to improve the tax mix and make it more efficient would be a very desirable thing.

● (1150)

The Chair: You have a minute left.

Mr. Steven MacKinnon: Do I only have another minute?

The Chair: Yes. I'm trying to limit people to six minutes in order to meet our 12:10 deadline.

Mr. Macdonald.

Mr. David Macdonald: Thanks for the question.

Certainly, progressivity is an important feature of any income tax system, and the more you switch away from income taxes towards other types of taxes, such as on consumption, the more you end up with less progressivity in the system rather than more. Something that we push for is more progressivity in a tax system.

That being said, you can address progressivity by switching more to income taxes, but you can also address it often by closing tax loopholes, of which there are plenty.

Unfortunately, this budget introduces another one, which is for teachers and which in some degree I'm in favour of, because my wife is a teacher. That being said, we've traded closing some tax loopholes for opening other tax loopholes. I think broadly speaking a much cleaner, progressive income tax system is going to be much easier to meet in terms of a lower bill.

The other thing I would point to are these questions. What are we doing with the taxes? What are we spending that money on? Are we spending it on something that we benefit from?

If such is the case, I think it's well worth increasing taxes to pay for programs that we can all benefit from or that certain portions of the population can benefit disproportionately from. It's very dangerous to disconnect taxation from what the money is being spent on.

Thank you.

The Chair: Ms. Raitt, you have six minutes.

Hon. Lisa Raitt: Thank you very much.

Mr. Alexander, one of the charts that the parliamentary budget officer provided last Friday in talking about taxes gave some updates on how much tax income the government plans on collecting in the next five years, until the end of 2021. It says it's about $5.7 billion in extra taxes, and it all seems to be back-loaded in the final three years.

The question I have is this, and maybe Mr. Ball from the CPA Canada can help me. If we're talking about a review of our tax system, having just commissioned this Canada Transportation Act review, which took 18 months and is still in study, realistically from beginning to end how long does it take, from the call for a process to study this system to an end result whereby you see increases in taxation coming in because of efficiency? Isn't that a generational thing?

Mr. Craig Alexander: I'm afraid I don't have an expert opinion on how long it takes for the process to occur. I haven't done any studies of past tax reforms to see how long it takes from the start of a review to the end of a review. Having said that, I think there still is merit in constantly looking at the tax system and trying to evaluate efficiency, simplicity, economic impact, and whether it's achieving the goals that the government has.

I'm sorry that I don't have a specific answer to your question.

Hon. Lisa Raitt: No, that's okay.

Perhaps, Mr. Ball, I should have put it to you more directly.

Mr. Bruce Ball: I'm probably on the same page. I'm not sure how long it would take either. The main thing I'd be saying is that it should take as long as it takes, because we'd want to make sure we get it right. If the timing is that it really is only going to happen every 50 years, then we want to make sure that we do it right and not rush things through either. I'd agree with the comment just made in terms of looking at the system at all times. If we're going to do a comprehensive review, make sure we do a good review and come out with a tax system that raises money more efficiently and costs less to run.

Hon. Lisa Raitt: Fair enough.

Neither of you would have an idea of whether or not the government should be booking revenue based upon a review so quickly, and I think that's fair enough. I'll insert my own opinion on that at another point.

I did have a question. It was mentioned, I think by Mr. Macdonald, or perhaps it was somebody else. No, it was you, Mr. Ball.

I agree that we shouldn't be taxing savings. One thing that came out in the budget that has to do with taxation is the bail-in concept for Canadian banks. I don't know if C.D. Howe would like to answer this, or maybe CPA, but in the past when we studied the bail-in provisions we made it clear in our government that we would not be going after the deposits of regular Canadians. The government hasn't been clear on that so far. What is your opinion, in terms of bail-in, where Canadian deposits are at risk of supporting a bank if it does fail?

● (1155)

Mr. Bruce Ball: I have to be honest that—

Sorry.

The Chair: I was going to suggest that we are on Bill C-2, but it does relate. You mentioned the budget.

Go ahead, Mr. Ball.

Mr. Bruce Ball: I was going to say that I'm not an expert on how banks work, so I'm not sure I can add much to that. I'd point out again my role in my firm is as an income tax specialist, so I don't have views on the question around banks.

The Chair: Mr. Alexander has a comment, I believe.

Mr. Craig Alexander: The C.D. Howe Institute will be having a report out in the next month or two on the bail-in provisions for the banking system. The central issue is around the transfer of the liability. Is it the taxpayers who ultimately are backing the banking system, or should it be equity holders?

What the report looks at is the implications of the bail-in system, at some of the implications for common equity holders, and what the implications of that are to the financial system. I think one of the underlying assumptions is that the bail-in system is not designed to have depositors being the backing. Most of the discussions around the bail-in capital regime assumes that the depositors are going to ultimately be protected. I would encourage that fact because it increases the stability of the financial system if people know their deposits are safe.

Hon. Lisa Raitt: Yes, we're not Cyprus.

If I have one last question, it's one I know you can answer. Can you tell us a bit about the concerns the C.D. Howe Institute has expressed about total debt load for all governments across the country? We're looking at a $10-billion deficit, I think, in the Alberta budget coming out. The Newfoundland budget is going to be interesting as well. What's your point of view in terms of data across the country and not just the federal debt?

Mr. Craig Alexander: I think, from a national point of view, consolidated debt is what we should be focusing on. Although the federal government finances look very good, the debt-to-GDP ratio is quite low and is projected to remain stable, I am concerned about the implications when you add on the provincial debt-to-GDP ratios, which really does change the comparisons.

When you look at the Canadian federal government compared to the U.S. government, Canada looks very favourable. When you compare the U.S. government plus all the U.S. states, and then you compare the Canadian federal government plus all the provinces, then Canada is outperforming but it's not outperforming by the same margin. Having said that, I think, a sound budgetary practice is to anchor your fiscal projections in a projection that leads you back to balance. I do not like the debt-to-GDP ratio as a fiscal anchor. I think it's an extraordinarily weak anchor.

Hon. Lisa Raitt: Okay, thank you very much.

The Chair: Thank you, both.

Mr. Caron, you have six minutes.

[*Translation*]

Mr. Guy Caron: Thank you very much.

Since I don't have much time, I will get right to the point.

