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Chair

The Honourable Wayne Easter

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● (1535)

[*English*]

The Vice-Chair (Hon. Pierre Poilievre (Carleton, CPC)): I call to order the meeting. We're dealing with Bill C-74, the budget implementation bill. It was referred yesterday to committee.

We have with us today a number of Finance Canada officials and an official from the Department of Veterans Affairs. They will be making short presentations on parts 1, 2, and 4 of the bill, and then we'll go to questioning. If time allows, we may move on to parts 3 and 5 of the bill. If not, we'll be dealing with those, plus part 6, at our meeting tomorrow.

I trust the committee is satisfied with that approach.

Hearing no objections, we'll start with part 4. We have Madam Norrie, Acting Senior Director at the Policy Directorate of the Department of Veterans Affairs.

Ms. Norrie, the floor is yours, on part 4, “Canadian Forces Members and Veterans”.

Ms. Kathy Norrie (Acting Senior Director, Policy Directorate, Strategic Policy and Commemoration, Department of Veterans Affairs): Thank you for having me today.

This bill contains updates to the Veterans Well-being Act, and other associated acts, and delivers on a pension for life option with benefits and services designed to help veterans live a full and productive life after service.

The proposed pension for life option addresses the concerns that military and veterans communities and families have raised with the department. It's expected to come into effect on April 1, 2019. Pension for life is a combination of benefits that provide recognition, income support, and better overall stability. It will provide a holistic package that reintroduces lifelong monthly pain and suffering payments, implements a new recognition benefit, and consolidates six of seven existing income-related financial benefits.

These benefits will give Canadian Armed Forces members and veterans a choice about the form of compensation that works best for them and their families.

The pension for life plan has three key pillars: recognizing service-related pain and suffering, delivering further recognition for those with severe and permanent impairments, and delivering income support when veterans need it.

Every veteran is different. With these changes, the Veterans Well-being Act is even more flexible so that support can be tailored to each veteran's situation and service history. The pension for life benefits in this bill include three new benefits.

The pain and suffering compensation is a monthly, lifelong, tax-free payment that recognizes pain and suffering experienced by veterans and Canadian Armed Forces members with a disability due to a service-related illness and/or injury.

The additional pain and suffering compensation is a new monthly tax-free payment for veterans experiencing barriers to re-establishment after service because of their severe and permanent illness and/or injury.

The monthly income replacement benefit is designed to provide income support to veterans who are experiencing barriers to re-establishment primarily resulting from service, and the benefit is available to survivors and orphans, for life, should they need it.

I am happy to take any questions.

● (1540)

The Vice-Chair (Hon. Pierre Poilievre): Thank you very much.

We'll now move on to part 1, “Amendments to the Income Tax Act and to Related Legislation”.

Trevor McGowan.

Mr. Trevor McGowan (Director General, Tax Legislation Division, Tax Policy Branch, Department of Finance): As mentioned, part 1 of the bill relates to the income tax. I'll go through each of the measures in the order in which they appear in the bill, although some of the measures can affect a number of clauses and do not appear sequentially.

The first measure relates to the pension for life program, as was previously announced. As noted, the benefits for pain and suffering and additional pain and suffering would be tax free. This ensures the appropriate tax treatment. It also ensures the appropriate tax treatment of the income replacement benefit. It also ensures that the memorial grant program for first responders is tax free. This grant starts in 2018-19 and will support families of first responders such as police officers, firefighters, and paramedics who have fallen in the line of duty.

It also implements measures reducing the small business tax rate: first from 10.5% to 10%, effective January 1, 2018; then to 9% effective January 1, 2019.

It also contains amendments to the holding of passive investments within a private corporation. The first of these limits the ability of Canadian-controlled private corporations to access the small business deduction, where they have significant amounts of passive income within the corporation.

The second measure provides that corporations will no longer be able to obtain refunds of taxes paid on investment income while paying dividends eligible for the enhanced dividend tax credit, which are presumed to have come out of active business income.

It also contains a measure relating to income sprinkling, which prevents the ability of higher-income individuals to lower their personal taxes by diverting income to lower-income family members.

Another measure provides additional tax relief for members of the Canadian Armed Forces. Currently an exemption is available based upon the risk score for certain designated international operational missions. This would extend it so the benefit is available regardless of the particular risk score assigned to a mission. It would increase the level of exempt pay up to the level of lieutenant colonel.

The bill would introduce the Canada workers benefit, a refundable tax credit that supplements the earnings of lower-income workers to replace the former working income tax benefit.

It would also expand the list of eligible expenses in the medical expense tax credit to include costs associated with service animals for persons with severe mental impairments. A good example of that would be service dogs for individuals with post-traumatic stress disorder.

It accelerates the indexation of the Canada child benefit by two years, so the indexation begins in July 2018.

It extends by one year the mineral exploration tax credit, which is a 15% tax credit designed to promote the exploration for mineral resources in Canada and to help companies engaged in that activity to raise money.

It also extends to the end of 2023 a temporary measure that permits a qualifying family member—a parent, spouse, or a common-law partner—to become a plan-holder of a registered disability savings plan for an adult beneficiary whose capacity to enter into a contract is in doubt.

It has a couple of measures relating to charities. The first relates to the qualification of municipalities as eligible donees for the purpose of reducing a charity whose registration has been revoked. This has to do with exposure to the 100% revocation tax. In qualifying circumstances, if the donation has been approved, the charity that's had its charitable status revoked would be able to make a donation to a municipality and avoid the 100% revocation tax.

It also eliminates duplication in the procedure for a university outside Canada to become a qualified donee for charitable tax donation purposes. Currently it's required that a university outside Canada become a prescribed university and also be registered with the Canada Revenue Agency. This would eliminate the requirement that it be prescribed. It would just be required to be registered with the CRA.

● (1545)

It would provide legislative authority for the government to share data relating to the Canada child benefit with provinces solely for the purpose of administering their social assistance payment regimes. It would retroactively change the previous system of child benefits—the Canada child tax benefit, the national child benefit supplement, and the universal child care benefit— so that individuals who are “Indians” under the Indian Act and who legally reside in Canada and have Canadian-born children are eligible for those benefits as of 2005, to bring it in line with their eligibility for the new Canada child benefit.

Last, it would extend eligibility for class 43.2. That's a class of assets that's eligible for capital cost allowance or tax depreciation and provides an accelerated 50% capital cost allowance rate for certain clean energy generation and conservation equipment. That would be extended to be available in respect of property acquired before 2025.

That's it. Those are the measures contained in part 1 of the bill.

The Vice-Chair (Hon. Pierre Poilievre): Thank you very much, Mr. McGowan.

I now invite Gervais Coulombe and Pierre Mercille to pronounce upon part 2, amendments to the Excise Act, 2001, related to tobacco taxation and related legislation.

[*Translation*]

Mr. Gervais Coulombe (Director, Sales Tax Division, Tax Policy Branch, Department of Finance): Thank you, Mr. Chair.