Mr. Macdonald, I love the options you presented. They are alternatives to what is in Bill C-2, which proposes reducing taxes for the second tax bracket and increasing taxes for the first tax bracket. As you said, taxes are being increased for 0.8% or 1% of the population and being distributed among 25% or 30% of the population by neglecting the remaining 70%.

Do you agree?

[*English*]

Mr. Alexander, do you dispute the assertion that the changes in tax rates that are being presented in Bill C-2 basically affect only about 30% of the population among the highest incomes, and are doing nothing, basically, for 70%?

Mr. Craig Alexander: The changes to the middle income tax bracket come in at incomes above $45,000. By definition, any Canadians who are below that amount are not going to benefit from the income tax cuts. If you think about this from a mixed point of view, there are measures in the budget that do support Canadian families with incomes below the $45,000. Purely on the basis of the tax changes that we are talking about, the tax changes only impact individuals with incomes above $45,000.

Mr. Guy Caron: From what you're saying, that's often the point of the government on the other side. Even with the other measures, it doesn't do much for couples without kids, for individual seniors, for example, except for single seniors. All in all, there are many Canadians who are left unaffected by the changes, even though it's called the middle-class tax cut.

[*Translation*]

Since you have appeared previously before the Standing Committee on Finance, I know your work on income inequality. I don't know whether you've had a chance to take a look at Mr. Macdonald's brief, but one of the options presented is the

[*English*]

working income tax credit or tax benefit. How do you see that as a real measure to actually address income inequalities, especially among workers with a low income or earning minimum wage, for example?

● (1200)

Mr. Craig Alexander: When I did some work looking at the ability of the income tax system to affect income inequality, what I found was that incremental changes to our tax system are not going to have large-scale effects. If you want to change income inequality more through the tax system, it would be taking the revenues generated at the high end and focusing that more on low-income Canadians versus middle-income Canadians. That would actually impact income inequality in a greater way, but the effect would still be incremental because the tax changes aren't going to be....

If we think about the high-income earners, you're basically looking at about 260,000 people, and then transferring income to.... If you do it to everybody else, you're talking about 35 million Canadians, so you're not going to have any real, discernable impact. The more focused you get, the bigger the impact you're going to have.

The one thing I would stress is that if you really want to make a big difference on income inequality, it's not going to be through the tax system. There are an awful lot of barriers that are preventing people from realizing their potential, and it's getting rid of those barriers that will actually raise people up the income scale. It's not the tax system that is going to have the biggest impact on changing income inequality.

The Chair: Is there anybody else who wanted in on that? I thought Mr. Macdonald did. Go ahead.

Mr. David Macdonald: Sure. I think it's important to differentiate poverty from income inequality. There are certainly some very positive measures in this budget that address poverty specifically. But that, I think, is different from income inequality, which does focus more on the middle class. Is the middle class enjoying the same level of growth and incomes as the upper class? It's quite clear that they haven't over the last couple of decades.

That being said, I think the examination in the report shows that it's actually very difficult to target only the middle class without more benefits going either to the low end or to the higher end when you're using a tax-transfer system. If we are concerned about income inequality, I actually agree with Mr. Alexander that non-tax changes will likely have the biggest impact, increasing, for instance, unionization rates, or increasing, for instance, median wages and driving median wage growth in Canada, would likely have a bigger impact on income inequality by driving pre-tax incomes. We can offset that to some degree with the tax system, but non-tax issues are probably larger.

The Chair: Mr. Caron.

[*Translation*]

Mr. Guy Caron: Actually, I was going to ask you for the answer to that question. I will come back to you and to Mr. Alexander, after which I will also have a question for the accountants.

[*English*]

The PBO came out with a report on TFSAs. The figure that worries me, and I'm sure you read it, is figure 3, in which we're looking at the long-term impact it could have. I believe that behavioural changes were input into this model. In terms of percentage of the GDP, we are talking about 0.14% in 2020 with the higher ceiling, going up to almost 0.7% of GDP. Right now we're being told that we can't achieve that for international aid, because it's really too high and nobody is achieving it. We are ready to actually open with a higher ceiling, to 0.7% of GDP in terms of net impact.

Do you dispute the numbers of the parliamentary budget officer in that regard, Mr. Macdonald and Mr. Alexander?

The Chair: It will be one at a time for the next question, but let's get answers to this one.

Mr. David Macdonald: It is pretty clear that with growing TFSA limits, whether at $5,000 or $10,000 or back at $5,000, the larger issue is what the lifetime limit of TFSA holders is. I think that will become an issue later on, as you face exactly that problem. This is skewed heavily towards the wealthy end of the spectrum. The folks who can manage to save, who have enough income to save, who have seen big enough raises to save, are going to be the ones with the most assets tax-sheltered through TFSAs or RRSPs or any of the other alphabet soups of savings vehicles.

Over the long run, if we go back to the Carter commission, which was mentioned earlier—the last major review of the tax system—one of the conclusions was that a buck is a buck. Whether you make money selling stocks or make money sweeping floors, you should pay the same amount. At present, that's not the case, given the 50% capital gains exemption, and with TFSAs it is even more not the case, because there is no taxation whatsoever.

A buck, then, is not a buck. If you're making a buck through what wealthy people do—buying and selling stock and real estate and so on—you pay no tax, but if you make a buck the way most Canadians do, which is working from nine to five, then you pay the regular tax system.

● (1205)

The Chair: I'll have to cut you off there. I'm sorry, gents.

Ms. O'Connell.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you, Mr. Chair.

My first question is to Mr. Alexander.

At the beginning of your comments you mentioned the tax reduction for the middle class and the good things—the $3.4 billion, the stimulation, etc.—and you said it is also good timing, because people now have a higher debt load than ever before. Then later on in your comments you talked about the reduction, or taking the TFSA levels back to the $5,500, and said that more people could maximize it than the finance department is saying.

How can you correlate saying that the average Canadian has some of the highest debt loads we've seen with saying also that they're able to save more than ever? You somewhat contradicted the finance department's testimony yesterday in which they said it was about two million Canadians who are utilizing the full TFSA amount, and of those two million, it's the highest-earner spectrum. You contradicted that.

Mr. Craig Alexander: To be clear, the cut in the middle income tax rate will provide tax relief. Based on the personal savings rate, which is in the low single digits, the bulk of that money is likely to end up in consumption. A small portion of it will end up in savings.

My point is that the savings aren't going to add to economic growth. It won't show up in the government's estimates of how much more boost the economy gets from the tax cut, but it has a benefit because encouraging Canadians to save more is good.

Although we are seeing many Canadians take advantage of TFSAs, I think there are still concerns about whether Canadians are saving adequately for retirement. Canadians are carrying larger debt burdens longer in life, and there are issues related to what's happening to the savings life cycle. In other words, Canadians are saving later in life, and this creates concerns, particularly among Canadians who do not have an employer pension plan.

When we look at the Canadian population, we say, “What is the at-risk population that's going to fall short of income replacement during retirement?” What we find is that it's middle-income households that do not have employer pension plans. As a consequence, this is one of the reasons why RRSPs and TFSAs are useful savings vehicles, because they provide additional incentives for Canadians to save.

What's interesting about the TFSA, which hasn't come up at this point, is that the criticism that's being levelled is that the TFSA is predominantly being used by high-income households. This isn't true. It's being used across the entire income spectrum. In fact, the advantage of the TFSA is that it's designed to help people in the lower tax bracket, because often the people with the lower income tax rates are not getting large tax credits when they save through RRSPs. The TFSA will give them a better tax return, and tax payoff, in terms of their savings. As a consequence, it's low-income Canadians and low middle-income Canadians that benefit the most from a tax point of view through the TFSA.

What should the limit be, and what should the annual limit be, or what should the lifetime limit be? We want Canadians to save more. The fact that the TFSA has proven popular is a signal that it is a useful vehicle and a useful complement in terms of helping incent Canadians to save.

I don't view any of this to be contradictory.

Ms. Jennifer O'Connell: Thank you. I think where we differ is your definition of popular and who is finding the maximum contribution. There's no disagreement that TFSAs are important in encouraging more, but if you can't afford to put in that maximum, then it's those who can afford it that probably need the savings least. That's the issue with that limit.

I have a question in regard to you saying the finance department's comments are wrong about the highest earners being the ones taking the full utilization of TFSAs. Have you studied this? If so, what is that report?

● (1210)

The Chair: Mr. Alexander, you go to this one, and I know Mr. Macdonald wants in at the last.

Mr. Craig Alexander: I'm going to be succinct.

If we look at Canadians, the estimate from Canada Revenue Agency data is that 20% of Canadians that are in TFSAs are hitting their maximum contribution limit. If we look at it by income distribution, for people at the high end of the income scale, about 32% of high-income earners are hitting the maximum. If you look at Canadians in the $20,000 to $25,000 range, about 17% are hitting that limit.

The Department of Finance is right. It is true that high-income earners are using TFSAs more, and more of them are hitting the maximum than people lower on the income scale. You should not characterize the TFSAs as being solely used as a savings vehicle by high-income earners, because in fact the data shows it's being used by Canadians across the entire income spectrum.

The Chair: Jennifer, I'll have to cancel you there.

Mr. Macdonald wanted to answer before, and then we're out of time.

Mr. David Macdonald: Yes, I wrote a report on this two years ago, which I presented to the finance committee at that time. About 70% of the top 1%, the very high end, have a TFSA, but as Alex pointed out, only about 30% of them maximize it. This is based on 2013 levels, which have since increased. We've actually seen fairly dramatic falls in the number of people, even at the very high end, who are maximizing their TFSAs. For instance, for the top 10% of income distribution, the number of people who are maximizing their TFSAs has fallen from about one-quarter in 2010 to about 10% projected for 2015. As these limits continue to go up, we're just not seeing people maximize those accounts, even at the very high end, but the people who are maximizing them are disproportionately among the wealthy.

The original idea of the TFSA, as proposed by people like Rhys Kesselman, was to protect low-income earners from clawbacks related to the guaranteed income supplement upon retirement, but those are not the folks who are using the TFSA, despite the fact that it is probably the biggest benefit from a TFSA.

If you're making $30,000 a year, you don't have money to save, so it doesn't matter whether you have an RRSP or a TFSA. It doesn't matter what the incentives are. There is no money left over at the end of the day. You haven't seen your income increase in 30 years. That's a substantial problem. While these savings vehicles may be helpful for the higher end, they're not helpful at the low end.

The Chair: Thank you, Ms. O'Connell.

I thank all our witnesses. I'm sorry we cut you a little on time. Mr. Alexander, Mr. Macdonald, Ms. Morris, Mr. Ball, thank you for your presentations. We will now go back to the motion we were dealing with while the next witnesses come to the table.

Who has an answer on the minister of CRA? Does anyone?

Mr. Francesco Sorbara: Mr. Chair, I understand that the minister will be available before May 20.

The Chair: Okay. That's the decision of the minister.

Mr. Caron, there's your information on the minister, “before May 20.”

Mr. Guy Caron: When was the minister contacted about the possibility of appearing? She seemed to know yesterday during question period that she would be appearing, yet we discussed the possibility of her appearing during the motion that was tabled in March. May is really far off. I'm disappointed that in the last 48 hours, there doesn't seem to have been any contact or any attempt to have her come to the committee in an expeditious manner. I'd like to understand what happened.

The Chair: Mr. Champagne, did you have something you wanted to add?

Mr. Sorbara.

Mr. Francesco Sorbara: Yes. Thank you, Mr. Chair.

I think it behooves the committee to continue our work on Bill C-2. With regard to the motion, it was discussed amongst ourselves that we would like the minister to appear. Now we've contacted the minister and we've received feedback that the honourable minister will be available before May 20.

● (1215)

The Chair: Could I ask a question? Is April 21 ruled out? Is that still a possibility?

Before May 20 is anytime between now and May 20. I would think that if we told the minister it's the wish of the committee that she come in her own right.... I think the feeling of the committee is that we should hear CRA officials who were involved in this process on their own and the minister on her own, and deal with this issue and estimates, right?

Mr. Sorbara.

Mr. Francesco Sorbara: We all want to know the answers in terms of what has happened and the stories that have come out. Mr. Caron, I think our objectives are the same. We want to ensure that Canadians have confidence in our tax system, that everyone is paying their fair share, and that there are no sweetheart deals or anything like that going on.

I think it behooves us to continue studying Bill C-2. The minister has responded that she is available to come to the committee prior to May 20. Thank you.