[*English*]

The Government of Canada applies an excise duty to all tobacco products sold in the Canadian market. The tobacco excise duty rates are currently set to automatically increase every five years to account for inflation. Under this approach, tobacco excise duty rates would be adjusted on December 1, 2019. Budget 2018 proposed to advance the existing inflationary adjustments for tobacco excise duty rates to occur on an annual basis rather than every five years. To ensure consistency in the excise framework, inflationary adjustments will take effect on April 1 of every year, starting in 2019.

Effective February 28, 2018, the day after the budget, tobacco excise duty rates were adjusted to account for inflation since the last inflationary adjustment that was made in 2014. That first adjustment was equivalent to an increase of about $1.29 per carton of 200 cigarettes.

The budget also proposed to increase excise duty rate by an additional $1 per carton of 200 cigarettes, along with corresponding increases to the excise duty rates on other tobacco products like chewing tobacco or cigars.

Overall, as of February 28, 2018, the excise duty rate on 200 cigarettes increased by $2.29, rising from $21.56 per carton to $23.85 per carton. That translates into an increase of about 29 cents per pack of 25 cigarettes.

An inventory tax was also applied to inventories of more than 30,000 cigarettes, which is equivalent to 150 cartons of 200 cigarettes, held by manufacturers, importers, wholesalers, and retailers as of the end of February 27, 2018. This measure generally applies as of the day after the budget, and details of the measure are found on pages 39 and 40 of the budget supplementary information booklet. The clauses implementing these measures are all under part 2, covering clauses 47 to 67 of Bill C-74.

This completes the introductory remarks for part 2.

Thank you.

● (1550)

The Vice-Chair (Hon. Pierre Poilievre): Thank you very much to all the witnesses for their presentations.

We're now going to move into questioning.

Mr. Fergus has requested that we make it open season for the chair to take down the names of members who raised their hands.

What do you suggest? Two or three minutes per member?

Mr. Greg Fergus (Hull—Aylmer, Lib.): I think so. That would be great. Very good, Mr. Chair, at your discretion.

The Vice-Chair (Hon. Pierre Poilievre): Is that okay?

A voice: Agreed.

Go ahead, Mr. Julian.

[*Translation*]

Mr. Peter Julian (New Westminster—Burnaby, NDP): Mr. Chair, I just want to make sure I understand properly.

We all have a number of questions to ask. Do you want to time our interventions for up to two or three minutes or would you rather have us continue until we are satisfied?

The Vice-Chair (Hon. Pierre Poilievre): If you continue until you are satisfied, the discussion may never end. There must be a limit to speaking time.

If there is no consent, we can use the usual practice.

[*English*]

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): I just noticed, Mr. Chair, that in previous times we've had this, the free-for-all approach worked quite well. If other people want to get in and you feel that we're running low on time, you could just ask the member to wrap up and then let someone else in, but usually we're a pretty good bunch.

The Vice-Chair (Hon. Pierre Poilievre): Is the government side happy with this approach?

Mr. Greg Fergus: Yes, indeed.

The Vice-Chair (Hon. Pierre Poilievre): We'll make sure you have a chance to ask your questions.

[*Translation*]

Mr. Peter Julian: We sometimes talk about some quite technical topics, so we want to be sure we can get to the bottom of things.

[*English*]

The Vice-Chair (Hon. Pierre Poilievre): How long would it take for you to...?

[*Translation*]

Mr. Peter Julian: That depends on the answers.

The Vice-Chair (Hon. Pierre Poilievre): Give me an approximate time. I can increase the time limit to accommodate you.

Mr. Peter Julian: In some cases it could take less than two or three minutes; in others, it could take four, five or six minutes. We do not know in advance.

The Vice-Chair (Hon. Pierre Poilievre): Six minutes then.

Mr. Peter Julian: We can be flexible. Once the person asking the questions is satisfied, we can move on to the next person on the list.

[*English*]

The Vice-Chair (Hon. Pierre Poilievre): I'll start with a member on the government side.

[*Translation*]

Mr. Greg Fergus: I have a few words to say.

As Mr. Albas just said, we usually get along and it works pretty well. If we find that a member of the committee takes too long to ask questions, we will give others a chance and the person will be able to speak later.

In two hours, we are usually able to have a number of discussions.

[*English*]

The Vice-Chair (Hon. Pierre Poilievre): We'll make sure you have enough time to get through.

[*Translation*]

Mr. Peter Julian: That's perfect. Thank you.

[*English*]

The Vice-Chair (Hon. Pierre Poilievre): Is there anyone who wants to begin?

Mr. Sorbara.

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

Trevor, you mentioned the section dealing with passive income. Can you just clarify the rules that will be put in place with the BIA legislation with regard to passive investments in terms of the step up between the small business tax rate and the corporate income tax rate?

Ms. Maude Lavoie (Director General, Business Income Tax Division, Tax Policy Branch, Department of Finance): Under the proposed rule, the eligibility for the small business deduction will start to be reduced once a CCPC earns $50,000 of passive investment income, and it will be gradually reduced until it reaches $150,000 of passive income, at which point the eligibility for the small business deduction will be nil.

Mr. Francesco Sorbara: What percentage of CCPCs may be impacted by that change?

Ms. Maude Lavoie: About 3% of corporations that are claiming the small business deduction would be impacted by the proposed change.

Mr. Francesco Sorbara: I think there are over one million CCPCs, so it will be a very small amount.

Ms. Maude Lavoie: For this specific measure, yes, it's about 3% of about 750,000 firms that are claiming the small business deduction.

Mr. Francesco Sorbara: The second question is regarding the income sprinkling measure that Trevor spoke about. To me, that measure in the BIA legislation is about tax fairness for Canadians, and I wanted to see if you could align the broad strokes of how that will be implemented.

● (1555)

Mr. Trevor McGowan: Yes, of course. I would be happy to do so.

The current measure builds upon the existing tax on split income that applies to individuals under the age of 18, and it applies a top rate of taxation for income that is considered to have been split or diverted from a higher income earner to a particular individual. How it would apply is if certain split income, which can be dividends from private corporations generally, certain income from a trust, or passive income such as interest, gets paid to a certain individual and the amount is not what's called an “excluded amount”. For excluded amounts, there are a number of different categories. The catch-all category for those who are over the age of 25, which is the broadest class of affected individuals, would be amounts that are reasonable, having regard to the relative contributions of labour and capital of the individual who receives the income, as compared to all their relatives who have also contributed to the business. That formed the core of the rules announced in July 2017.

Then, in December 2017, a number of changes were made, simplifying and clarifying the draft legislation and providing a number of clear examples where, without having to test the reasonableness of a payment, it could be excluded from this tax on split income. This would include, for example, where you've put a significant labour contribution into the business, which would be considered to have been met if you've put in more than 20 hours a week during the portion of the year that the business is being carried on; or for non-services businesses, if you have a sufficient equity interest in the corporation carrying on the business, there would be an inclusion there. It would apply where an individual has a relative who is involved in a business, that individual receives income from that business, and that income, primarily for those aged 25 and over, is either unreasonable or none of the other exclusions are available.