The Chair: I have Mr. Caron first, then Mr. McColeman, and we're going to deal with the motion sooner or later.

[*Translation*]

Mr. Guy Caron: Pretending that we absolutely must study Bill C-2 immediately doesn't make sense because Parliament has already voted on the ways and means motion. The measures in Bill C-2 are already in effect. Our current efforts to ensure that the minister can appear within a reasonable timeframe is not an attempt to postpone or delay the study of Bill C-2. We support having the minister appear before us on April 21, and then we will continue to study Bill C-2 and prepare the report that we had proposed.

Once again, why, despite the fact that we have known about the situation for at least 48 hours, was the minister not informed in advance and why are we still waiting for an answer to find out when she might come? It's not as if the motion had been a surprise; it wasn't. She knew about it because she mentioned it yesterday in the House.

One last thing. She made some comments on March 10, and she should explain them. According the motion, she could appear as late as May 20. If the questions are about responsibility and transparency because of her comments about the fact that there was an amnesty or not in the KPMG matter, they should be answered sooner rather than later. We should be concerned about this and be trying to get answers about what motivated that statement.

[*English*]

The Chair: I have Mr. McColeman and then Mr. Sorbara.

Mr. Phil McColeman: I'd like to remind the chair that I have somewhat introduced my motion, in parallel to this motion, for the minister to come on main estimates as well. Whatever the minister is contemplating for this amount of time spent on Bill C-2, I'm asking through my motion that she come on main estimates as well. Usually, that would be an hour each.

The Chair: Yes. My understanding is that the minister would be here on both points, one on KPMG and the Isle of Man issue, and the other on estimates.

Mr. Sorbara.

Mr. Francesco Sorbara: I would like to reiterate my point, what I already said. We've put forward a motion. We've answered with when the minister is available to come by: May 20. We'd like to proceed.

The Chair: Okay. Are you calling the question on your motion?

Mr. Caron.

[*Translation*]

Mr. Guy Caron: I have two comments. The first is that I would like to point out what I see to be the government's lack of organization here. Contact should have been made in the last 48 hours, and we could have had an answer today, knowing that we would like to have the minister here within a reasonable timeframe. That wasn't done.

I would like to make my second comment before we put the resolution to a vote. Another important aspect wasn't addressed in the resolution, and that's the need to have at least one additional meeting to discuss the draft report that can be submitted to Parliament. It was in the motion that I presented and it's not in this one. I would like to be able to submit an amendment to include what was in the initial motion on the matter.

[*English*]

The Chair: Mr. Champagne is next, and then I want to make a comment on Guy's point.

[*Translation*]

Mr. François-Philippe Champagne: Mr. Chair, I would like to clarify for my colleague Mr. Caron that it isn't a lack of organization. Rather, it was the desire of committee members to conclude the study of Bill C-2 and, given the dates we're looking at now, to have the minister appear before the committee as soon as possible. So it isn't a lack of organization. It's to ensure the important work related to Bill C-2 is finished.

Once the study of Bill C-2 is finished, the first possible date on the calender for the minister and committee members is April 20. Everyone is aware of the MP's motion, we know about it. But we want to make sure that we finish the study of Bill C-2. As soon as we're done with that, the minister will appear with official representatives from her department. The first possible date is April 20. There is no other agenda but transparency and having the minister come as soon as possible, taking into consideration the work that this committee must do, which is to conclude the study of Bill C-2.

● (1220)

[*English*]

The Chair: Mr. Caron is next, and then I want to go to the question.

[*Translation*]

Mr. Guy Caron: I'm asking the question. I just explained that the study of Bill C-2 isn't urgent. We don't necessarily want to postpone the study to the fall. We want to be able to take care of this file, but there's no urgency because the ways and means motion has already been carried. Tax cuts and lowering the limit have already been in place since we voted on it in December.

What is more urgent for the government: a sped up discussion of a bill that is already in effect or an expeditious discussion of tax havens and an amnesty for people who, in the end, have eluded the system? The government seems to have decided that a bill that is already in effect is more important than discussing tax havens. That is one question that must be raised.

The second question that hasn't yet been answered has to do with an additional meeting to draft a report. Receiving the minister and officials from the Canada Revenue Agency to talk to us about the situation is one thing. Whether the committee looks into what they will say is another, just like the way we report to Parliament. This aspect is still absent from the current motion.

[*English*]

The Chair: Mr. Caron, we'll go to the question in one second. I think C-2 has to get through here and go to the Senate as well.

What I'm wondering is.... About your point on a report, we can't hear from witnesses and the minister and not do a report. I think the number of us who have been around Parliament for a while realize that the committee is going to have to sit for however long it takes to do a report.

We'll deal with this motion, but what I would suggest is that the steering committee meet on Monday, if that's possible, to schedule in what we can on witnesses on this point who are finishing up C-2 as well, and other issues that may be on the steering committee's agenda, so that we can schedule it out. I think the government has heard the push for the minister as soon as possible, and maybe by Monday, the minister could have perhaps a more clear position on what date she may be able to come.

You have a question, Mr. Sorbara.

Mr. Francesco Sorbara: We concur with the report. We understand that.

The Chair: Okay.

Are you okay?

[*Translation*]

Mr. Guy Caron: The last outstanding question, a different question, is the one raised by Ms. Raitt about producing the nine-page letter as an essential aspect for the discussion we'll have.

Do any of the government members object to officially requiring this letter and producing it for the committee? It was in the government's original motion as well.

[*English*]

Mr. Francesco Sorbara: Thank you, Mr. Caron, for your comments. We'll proceed with the motion I forwarded today.

The Chair: Okay. The question has been called on the motion that's before the committee.

(Motion agreed to)

The Chair: Just so we're clear, we're of the understanding that when the minister comes, there will be an hour on this issue, the KPMG-CRA tax issue, and an hour on estimates. That is just so we're clear for the steering committee. Is that correct?

Mr. Phil McColeman: Correct, but I just want to be very clear, Chair.

I submitted my motion within the time period to present it as a motion, and if it's not to be voted on here, I want to have your assurance as chair that she will come on the estimates, because that's what I think I heard you say.

The Chair: That's my understanding, and I think everybody is on the same page on that. Is that correct?

Okay.

Could we suspend for a minute to get the video conference up and go to witnesses? Thank you.