Mr. Francesco Sorbara: For someone who actually is contributing to the family business and family farm, someone who's involved in providing labour capital, I understand that the TOSI rules would really remain unchanged.

Mr. Trevor McGowan: That's correct. The idea is that those who are making substantial and significant, or real contributions to or in support of a family business, who are working in it, or who have provided financing—it's not just labour contributions—would be unaffected and they wouldn't be subject to the tax on split income. It's really intended to apply in situations where you have, in a classic case, a high-income earner who earns monies in their law practice, which I'll use as an example because that's my background, and they divert it through one or more corporations to, say, their adult children or somebody else who's not involved in the business but who would be paying tax at a lower rate and would be able to effect tax savings because of that differential.

Mr. Francesco Sorbara: Okay.

I'll stop there. I'll have more questions later.

The Vice-Chair (Hon. Pierre Poilievre): Mr. Kmiec.

Mr. Tom Kmiec (Calgary Shepard, CPC): Thank you, Mr. Chair.

I just have two questions.

The first one is on clause 45, class 43.2, schedule II.

Mr. McGowan, before I begin that question, while you look around for the information on that, I'll just ask, where you mention sharing child benefit data with provinces to administer their provincial regimes, what type of data is going to be shared and what problem are you looking to resolve?

Mr. Trevor McGowan: Currently, the Income Tax Act permits sharing of information relating to the national Canada child benefit supplement with provinces solely for the purposes of them being able to put in their benefit systems, where they might need that information in order to do so. The issue is that with the replacement of the former system of child benefits, those being the national child benefit supplement, the Canada child tax benefit, and the universal child care benefit, with the Canada child benefit in 2016, the information relating to the national child benefit supplement will no longer be available. It currently exists as a vestigial component of the Canada child benefit formula, although that is legislated to be removed. With the elimination of the national Canada child benefit supplement, information relating to that program will no longer be available. The provinces would still need information relating to federal child benefits for the purpose of their programs; so along with the shift from the NCBS to the Canada child benefit, the information to be provided shifted.

● (1600)

Mr. Tom Kmiec: Does that mean when the government consolidated all these different programs, information that was being given to provinces stopped as of 2016, and now, in 2018, that's being fixed?

You said it was vestigial information. Was it information that wasn't being collected in a certain way to be passed on to the government, or was it just stopped from being passed on? What information is it—first name, last name, place of residence?

Mr. Trevor McGowan: Well, it relates to previous years.

Information has continued to be shared. If you look in the current Canada child benefit calculation, when I said there was a vestigial calculation, the variable that represents that former program, the national child benefit supplement, actually remains in the calculation. It's added and then immediately taken away, so that it doesn't impact the calculation of the Canada child benefit.

It's not operative; it doesn't really do anything anymore. It was left there for an additional two-year span to give provinces enough time to update their programs.

Mr. Pierre Leblanc (Director General, Personal Income Tax Division, Tax Policy Branch, Department of Finance): To add, I will give you a sense of the reason why a province or territory might use that information. You could have a family with children just coming on social assistance. They might be eligible for certain transition payments. Let's say they've experienced a drop in income. It will be a while before the Canada child benefit catches up to that, because it's based on the prior year's income. Certain provinces have a system of bridging some of that until their Canada child benefit goes up.

Basically, they're using the information on eligible children. They'll have some information on the last year's income—basic information on the family.

That would be an example of how it's used.

The Vice-Chair (Hon. Pierre Poilievre): Mr. Julian.

[*Translation*]

Mr. Peter Julian: Thank you very much, Mr. Chair.

Ladies and gentlemen, thank you for joining us today. It is extremely important. Your expertise is solid.

I would like to make a brief but important comment. We live in a bilingual country. Many public servants are perfectly bilingual and able to deliver their presentations in both official languages. If those officials are bilingual, we would like their presentations to be in both languages, even before the Standing Committee on Finance, since, as we know, it is important for our country.

My first questions are about benefits to veterans. I would like to know more about this. Ms. Norrie and Mr. McGowan can probably answer me.

My understanding is that the bill eliminates the career impact allowance. Furthermore, I wonder what the additional pain and suffering compensation entails. I think the allowance is about $13,440 per year. However, we are talking about $1,000 per year for the compensation that will be set.

Do I have the exact numbers on the allowance that will be eliminated and the compensation that will come into effect?

[*English*]

Ms. Kathy Norrie: For the career impact allowance, the additional pain and suffering compensation will be partly replacing it. The career impact allowance recognizes the loss of career progression potential of a veteran who is injured. That aspect will be covered in the income replacement benefit. The rest of the additional pain and suffering compensation looks at recognizing and compensating for veterans experiencing barriers to re-establishment after service.

The additional pain and suffering compensation is non-taxable, with the maximum amount of $1,500. The career impact allowance amounts were taxable. The difference is comparable, if you will, after tax.

● (1605)

[*Translation*]

Mr. Peter Julian: In the case of the career impact allowance, the annual amount of $13,440 is being eliminated.

Can you give us further details on the other calculation? The budget figures and the provisions of the bill seem to indicate that the $13,440 allowance is eliminated and $1,000 or $1,500 is paid. What amounts are added to make the career impact allowance a fair compensation?

[*English*]

Ms. Kathy Norrie: There are a number of benefits that are contained in the pension for life proposal in the bill. There would be three different benefits that could be considered. The income replacement benefit would replace six benefits: the career impact allowance; the career impact allowance supplement; the supplementary retirement benefit; the retirement income security benefit; and the earnings loss benefit, both short and long term. It would be 90% of the veteran's pre-release salary and it's indexed annually to the time it's paid.

As part of the income replacement benefit, there's a recognition for lost career progression potential, which is a 1% annual increase to the pre-release salary until the age of 60 or 20 years of service for veterans with diminished earnings capacity. They'll be entitled to the career recognition aspect through the income replacement benefit. In addition, there's the additional pain and suffering compensation, which recognizes pain and suffering experienced by veterans and Canadian Armed Forces members with a disability due to service-related injury or illness. It has three grade levels: grade 1 is $1,500, grade 2 is $1,000, and grade 3 is $500, and it's based on the extent of the impairment of the veteran.

In addition to that there is the pain and suffering compensation, which will be replacing the disability award, and it has a maximum amount of $1,150.

Mr. Peter Julian: I don't want to take too much time on this particular issue, but I guess what I'm asking is for you to lead us through what veterans are gaining, since we can see in the bill what they are losing. That may be something you could provide to the committee perhaps over the next few days, because I'm still not convinced that the veterans are better off, in reading through the elimination of the earning loss benefit, the career impact allocation supplementary retirement benefit, and the family income security benefit.