● (1220)

(Pause)

● (1225)

The Chair: Again, I want to thank the new witnesses for coming to the table on the reference of Bill C-2, an act to amend the Income Tax Act.

From the Canadian Labour Congress, we have Angella MacEwen. From the Conference Board of Canada, we have Matthew Stewart. Via video conference from warm B.C., from the Fraser Institute, we have Charles Lammam; and as an individual, we have Kevin Milligan, a professor with the University of British Columbia.

We'll be starting, Ms. MacEwen, with you. Thank you very much.

Ms. Angella MacEwen (Senior Economist, Social and Economic Policy, Canadian Labour Congress): Thank you very much.

I'm here on behalf of the 3.3 million members of the Canadian Labour Congress, and I want to thank you for the opportunity to present our views on the changes to the Income Tax Act that are proposed in Bill C-2. The CLC brings together Canada's national and international unions, along with provincial and territorial federations of labour and 130 district labour councils whose members work in virtually all sectors of the Canadian economy, in all occupations, and in all parts of Canada.

Personally, I think it's important to analyze these changes in terms of whether or not they will increase fairness and reduce inequality. In the case of BillC-2, I find that the result is mixed. The first part of the bill deals with the proposed middle-class tax cut. This proposal reduces personal income tax rates on income between $45,000 and $90,000 a year and then increases tax rates on income over $200,000. As Andrew Jackson, my former boss, and the senior policy adviser at the Broadbent Institute points out, this definition of the middle class leaves out most workers. Why is this?

Most workers don't make enough money to benefit. Data from the Canada Revenue Agency shows us that only one in three individual tax filers had taxable income over $45,000 in 2013. Because of how our tax system is structured, the maximum benefit of $670 per year is only available to people who earn between $90,000 and $200,000 a year. That maximum benefit goes to the wealthy group who arguably don't need it. On top of this, we know that tax cuts are the least effective form of government spending in terms of reducing inequality or stimulating the economy. I think we heard from the last panel that tax cuts, in terms of addressing inequality, are not a really effective way of doing that.

While we are supportive of the increase to the top personal income tax rates, we think this revenue would have been better spent, for example, strengthening public services, such as health care. Public services benefit everyone and reduce inequality. Pharmacare and home care are good examples of health care spending that can increase efficiencies in health care delivery and make lives easier for Canadians.

On the second part of Bill C-2, regarding the tax-free savings account, we think it's great that the government has reversed the previous government's changes. Returning the annual contribution limit to $5,500 recognizes that very few Canadians had the resources to take advantage of the higher limit. In fact, only about 8% of eligible Canadians had reached the maximum contribution limit during the first four years of the program. Again, as the other panel noted, it's the lifetime contribution that's going to matter in the long run, but for now this is a good move.

On retirement security, the Canadian Labour Congress feels that a much more important action to provide Canadians with real retirement security would be to double the CPP as soon as possible. In terms of what workers get from the Canada pension plan, it costs less than other ways of saving, such as mutual funds, RRSPs, or even the tax-free savings account. In a country as rich as Canada, no one should retire into poverty.

Thank you for your time.

● (1230)

The Chair: Thank you, Ms. MacEwen. Thank you for holding it tight.

Mr. Stewart.

Mr. Matthew Stewart (Associate Director, Economics, Conference Board of Canada): Thank you very much for having me here today. Before I begin, I just want to say that the Conference Board is an independent, not-for-profit, evidence-based organization, and we don't lobby for any organization.

I'll speak briefly on the TFSAs first, and then I'll speak very briefly on the economic impacts of the tax changes proposed in this measure.

First, on TFSAs, why do we want to have these types of savings plans?

Tax-free savings accounts were created in 2009 to improve the incentives to save. There's sufficient evidence, we believe, that Canadians are under-saving. The share of employees with workplace pension plans is declining. Today, just 30% of Ontario tax filers who make more than $20,000 a year contribute to a workplace pension plan. Just 18% of tax filers without a workplace pension plan contribute to an RRSP, which was previously the main vehicle for saving for retirement. That means that 50% of people in Canada making more than $20,000 a year do not have a pension plan and don't contribute to an RRSP. Even for those who contribute, their contribution remains well below the average comparative contribution of those contributing to a pension plan.

Why would a TFSA be of use when so many Canadians are not taking advantage of the current RRSP rules? It makes sense basically for three groups of people. It makes sense for low-income groups, where it doesn't make sense to save in an RRSP as they face clawbacks upon retirement of government programs, such as the GIS. Also, it makes sense for young workers who could face higher tax rates in retirement as their income progresses into higher marginal rates. It also could aid seniors who try to generate income outside of an RRSP. For these groups it can eliminate very high tax rates on savings and encourage savings, which we believe is a good thing for the economy.

Have TFSAs been successful at inducing savings rates? What we do know is that they're widely used. There are almost 11 million people holding a TFSA and 18% have maxed out their contributions. One thing that really surprised me when I looked at the data is that 50% of those who had maxed out their contribution had income of less than $55,000 a year, so it's used across all income groups. That is likely to change, though, as the lifetime contribution increases over time.

Is the $5,500 limit suggested today enough? A young worker would probably be able to generate about $600,000 in today's dollars if they contributed the maximum over their lifetime. There is some question that perhaps that's not enough if they just use the TFSA, but it is significant if they use it together with an RRSP.

On income taxes, what I did is I modelled the economic impact of the income taxes, the hike on the high-income taxes and the reduction on the second bracket, and what I found is that it will boost GDP by a marginal amount. In fact, we expect it will increase GDP by just $800 million a year, adding about 5,000 jobs to the economy, so there is a marginal impact on the economy. There are a few risks, though, that people in the high-income bracket.... We have heard from our members that it makes it harder for them to attract high-income earners into Canada. We have heard that risk, but overall, there's a marginal impact on the economy.

Thank you very much.

● (1235)

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

Mr. Lammam from Vancouver, the floor is yours.

Mr. Charles Lammam (Director, Fiscal Studies, Fraser Institute): Thank you, Chairman Easter, and the rest of the committee for giving me an opportunity to share the work of the Fraser Institute with you today. I hope you find my comments helpful and informative as you deliberate these important public policy issues.