I think for the needs of this committee if you can lead us through, perhaps in writing, where veterans actually gain in terms of the overall income stream, that would be helpful. Looking through the budget implementation act, I see there seem to be a lot of take-aways from veterans, so I want to be sure—and I'm sure my colleagues do as well—that veterans are not getting less coming through this process rather than more. Is it possible that you could provide to the committee the financial spreadsheets and the model that allows us to see, given the take-aways, what veterans would actually be receiving?

Ms. Kathy Norrie: I can certainly provide additional information. I can also run through a scenario, if you will, that would show an example of what a veteran might receive through all the different benefits under pension for life, if that's helpful.

Just to clarify, the bill consolidates six benefits under the income replacement benefit. We're replacing six, including the career impact allowance, with one, and it has additional features, as I mentioned, the lost career progression potential. It also includes increased amounts for survivors and a $20,000 allowable earning. In addition, the additional pain and suffering compensation is non-taxable, so there's a gain there.

I'm not sure if it would be helpful, but I'm happy to run you through a scenario.

● (1610)

Mr. Peter Julian: I think it would be helpful to the committee if you provided the modelling that comes through the ministry, how you constructed this. I'm sure you had a number of different scenarios and it would be helpful to have them. We do have veterans groups coming forward to committee, so having that information prior to their providing their testimony would be very helpful.

[*Translation*]

Thank you.

[*English*]

Ms. Kathy Norrie: Sure.

The Vice-Chair (Hon. Pierre Poilievre): Thank you very much.

Mr. McLeod was next to have his hand up, and then we'll go to Mr. Albas, and I did see Mr. Fergus and Madam Dzerowicz.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, Mr. Chair, and thank you to the presenters today.

I was pleased to see the extension of the mineral exploration tax credit in place. I think all jurisdictions that are trying to attract industry and exploration in their jurisdiction need a number of things. Of course, certainty is one of them. Whether it's through the regulatory process or through the land claims, the self-government process with the indigenous governments, industry wants to see there's stability and their investment is going to be safe.

There's also the cost factor. That's also a big one for us in the north. We are in a very remote part of the country and so we always conclude, whenever we talk to industry, the chamber of mines, the chamber of commerce, that we'd prefer to have investment in transportation infrastructure and airports and those types of big-ticket items that we need, rather than subsidies, but the subsidies to mining companies seem to help. However, we seem to extend it just before it expires, in the last while anyway.

I'm wondering if you could explain what the advantages or the disadvantages are of making the mineral exploration tax credit a permanent measure, instead of a temporary measure, which seems to get included at the last minute. I think maybe there's an impact to industry in how they move forward also, so I'm very curious to see why it's done this way.

Ms. Maude Lavoie: It's a bit difficult to talk about the government's motivation over time to make the credit temporary. The mineral exploration tax credit was first introduced in 2000, and was extended by governments since then on a temporary basis. The use of a temporary measure allows for an ongoing review of the economic conditions that this sector is facing. In particular, the mining sector is very cyclical in nature. I can only presume this factors into the decision to make this temporary, so it allows us to review on an ongoing basis whether the credit is still needed.

You were raising the issue of certainty for the industry. One thing I would note is that under the credit—and that's also under the flow-through shares system—the money that has been raised in the first three months of a year can be spent up until the end of the following calendar year. So it does provide a two-year window for corporations to spend on their exploration activity.

Mr. Michael McLeod: I'm assuming this is tracked and we're seeing positive results, so it gives us the comfort that we should do it again the following year and the following year. That kind of information is captured.

Ms. Maude Lavoie: Yes, that information about the economy more generally and the mining sector, the commodity prices, and so on.

Mr. Michael McLeod: My next question is about the increase in taxes on tobacco products. I'm curious as to why we're raising the taxes on tobacco products, whether it's so we can generate more revenues or so we can discourage the use of tobacco. The use of tobacco is a big problem in my riding. I think we probably have the worst statistics in the country when it comes to lung cancer and the number of people who are smoking. I'm curious, is this so we can have more revenues? If it is for generating more revenues, is the intention to reinvest some of these revenues into smoking prevention programs and into tobacco control? Is that what we're intending to do with some of the revenues that we generate?

● (1615)

Mr. Gervais Coulombe: The measure that was introduced in budget 2018 had two major components. The first was to ensure that inflationary adjustments are brought in every year. In doing so, the government maintains the real impacts of federal taxes on tobacco products. The federal excise duty is a fixed amount of tax that is charged at the production of each cigarette, so if these taxes are not increased over time, their effectiveness is reduced because of inflation. That was the first component of the measure.

The second component is an extra dollar increase that will help to support the health conservation goals that are attached to tobacco taxation.

Unfortunately I don't have the budget with me, but there were also amounts of money provided as part of the federal tobacco control strategy. The revenues associated with federal excise duty on tobacco products flow into the consolidated revenue funds and are used to finance all services and programs that Canadians enjoy, including providing some extra funding for health.

Mr. Michael McLeod: I have one last question. It's still on tobacco, because we had presentations here last week from people who were talking about the issue of tobacco smuggling. As we increase the costs of tobacco, how big is the concern that we're also going to increase the issue of smuggling tobacco?

Mr. Gervais Coulombe: With the proposed adjustment, basically, of one dollar—the other one being simply to recoup the inflation—this is a very small increase at this point compared to the cigarette retail sale price. We have information, for instance, from Statistics Canada that shows that the average retail price of a carton of 200 cigarettes was about $106 after all taxes and duties in 2017, so the increase that is being proposed in the budget is very small and would not be expected to put further pressure on contraband activities.

The Vice-Chair (Hon. Pierre Poilievre): Thank you very much.

Next on our list is Mr. Albas.

Mr. Dan Albas: Thank you, Mr. Chair. I appreciate the work that our officials do here for Canadians; I thank them for their presence and expertise here today.

In regard to the mineral tax credit, I just want to say on record again that we heard from the Chamber of Mines when we were in Yellowknife, that they were seeking a three-year extension for that increased certainty. I applaud the efforts of the member across the way, because I actually think it should be five years. If we're going to see development of our minerals at some point, there needs to be more certainty in that area. I obviously don't need to broach that, but I just wanted to say that it's an important policy.

Following off Mr. Julian's comments in regard to Veterans Affairs, first of all, this committee member would certainly be in favour of seeing more information as to the benefits and programming that are going to be discontinued, and ensuring that there is an equal or net gain for our veterans. That's important, particularly when we have veterans groups coming to this committee.

I would just ask, through this budget implementation bill and the legislation it entails, is there an automatic enrolment for those who will be losing those subsidies in favour of the new subsidy?

● (1620)

Ms. Kathy Norrie: For the three new benefits, there are protections in place. Any veterans who currently, for example, are receiving a career impact allowance will automatically be eligible for the additional pain and suffering compensation, and will be protected at the same grade level. If they're receiving the career impact allowance at grade 2, which is currently about $1,200, it would automatically move over to the second grade level of the additional pain and suffering compensation.