I'm the director of fiscal studies at the Fraser Institute. We're an independent, non-partisan economic policy think tank. The mission of the institute is to help average Canadians understand the impact of government policies on their lives and the lives of future generations.

I've been studying tax policy for about a decade now and have published several peer-reviewed studies on a range of economic policy issues, including taxation and government finances. Last month I co-authored a study titled “Canada's Rising Personal Tax Rates and Falling Tax Competitiveness”. Many of my remarks will draw from the findings of that research.

I should note that my comments today reflect my own opinions and observations about the research we have conducted. I do not speak for anyone else at the Fraser Institute.

Let me start by saying that a competitive tax system is critical to fostering a positive economic climate. Empirical evidence from across the world shows that taxes can influence whether people engage in economically productive activities, such as working hard, expanding their skills, investing, and being entrepreneurial. These are all activities that ultimately drive economic growth and prosperity.

Over the past 15 years federal and provincial governments in Canada of various political stripes have improved the competitiveness of our business tax regime, but little has been done on personal income taxes. Personal income taxes are particularly important when it comes to building a knowledge-based economy and attracting and retaining highly skilled workers such as entrepreneurs, doctors, lawyers, business professionals, and engineers.

The new top federal marginal tax rate proposed by Bill C-2, as well as recent tax rate increases in many Canadian provinces, harm our ability to attract skilled workers, and in fact discourage Canadians from realizing their full potential.

Critically the new top federal marginal tax rate of 33% is being layered on top of several tax increases by the provinces on highly skilled workers. For instance, as a result of federal and provincial tax hikes, the combined top federal-provincial statutory marginal rate in Ontario has increased from 46.4% to 53.5% since 2009. That's more than a 7% increase.

According to the latest available international data, Ontario's top combined marginal rate is the sixth highest among 34 OECD countries, and the second highest among G-7 countries, behind only France. More broadly, due to recent tax hikes, the combined top rate is now about 50% in six out of 10 provinces.

Consider that for a moment. In many Canadian provinces, including Canada's two largest, highly skilled workers can lose more than half of each additional income earned in labour income to personal income taxes. The economic evidence shows that high and increasing marginal tax rates discourage productive economic activity, making Canada a less desirable place to work, invest, and be entrepreneurial. They can also influence decisions about where highly skilled workers decide to live and work. There are many reasons why someone might decide to move to another jurisdiction, but empirical research shows that marginal tax rates play an important role in that decision, particularly for high-skilled labour.

The fact that Canada's tax rates often apply to lower levels of income than other countries further erodes our tax competitiveness. At an annual income level of $150,000 to $300,000 Canadian, every province's combined statutory marginal rate is higher than the combined rate in every U.S. state. This presents a clear challenge for Canada's ability to attract and retain skilled workers relative to our southern neighbours.

It's not just Canada's top personal tax rate that is uncompetitive. In most provinces a Canadian making $50,000 in Canadian dollars faces a higher statutory rate than they would in most U.S. states. This is despite the reduction in Canada's federal rate from 22% to 20.5%. In other words, Bill C-2 does little to address Canada's uncompetitive tax rates, even for the middle tax brackets.

The importance of a competitive tax system is not just fostering a skilled workforce. By discouraging productive economic activity, high and increasing tax rates ultimately diminish economic growth and prosperity. Indeed, because high and increasing tax rates adversely affect economic incentives, governments often do not receive the kinds of revenues they expect from these tax increases.

● (1240)

In closing, it is worth noting that past federal governments, both Liberal and Conservative, have acknowledged the importance of a competitive personal income tax system. For example, the economic plan of Paul Martin's Liberal government in 2005 called for lower personal taxes to “provide greater rewards and incentives for middle- and high-income Canadians to work, save and invest” and to “encourage more Canadians to invest in their skills and to remain in Canada, where their talents will help build a stronger, more prosperous economy”.

In 2006 Stephen Harper's Conservative government made a similar point in its economic plan. Unfortunately, since then marginal tax rates on highly skilled workers have generally become less, not more, competitive.

Thank you.

The Chair: Thank you very much.

Mr. Milligan, the floor is yours.

Mr. Kevin Milligan (Professor, University of British Columbia, As an Individual): Thank you very much.

I'll be brief. I have a couple of comments on Bill C-2. I have a couple of points to make about the new 33% top tax bracket and its impact on government revenues and tax planning and tax avoidance.

The first comment is just to emphasize the importance of considering the differences between federal taxation and provincial taxation. In a federation such as Canada it is more difficult to tax mobile economic factors at the provincial level. For example, if a province tries to tax high earners, some of that income may shift to other provinces through the use of financial and accounting techniques. As an example, there's something called an Alberta family trust into which a high earner could put some assets that essentially shifts taxation of the income from those assets to Alberta, where it faces lower rates.

On the other hand, at the federal level it is harder to avoid taxation, because if you're going to try to engage in these kinds of techniques, it is harder to shift money out of Canada than between provinces. In research with Michael Smart from the University of Toronto, we found that high-income taxpayers are much less likely to shift their income and engage in these tax-planning techniques in response to a federal change than they are to a provincial change. When looking at these revenue implications of a high-income tax bracket, then, we should definitely pay attention to evidence on federal changes versus provincial changes.

My second point is about the administrative measures that have been put in place over the past few months. These enhanced administrative measures are critical to combatting tax planning and tax avoidance. If the Canada Revenue Agency makes it harder for individuals to engage in tax planning, then the new 33% tax bracket is more likely to reach its revenue targets.

The government has already announced several measures that move in that direction. As an example, in the recent budget there's a change in the definition of active versus passive income for small business corporations, and there's also an announcement of several hundred million new dollars for enforcement programs at the Canada Revenue Agency.

But I believe there's still more to do on three fronts. First, we should reduce the use and availability of small business corporations as tax shelters. We can do that through examining spousal dividends, by looking at the lifetime capital gains exemption for small business corporations, and considering use of an employee count or an hours threshold, as Quebec has done, for access to the small business deduction.

The second thing we can do is reopen the case for the taxation of stock options. That was taken off the table by the finance minister recently, but I think there are some merits there that deserve some more attention.

Finally, on the issue again of tax planning and tax avoidance, it's really important to consider the international angle. Much of that happens through organizations such as the OECD. They pursue multilateral agreements to curb tax planning and tax avoidance at both the corporate and personal level, and at those international organizations, Canada can and should be taking a leadership role in pushing those processes forward.