For the pain and suffering compensation, any veteran who would have received a disability award previously will automatically be considered for an additional monthly amount. We'll go back and look at whether the individual would have been entitled to more, had this new pain and suffering compensation existed back when they received the disability award. We'll take this as far back as 2006, and we'll then automatically start a monthly payment recognizing the difference they would have been entitled to.

For the income replacement benefit, no veteran will receive less than they were receiving in the career impact allowance supplement, the retirement income security benefit, or the earnings lost benefit, whether extended or short-term. The protections are built into the transitional provisions of the bill.

Mr. Dan Albas: Thank you for mentioning those things.

Is there an appeal process for someone if they are switched to a different rate that they disagree with? Is there an appeal process within it, or is it through the regular appeal process?

Ms. Kathy Norrie: There are protections for the review rights and appeal rights. Anyone who was receiving benefits prior to the coming into force of these new benefits will continue to have the same appeal rights, and with the new benefits, the same review rights will exist.

Mr. Dan Albas: Will they still receive those benefits while it's under appeal?

Ms. Kathy Norrie: Yes, if they were determined to be eligible, and, say, they're questioning a grade level, if it's a new applicant, a new veteran, yes, they would continue to receive what they were determined eligible for, while they seek a review.

Mr. Dan Albas: Thank you, and I'd like to go to the TOSI rules briefly, if that's possible. On excluded businesses and excluded shares, could someone give an example of why certain companies are excluded from the provisions of TOSI under this new budget implementation act legislation?

Mr. Trevor McGowan: The excluded business definition is an exclusion from the tax on split income, or TOSI, and is intended to provide a bit more of bright-line exclusion than you have in the base reasonableness test. It applies where an individual makes significant labour contributions in support of a business, and if you work at least 20 hours per week during the portion of the year that that business is being carried on, as in a farming business, for example, that only operates through a portion of the year, then that test would only have to be met through that portion of the year, not the full 52 weeks.

That test is intended to provide an automatic exclusion from the tax on split income where you've made a significant labour contribution in support of a business. You can think of the excluded share concept as being the other side of that coin.

The reasonableness test just in general looks to your contributions of labour and capital in support of a business. The excluded business is a bright-line test for labour, and the excluded share test is a bright-line test that applies in respect of capital. So if you have a sufficient interest—more than 10%—in a corporation carrying on a business and that's determined by both votes and value, and that business earns less than 90% of its income from the provision of services, then you can be excluded from the tax on split income without having to go back and look to the reasonableness test. So it provides a much clearer bright-line test that is intended to ease compliance concerns for affected taxpayers.

Now you've asked why some businesses are affected and others are not. One of the questions we've received relates to the services business criterion, and so I could speak briefly on that if it's what you were thinking of.

Mr. Dan Albas: What problem are you trying to solve by outlining service businesses? Is it really because you don't want professionals using their professional corporations, setting up management companies, and then charging their professional corporation management a management fee, and then income splitting with their spouses? Is that what this is all about?

● (1625)

Mr. Trevor McGowan: In terms of the exclusion of professionals, again, going back to lawyers, an example is where you have a lawyer operating in a law firm and a spouse or an adult child who's not participating at all in the business, such that they can't avail themselves of the labour contribution exclusion. That would be the paradigm test. There are actually a couple of reasons why that service criterion was put in. As I said—

Mr. Dan Albas: Why is it so broad? To me, for a service business, if you're going into a particular type of professional service, accountant, lawyer, etc., and again I go back where they may have certain fees paid to them through a different corporation to circumvent these, you already have rules in place to pick up on that.

Why put forward something that is so undefined into the act, which could apply to many businesses that you or other people in your department may not have anticipated?

Mr. Trevor McGowan: As I said, the excluded share exclusion looks to capital. There is the excluded business exclusion that looks to labour contributions. And where your income from your business is almost entirely because of the labour inputs of an individual, that would be an appropriate exclusion to look to. Also, even if you don't qualify for the services test, there's still—assuming you're over 25—the base reasonableness test, so as long as what you're receiving is reasonable, then the tax on split income would not apply.

Mr. Dan Albas: Who decides what is reasonable? Usually a court of law is the one that determines what a reasonable person or a reasonable position would be, given a certain set of context. Are you putting CRA in the position of defining to people in those kinds of cases so as to arbitrate that?

Mr. Trevor McGowan: The reasonableness standard appears in a number of places in the Income Tax Act. You're absolutely correct that ultimately it would be the court, and going up to the Supreme Court, that decides questions of how statutes ought to be properly interpreted.

This reasonableness test doesn't look to an abstract reasonable level of income based upon your investment. Rather, it looks to a reasonable allocation of your income between you and your relatives vis-à-vis a business. This is one of the refinements made from the version that was released in July. It's not asking, if you invested $100 and you put in 50 hours of labour, what's the absolute value number of what you should be able to get. Rather, it looks to the relative contributions of both the individual receiving the income and any of the relatives who are involved in the business to see if it can reasonably be considered as appropriate. Again, it's not a specific number. It's more that it is in a reasonable range.

Lastly, it builds upon an existing reasonable allocation rule that applies currently, and has for some time in the context of partnerships, in subsection 103(1.1) of the act, where they look to whether or not an allocation of income or other amounts from a partnership are reasonable, having regard to the contributions of labour and capital by each partner to the partnership.

That's something where there's long-standing Canada Revenue Agency guidance. There has been some case law on it. It has been used for quite some time and I think people have gotten comfortable with it. In this context this builds on some of those same ideas. The Canada Revenue Agency has provided guidance. You're absolutely correct that if a taxpayer doesn't agree with the Canada Revenue Agency's assessing position, it can be appealed to the courts for an ultimate determination.

Mr. Dan Albas: I certainly appreciate that this process is there, but for many Canadians the idea of having to take something to court and going through many years sometimes to get to that point I don't think is reasonable.

You didn't answer the original question. What problem are we trying to solve in this legislation by utilizing the term “services business”, which is extremely broad? I reiterate that it could apply to many businesses not imagined by your department.

Mr. Trevor McGowan: The purpose of putting the service....

Mr. Dan Albas: I'm not after the purpose. I meant what problem are you trying to solve? Can you define the problem?

Mr. Trevor McGowan: There are probably two problems. The first is that if you have a capital contribution test as the excluded share test looks to.... Service businesses where more than 90% of your income is from the provision of services are often not very capital intensive. You could have a lawyer providing legal services and that might not take a lot of capital.

It may well be that a nominal investment of capital by a related person would be sufficient to get more than a 10% interest in the corporation carrying on the business, just because the capital needs of the business are much less than they would be for a company that has inventory and is selling. That's one of the reasons; they're less capital intensive.

The other is that it represents a much more pure diversion of income. As I said, the basic idea behind the tax on split income rules is that it involves a diversion of income from a high-income earner to a relatively lower-income earner. So where you have the higher-income earner earning their income almost purely from the provision of services, then that seems to be much closer to the paradigm case of income-splitting. It's much less likely to be properly considered to be a return on equity, where all your income is really coming from services.

● (1630)

Mr. Dan Albas: I appreciate your at least trying to answer the question. I ran a martial arts school for many years and so I definitely know what a service business is, but it's not always going to be a professional corporation. There are not always sophisticated strategies used for this. If you have a pizza shop owner versus a retail outlet, that's suddenly where you would have two different types of businesses, or several types of businesses where it may apply, it may not apply, or sometimes it could apply.

I think without putting definition to it, we're headed down a road. Thank you for trying to answer my questions.

The Vice-Chair (Hon. Pierre Poilievre): Mr. Fergus.

[*Translation*]

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

My question is for Ms. Norrie, who is in Prince Edward Island. It's about veterans.

I am very interested in the standard models that you have created and offered to provide to my colleague Mr. Kmiec a little earlier. You said that you could present a few models to give us an idea of what will happen to future veterans who apply for this new allowance.

[*English*]

Ms. Kathy Norrie: Thank you.

We developed a number of scenarios or examples, if you will, to illustrate how VAC's benefits, including the pension for life benefits, will work together for veterans and their families. They are to illustrate what a veteran would receive if the program started now. Of course, by 2019, due to inflation and tax rates, it could change slightly.

The examples range from a veteran with five years of service to a veteran with 25 years of service. For example, we can look at a single, 25-year-old veteran who served five years in the Canadian Armed Forces and was injured while serving as a corporal in the infantry. He's suffering amputations above the elbow and knee and has PTSD, a 100% disability. The veteran would receive a total lifetime value of $1.36 million, which is non-taxable, in recognition of the service-related pain and suffering and the barrier to re-establishment. In addition, the veteran would receive a lifetime total of $2.5 million net after taxes through the income replacement benefit.

In addition to these pension for life benefits, they would also be entitled to case management services, treatment benefits, the veterans independence [*Technical difficulty—Editor*] rehabilitation, and vocational assistance.

The overall lifetime total would be close to $3.9 million in this scenario.

Mr. Greg Fergus: Excellent.

Fundamentally, you're trying to say that no one will lose out with the new pension for life allocation. It will always work in the veteran's favour.

Ms. Kathy Norrie: That's it exactly.

The pension for life benefit is meant to be streamlined and simplified, consolidating the benefits for IRB, and providing those with permanent severe injuries the financial support they need and deserve.

Mr. Greg Fergus: Thank you very much.

● (1635)

[*Translation*]

My second question is about the Canada child benefit.

Mr. McGowan, I liked what you said. Legislative changes will be made to get things back in order.

In your opinion, Mr. Leblanc, will this be the last time we will be looking at the issue of changes to the Canada child benefit?

Mr. Pierre Leblanc: Thank you for the question.

In terms of data sharing, we can say that the transition is over and it will not be an issue for a few years.

Mr. Greg Fergus: So the transition will be completed.

Thank you.

My questions were not very specific, Mr. Chair. They were first and foremost about veterans.

[*English*]

The Vice-Chair (Hon. Pierre Poilievre): Mr. Kmiec.

Mr. Tom Kmiec: Thank you, Mr. Chair.

I want to go back again to information about the child benefit. Before I do, in clause 45, class 43.2, schedule II, you're extending the capital cost allowance by five years on green energy, I think.

I went to look it up, and it said "generate renewable energy or conserve energy in order to encourage investment in these properties."

What would this include in the "conserve energy" class? What would this be?

Ms. Maude Lavoie: There are certain types of equipment that would make efficient use of energy, and conserving energy in terms of heat that would generated out of a system that could then be reused for certain useful purposes.

I'm not an engineer, but it's in terms of how the equipment can reuse either the energy or heat efficiently.

Mr. Tom Kmiec: However, this is a class of property that's getting preferential tax treatment, kind of the way mineral exploration does, but only for three years. I'm wondering what that is, on the conservation-of-energy side. It says, "or conserve energy." I understand "generate renewable energy". I think we all do. I'm just wondering what that "conserve energy" is. It says until 2025.

Mr. Trevor McGowan: As I understand conservation, and building on Maude's answer, it might include an energy generation facility that retains heat and uses it in, say, an adjoining greenhouse instead of just producing waste heat, so that the excess energy is conserved and put to a productive end.

Mr. Tom Kmiec: So the facility is retaining it, where the facility has a means to try to retain that captured energy and does some type of co-generation, or where a by-product is heat-generated and captured in some way. Okay, that would cover everything possible, both the generation and some type of conservation. How many of these facilities are there across Canada?

Mr. Trevor McGowan: In terms of qualifications, there is a number of technical guidelines and requirements that need to be met. Specifications are put out by NRCan, Natural Resources Canada, so it's not just a general set of rules. There are some very specific conditions that need to be met in order for it to qualify to be a high-efficiency co-generation facility.

Mr. Tom Kmiec: I'll go back now to the child benefit data. Mr. Leblanc, you explained to me what it would be, the content. That makes sense to me. I'm still struggling, however, with what you said, Mr. McGowan, about 2016 and the changes. There was a reference to some vestigial information. I want to understand what, in the consolidation of the program between 2016 to 2018, the provisions in this part are trying to change. What was the information that was provided? Is it a formatting change? I'm still not understanding what this information is.

Mr. Trevor McGowan: Pierre can discuss the classes of information, and thanks for giving me an opportunity to clarify my earlier comments if they weren't adequately clear. Prior to the introduction of the Canada child benefit, a number of provinces referenced the national child benefit supplement in providing their social services, as Pierre discussed. The introduction of the Canada child benefit replaced the old NCBS, but a number of the provinces still referenced the NCBS, which is a variable in the computation of the old child benefit regime. That variable, I think it might have been (b) or (c), was retained—

● (1640)

Mr. Tom Kmiec: Before you continue, just so I understand, is this part of the change supposed to help some provinces where the administration of the child benefit, and some of the administration of provincial programs, was being done by the federal government? Is that part of it, or is it not?

Mr. Trevor McGowan: It has more to do with provinces that require the amount determined in paragraph 122.61(c) of the Income Tax Act. If they refer to needing that information specifically, then with the change in the rules, (c) wouldn't have been there anymore. It was kept on the books for a couple of years to give provinces an opportunity to transition their information requirements to the new Canada child benefit system.

Mr. Tom Kmiec: Thank you.

The Vice-Chair (Hon. Pierre Poilievre): Madam Dzerowicz.

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you, Mr. Chair, and thanks to everyone today for being here, for all your work, and for your patience with all our questions.

The first thing I wanted to talk about is the Canada workers benefit. My riding of Davenport is in downtown west Toronto. It sounds like a wealthy place, but it's not. I have a lot of working-class residents, so often our Liberal government talks about putting in place a lot of measures that will help support the middle class and those working hard to join it. I would say a good chunk of my residents are working hard to join the middle class, and I'm delighted with the introduction of the Canada workers benefit.

I would love it if you could just, for my own purposes, make sure I'm clear on how the new Canada workers benefit will be an advantage for low-income workers.