That's it for my comments. I look forward to members' questions.

● (1245)

The Chair: Thank you very much, all.

Members, we'll have to tighten up the questions fairly well. We have about three and a half minutes for the round of four questions.

Mr. Grewal.

Mr. Raj Grewal: Thank you, Mr. Chair, and thank you to the witnesses for coming today and testifying.

This is a quick question to Mr. Lammam from the Fraser Institute and to Mr. Stewart.

Both of you mentioned that raising personal tax rates on the richest people in the country leads to a lack of talent coming into Canada. I've heard this through various witnesses who came through pre-budget consultations, and I asked this question a few days ago as well. It says, “empirical evidence”.

Can either of you guys point to a report that says *x* number of people decided not to take a job in Canada because of the tax rate in Canada?

Mr. Matthew Stewart: Thank you very much for the question. We haven't done a study on this.

But my comments around that are that we meet with our members on a regular basis, which are large companies. That comment comes from complaints or suggestions from our members to look into that issue. They report difficulty in attracting high-skilled workers to Canada because of tax competitiveness. It comes purely from our members' complaints.

Mr. Raj Grewal: It's almost a double-edged sword. A lot of Fortune 500 companies headquarter in Canada because of our corporate tax policies.

I would be really interested to know this. People say in all the reports that there's empirical evidence, but it doesn't mean anything unless there's numbers-based identification to say that Canada is losing out on top talent because of our personal tax rates. Again, only the top 1% of Canadians make north of $200,000 anyway.

Mr. Lammam, do you have any thoughts on that?

Mr. Charles Lammam: I do.

Thank you very much for your comments. I think it's an important point.

We have in fact reviewed the literature on this. We've looked at studies that have been done historically in Canada, and studies that have been done around the world. Clearly the evidence does show that taxes can affect where people locate and also work.

There has been research done by Statistics Canada, for example, looking at the mobility of knowledge-based workers, including doctors, engineers, and natural scientists. I'm happy to pass along references to that study.

There's been research published by the *Canadian Public Policy* journal, looking at the effect of taxation on emigration to the U.S. from 1995 to 2001. It found that Canadians, those who had the most to gain in terms of a lower tax bill, were in fact immigrating to the U. S. It is the most highly skilled who are more prone to moving across jurisdictions. They are more mobile than the average worker because of the opportunities afforded them. Also, research has been done, very important research, that was published by the Institute for Research on Public Policy.

There have been major studies that have looked at this issue, studies in the prestigious *American Economic Review*, which I would turn your attention to. It was published two years ago. This study, very innovative in what it did, looked at the influence of taxes on mobility decisions of skilled workers. The study looked at the effect of personal tax rates, and it found that they play a significant role in attracting foreign soccer players into top leagues in 14 western European countries. The effect was particularly strong for high-quality players, defined as players who had been selected for national teams at least once in their career.

Finally, a recent study, this one done by the National Bureau of Economic Research, used a similar method of tracking migration among a specific set of skilled workers. Specifically, the authors looked at “superstar” inventors, measured by patent citation data in eight countries, including Canada and the U.S., from—

● (1250)

The Chair: Mr. Lammam, I'm going to have to cut you off there. We're going to run out of time.

Mr. Raj Grewal: Thank you, Mr. Lammam. I appreciate that.

If you could forward that documentation to the clerk, that would be appreciated.

I'm almost certain that professional athletes will pick the lowest tax thresholds, but I think that's outside the privilege of the committee.

The Chair: Could we go to Ms. Raitt?

Hon. Lisa Raitt: Sure.

I just did a quick Google search, and I found an Industry Canada report talking about attracting global talent and the effect of taxation. Ask Minister Bains if he can point you in the right direction for that information.

On TFSAs, I have a general statement more than a question, because I don't want to be confrontational.

An hon. member: [*Inaudible—Editor*]

Hon. Lisa Raitt: No, to the witnesses. To you guys, all the time, but not to the witnesses.

Some hon. members: Oh, oh!

Hon. Lisa Raitt: Angella, you said that instead of the TFSA ceiling being raised, we should double the CPP. My argument to that would be that you don't use CPP if you're saving for your wedding. You don't use CPP if you're saving up to travel. You don't use CPP if you're putting money aside for your kid's education, or if you think you're going to need palliative or other care in the future. That's where I think the break is in terms of CPP.

I think the concept that TFSAs are only and solely for retirement is not well-founded. I think it's one where people utilize these vehicles for whatever purposes they want to. The difficulty with CPP —and you know this, and I know this, and it's unfortunate people don't want to talk about this—is that if you double CPP and you don't allow for other vehicles, people's after-tax dollars, or people's pay, will be going into a vehicle that, if they don't live long enough, they will never collect. In the case of a TFSA there is an inheritance ability for the kids or the spouse. That's an important aspect of TFSAs that we should also discuss when we talk about contributions and where people choose to put their money.

The other point I would make, Mr. Chair, and I'll be succinct, is that if you take a look around the world, when we increased our level to $10,000 we did not do it in a vacuum. In the United Kingdom they have an ISA, which is an investment savings account or an income savings account. Do you know what their limit is, Mr. Chair? I'll tell you what their limit is per year. In Canadian dollars it's $28,000 a year. That's the limit for the TFSA in the U.K.. They've had it in place for many years, and in fact they have a junior one. Clearly in their country they view it as a reasonable and meaningful way for people to save their money. It's a good program. We thought a lot of it. We increased the amount as they increased the amount. I think that was a great legacy of Jim Flaherty's.

Instead of having kids being told to put something on their credit card now, and pay it off later, I think it's worthwhile to say, “Put some money in your TFSA and delay what you want to do, and by the way, we'll give you money and it's better for you to do it than paying the interest.”

That would be my comments on the TFSA.

The Chair: Ms. Raitt, I would like to give Ms. MacEwen a few seconds to respond.

Go ahead.

Ms. Angella MacEwen: Thank you.

Ms. Raitt, you're absolutely correct. The mix matters. It's important for workers to have that CPP that will be there no matter what. You'll have it until you die. The problem with the TFSA is that you can run out of money, but with CPP you can't run out of money. If you have that mix of savings vehicles, then you have that security for workers.