Mr. Pierre Leblanc: When the Canada workers benefit, building on the current working income tax benefit, is introduced in 2019, you can think of two main enrichments or improvements. One is the generosity of the benefit. It will become more generous in a couple of ways. First, the maximum benefit will be increased by about $170 for both singles and families; that's both single parents and couples.

Ms. Julie Dzerowicz: That would be for a month, a week, a year?

Mr. Pierre Leblanc: That's a year. These are annual amounts.

Ms. Julie Dzerowicz: Okay.

Mr. Pierre Leblanc: Also, the Canada workers benefit, to use the new name, phases in with earnings, it's flat for a while, and then it phases out with your net income. The proposal is to start phasing it out a little later so people can earn a bit more income before it starts to phase out and then phasing it out at a more gradual rate, at 12% instead of the current 15%. I talked about the increase of $170 in the maximum benefit but the increase can be significantly more than $170 for several types because they're benefiting from the two elements, both from the increase in the maximum benefit but also because it's phasing out more gradually as income increases.

As an example given in the budget, for a single worker, someone earning around $15,000 it would be about a $500 increase from the proposal included in budget 2018. There's that enrichment. The second is that we know, and in 2016 we published in our tax expenditure report, that everyone who is eligible currently for the working income tax benefit isn't claiming it. We estimated a take-up rate of about 85%. That means some low-income workers who are filing a tax return currently have to fill out schedule 6. Basically, the changes that are being proposed will be in the second budget implementation bill. To briefly set the stage, if someone doesn't claim it, the CRA will calculate it for them and pay it out.

Ms. Julie Dzerowicz: Do we know how many people we expect that 15% to help?

Mr. Pierre Leblanc: That's about 300,000 eligible low-income workers.

● (1645)

Ms. Julie Dzerowicz: Wow, that's wonderful.

How is this new tax credit going to encourage more people to enter the workforce?

Mr. Pierre Leblanc: Just the idea of the supplementing it requires. It's phased in with earnings. That could be employment income or it could be self-employment income. The idea is to support low-income families in a way that's connected to work. That requires you to have a job. That's the encouragement. As I mentioned, phasing it out more gradually means people who are in the income range where it's being phased out will lose a little less of their benefit as their income goes up.

Ms. Julie Dzerowicz: Thank you.

With regard to the small business tax rate and its reduction, I held a round table discussion with small businesses in my riding. When I spoke to them about the reduction from 11% to 9%, they were unequivocally very happy about it.

Could you talk to me about the impact of the reduced small business tax rate on eligible Canadian businesses' productivity and investment?

Ms. Maude Lavoie: The objective of the small business deduction is to leave more after-tax income within businesses so more money is available for businesses to reinvest in their business. Overall, about 750,000 businesses each year claim the small business deduction.

Ms. Julie Dzerowicz: Okay. That's great.

My last question is around the expansion of the medical expense tax credit for service animal expenses. I'm a chronic insomniac, and lately I've been listening to podcasts about trauma and PTSD.

How do service dogs help individuals who suffer from PTSD?

Mr. Pierre Leblanc: Trevor talked about the expansion, that psychiatric service dogs will be included as an eligible expense. If you think of psychiatric service dogs in general, they can be tasked with, if people have severe anxiety, searching their homes before they enter. If someone is experiencing night terrors, applying compression can help improve the situation. For someone with post-traumatic stress disorder, if that person is having a disassociative episode, the dog could lick their hand to try to take them out of it. If someone has, partly related to that post-traumatic stress disorder, agoraphobia—not wanting to leave their home—the dog can be trained to try to coax them to get out and engage more, to leave their home. Those would be some examples of the tasks that would be in mind.

Ms. Julie Dzerowicz: How will this tax credit help cover the cost of the service dog?

Mr. Pierre Leblanc: The medical expense tax credit is a non-refundable credit. It's for above-average medical expenses. It's the portion of eligible expenses that are about 3% of your net income for most people. Basically, it will be 15% of whatever those eligible expenses could be. It could be obtaining the animal. It could be the upkeep of the animal: food and things like that. It could be vet bills. If you are required to travel to undergo special training to learn how to best use the animal to help you, that would be another type of eligible expense.

Ms. Julie Dzerowicz: Thank you.

The Vice-Chair (Hon. Pierre Poilievre): I have a few questions.

With regard to the Canada workers benefit, does it start to phase out before someone becomes taxable? In other words, we all have the personal exemption. Many of us have additional credits that raise the level of income we earn before any tax rate begins to apply. Does the Canada workers benefit start to phase out before that point or after it?

Mr. Pierre Leblanc: I'm thinking of an unattached individual because it's going to phase out around $13,000. That's roughly around the same level because you have—

● (1650)

The Vice-Chair (Hon. Pierre Poilievre): As the personal exemption.

Mr. Pierre Leblanc: The basic personal exemption in 2017 was $11,635. That person will be able to claim the Canada employment credit, so about $1,150, roughly; their CPP contributions; and their EI premiums. Probably they're not quite tax—it's pretty close. For a single parent, it would probably be a bit.... I think there would still be non-taxable.... It'll depend on the type. A single parent would be able to claim the eligible dependant credit, so...they'd have two basic personal amounts.

The Vice-Chair (Hon. Pierre Poilievre): For someone who does have two basic personal amounts, does it start to phase out before they become taxable, or....

Mr. Pierre Leblanc: Yes, it does.

The Vice-Chair (Hon. Pierre Poilievre): Does that phase-out then contribute to the marginal effective tax rate of the individual in the pre-tax share of their income?

Mr. Pierre Leblanc: It does.

When it's phasing in, it's reducing the marginal tax rate. When it's phasing out, it's increasing the marginal tax rate. When we design and enrich these programs, that's something we're always mindful of. That's one of the motivations for reducing the phase-out rate to 12%.

The Vice-Chair (Hon. Pierre Poilievre): As I understand it, the earned income tax credit in the United States phases out at higher income levels and, therefore, has the effect of actually reducing the tax owed by the working person, rather than just giving them an increase in take-home pay before they reach a taxable level. Is that your understanding as well?

Mr. Pierre Leblanc: I think one of the interesting issues in comparing the earned income tax credit in the U.S. with the current working income tax benefit—which will become the Canada workers benefit—is that if you think of the delivery of child benefits in the U.S., a lot of it is done through the earned income tax credit. That means that their income tax credit is much more generous for families with children than it is for unattached individuals, whereas we have our child benefit system. It's a bit of a blend. Certainly, in the U.S., it's considered an important instrument for encouraging work, for supporting low-income families. It does have that families-with-children element. It's an interesting issue to think about when comparing the two.

The Vice-Chair (Hon. Pierre Poilievre): If the phase-out were to start later in any jurisdiction, could it effectively reduce one's tax burden, rather than being just a refundable benefit?