You're right. You're encouraging savings. My husband and I saved up for a house in a TFSA. It does makes sense to have a mix, to look at workers, and to look at what services we're providing to people with low incomes. Your point is absolutely well taken.

The Chair: Mr. Sorbara.

Oh, sorry, Mr. Caron, I missed you.

[*Translation*]

Mr. Guy Caron: Thank you.

I have three and a half minutes, so I'll ask only one question, but it is for all four of you, if you want.

[*English*]

Strangely enough, there is one thing I believe you're all in agreement with when we're talking about the tax system. That would be for a review of the tax expenditures we have. I've seen some work done by the CUPE economists. I've seen some work done by Mr. Hodgson. I do believe there's some work by the Fraser Institute on the topic. Mr. Milligan, I know you're interested in the topic.

Not only is it a matter of reviewing the tax expenditures, I think it's a matter of considering that some tax expenditures are inefficient and even detrimental for the economy. We know the Minister of Finance has announced that he was interested in reviewing tax expenditures.

I'd like to have your comments on the state of tax expenditures, the impact it has on economic growth, and if you consider that tax expenditures and even the review of the tax mix constitutes by itself a full reform of the tax system, or if it's only one component that should even be enlarged to look at the whole complexity, the administrative costs, and even the inefficiency of the current Canadian tax system as a whole.

[*Translation*]

I would like to start with Ms. MacEwen, continue with Mr. Stewart and also have Mr. Lammam and Mr. Milligan comment.

● (1255)

[*English*]

Ms. Angella MacEwen: I think it is certainly time to have a review of the tax system, and the fairness in how business taxes interact with the personal tax system. It would be broader than just tax expenditures.

One of the big problems with tax expenditures, as I think you all know, is that they aren't evaluated in the same way that other program spending is. If we could look at changing how we evaluate tax expenditures as well as what tax expenditures we have on books.... Thank you.

Mr. Matthew Stewart: Thank you very much for the question.

Our belief is that we should eliminate much of the tax expenditures and put that money from any of the programs into a lower broader tax reduction. When you look at the data, people are increasingly paying to get their taxes done; it's increasing the complexity. Eliminating much of these tax expenditures that may not be suiting their original purpose and putting that money towards a lower broader base and simplifying the tax system makes sense.

Mr. Charles Lammam: Thank you for that.

This is a very important question, and one that I agree with wholeheartedly. There is a very important need and opportunity to review tax expenditures. By my last count, there are roughly 128 of them in the federal tax system, which now cost more in terms of lost revenue than the entirety of what the federal government collects in personal income tax revenue each year.

Now, all the tax expenditures are not bad. Some of them, like the personal exemption, are worthwhile, and the same with RRSPs. We've done a study, in fact, where we've calculated that the federal government could do away with several of these tax expenditures, many of which are ineffective in terms of encouraging the desired behaviour, being regressive; that is, they're disproportionately benefiting higher-income earners.

By scaling back or eliminating many of these tax expenditures, we could in fact take out the two middle tax brackets in the old system, which would cost about $2 billion, leaving two rates, one at 15% for the overwhelming majority of Canadians, and another at 29% for roughly 2% of taxpayers. I think this is a really important opportunity to revisit tax expenditures that have grown quite dramatically, particularly since 2006, and to look towards a more simple pro-growth and efficient tax system.

[*Translation*]

Mr. Guy Caron: Thank you.

I would like Mr. Milligan to have an opportunity to answer the question.

[*English*]

Mr. Kevin Milligan: I will be brief, Mr. Easter.

Thank you for the question. I agree with my co-panellists on the importance of looking at the effectiveness of different tax expenditures.

However, I think it's important to also pick up on a point made by Mr. Caron, which is the complexity of the system. Tax expenditures add substantial complexity, which has an efficiency cost, but it also importantly has a fairness cost. People who have access to greater tax planning and have an accountant on call are able to navigate the complexities of the tax system more easily than a regular middle-class family.

I think it's important, both from the point of view of efficiency and for fairness of the tax system, to have a thorough examination of tax expenditures.

The Chair: Thank you very much.

Mr. Sorbara, we have time for one question.

Mr. Francesco Sorbara: I'll first comment on the tax rates. There's marginal tax rate and then your average tax rate. There's a bit of a difference there. We also need to point out that there are other considerations in terms of where people want to live and work, housing costs, proximity to jobs, transit amenities, open space.

Kevin, I believe you and I crossed paths at the University of Toronto many years ago, probably about 20 years ago I think, when we did our graduate studies. You're out at UBC now, so congratulations on living in Lotusland there on the west coast.

I'm going to throw this out there very quickly. On our government's policy to reduce the second tax rate, some have argued as to why we didn't reduce the first tax rate. I think it needs to be known that reducing that second tax rate is very important, because a lot of income earners who are in that first tax rate bracket qualify for a number of credits that the second bracket of individuals do not. The maximization of providing benefits to the middle class for the cut to the second tax rate, I think is very important, and I think it was great policy on the part of our government.

Before I let you answer, I do want to make sure we correct something that Ms. Raitt pointed out earlier. The bail-in legislation for Canadian banks was brought out by the predecessor government in response to the global bail-in regimes being brought forth by the regulatory agencies and governments around the world after the financial crisis. It is being put in place to protect depositors, insure depositors. It is to do with bonds that are outstanding and the convertibility of liability. I do want to correct that.

Now we can answer the tax question.

● (1300)

The Chair: Who's the question to?

Mr. Francesco Sorbara: Whoever would like to answer.

The Chair: Who wants to answer? Who wants to start?

Go ahead, Mr. Milligan.

Mr. Kevin Milligan: I have a quick response to that with two quick points.

The first is that on the question of mobility of high earners, there is certainly some evidence that there is some sensitivity of high earners to tax rates, but I think we don't want to overestimate that, especially when we're looking at moving between Canada and the U. S. People are going to be less likely to move there than they are among countries in Europe, for example, for many different reasons, especially when you're looking at the soccer player study.

It is important to consider, but I think it's also important to remember that it's not just tax rates that matter. There are other factors, such as quality of life, and other aspects of society that people choose when they choose where to live.

The Chair: Thank you very much. We are out of time, I'm sorry.

I thank all the witnesses for their presentations in B.C. and here before the table.

Thank you very much. The meeting is adjourned.