Mr. Pierre Leblanc: It depends. You could think of it two ways. You could think of their total liability during the year. If I'm in one of those cases where I start to pay tax—I might owe this amount of tax and I received this amount of what will be the Canada workers benefit—it might be a net positive or net negative. In a lot of cases, we see that it ends up being a refund at the end of the year because, to the extent those individuals are paying some amount of tax, it's being withheld. Most of them have employment income, so it's withheld at source. It ends up being, to a significant extent, something they receive back at tax time because they have already—

The Vice-Chair (Hon. Pierre Poilievre): I'm not so much interested in when they get it, but whether it's reducing their tax burden in some cases, versus providing a direct benefit. Do you understand the distinction I'm drawing?

Mr. Pierre Leblanc: Sure.

The Vice-Chair (Hon. Pierre Poilievre): In the former, you're reducing the amount that the taxpayer would otherwise owe the government. In the latter, the government owes you something—

Mr. Pierre Leblanc: Yes.

The Vice-Chair (Hon. Pierre Poilievre): —and there is an intersection point where one goes from workers benefit eligibility to tax-paying employee. At that intersection point, I'm trying to ascertain whether this transforms into a tax reduction, at the higher end.

Mr. Pierre Leblanc: It's an interesting way to think about it. There are basically two things. What we've just been talking about is more of an average tax rate. In net, are you paying something or are you receiving something? Then, it's a question of what's your tax rate on the margin? When I'm in a given range for an additional $100,000 of earnings, what am I paying on that, either to increases in taxes, or reductions in income-tested benefits?

● (1655)

The Vice-Chair (Hon. Pierre Poilievre): In instances where the person is both eligible for the workers benefit and has exhausted all personal exemptions, does the phase-out rate compound the tax rate or does it subtract from the taxes owing?

Mr. Pierre Leblanc: It's going to depend on the situation. You can think of situations where it will take $1,000 more earnings, that they will owe.... Let's take your assumption that they have exhausted their taxable..., so their income is above the sum of their non-refundable credits. Then they are going to pay more tax, starting at a pretty low rate. For example, in Ontario it would be 15% federal and just above 5% provincial. If they are in the phase-out rate for the proposed Canada workers benefit, there will be a 12% reduction in their entitlement.

The Vice-Chair (Hon. Pierre Poilievre): Does that raise their meter? What I'm really getting at here is does that raise—

Mr. Pierre Leblanc: It can.

The Vice-Chair (Hon. Pierre Poilievre): If I could finish—

Mr. Pierre Leblanc: It can.

The Vice-Chair (Hon. Pierre Poilievre): Let me finish. Does it raise their meter to 27%, or does it just have the effect of expanding the personal exemption for that person?

Mr. Pierre Leblanc: No, it can raise their effective marginal tax rate. I think in designing an income-tested benefit like this—especially something targeted at low-income workers—the idea is... there are trade-offs and you're trying to achieve the right balance. Research shows that individuals are particularly sensitive to incentives. We think that incentives matter in lots of cases, but certainly when it's a question of a discrete decision—do I work or not work?—it can matter a lot. There, enriching the Canada workers benefit just means work pays a bit more. But there is another decision that's important: given that I'm working do I work a bit more? In designing this, you take into account that it's going to be a lower phase-out rate over a slightly longer range. Those are the trade-offs. We think we're still in the spot where it's a net plus. We're quite confident of that. But it's certainly something to be mindful of when designing such a benefit.

The Vice-Chair (Hon. Pierre Poilievre): I would think so, because the purpose of WITB originally—and, as I understand, the earned income tax credit south of the border—was not so much redistributional as it was a work incentive to help people get over the welfare wall, to ensure that wage increases and increased hours always pay more. The phase-out of some of these benefits has the opposite effect at certain income levels, as you've confirmed.

On the same subject of marginal effective tax rates, under the changes to the Canadian-controlled private corporations, when a company's passive income goes from $50,000 to $50,001, what will be the marginal effective tax rate on that additional dollar of passive income?

Ms. Maude Lavoie: Under the proposed measure, for each additional dollar that you earn above $50,000 of passive income, the eligibility for the small business deduction will be reduced on $5 of active income. On those $5 of active income, the tax rate at the federal level in 2009 is proposed to be 9%, so on that $5 of income, the rate will be increased to 15%. Under the proposed measure, the investment income is taxed under the current rules.

The Vice-Chair (Hon. Pierre Poilievre): That is presuming there's active income. No, my question was this. Presuming there is passive income and active income—passive and active—what is the total marginal effective tax rate on moving from $50,000 in passive income to $50,001?

Ms. Maude Lavoie: The tax rate that applies on investment income is around 50% right now at the corporation. That is not going to change.

The Vice-Chair (Hon. Pierre Poilievre): It will stay at that, yes.

Ms. Maude Lavoie: In terms of additional, there is no change, so it would be around 50%.

The Vice-Chair (Hon. Pierre Poilievre): Okay, great, we've covered the first part of it.

So then on the other side of active account, you're then reducing the company's eligibility for the small business tax deduction, right?

Ms. Maude Lavoie: Yes.

The Vice-Chair (Hon. Pierre Poilievre): Then when you reduce by $5 the amount of money the small business can use for the small business tax deduction, how much extra tax will they pay on that $5?

Ms. Maude Lavoie: The tax rate will go from 9% to 15%, so 6% additional on those $5, so 30¢.

The Vice-Chair (Hon. Pierre Poilievre): It's 30¢. So now we're 30¢ plus 50¢; we're at 80%.

Mr. Francesco Sorbara: No.

The Vice-Chair (Hon. Pierre Poilievre): Yes.

● (1700)

Mr. Francesco Sorbara: No.

Hon. Pierre Poilievre: Sorry, you don't have the floor. I didn't interrupt you when you had the floor. If I were you, I wouldn't want this talked about, either, so I can appreciate why you don't want me to go here, but I'm going to go here.

The effect is, if you take a business that has passive and active income for which only one thing has changed, and that is that the business will go from $50,000 to $50,001, that $1 will be taxed at a rate of 50.17%. Then, on top of that, the effect of earning that dollar will reduce the eligibility for the small business tax rate by $5. You multiply five times six, and you've got 30. So the effect is 30 on top of 50.

Ms. Maude Lavoie: Just to make sure that we understand each other, the 50 is the overall tax that applies on investment income. That's not changing.

The Vice-Chair (Hon. Pierre Poilievre): That's not changing.

Ms. Maude Lavoie: On the $5, 50% of the $5 will be taxable, so if you're taxed at the general rate—that's 15%—the overall tax will be, if I'm calculating this correctly, 75¢. But the change is 30¢.

The Vice-Chair (Hon. Pierre Poilievre): The change is 30¢. So what would the rate have been before?

Ms. Maude Lavoie: It was 9%. So it goes from—

The Vice-Chair (Hon. Pierre Poilievre): No, the change is 30¢ on that dollar—

Ms. Maude Lavoie: On the $5 of active income, the change is 30¢, and there's no change on the 50, so I don't think you can add the 50 to the 30 directly.

The Vice-Chair (Hon. Pierre Poilievre): No, but actually, that's the rate that someone would effectively pay on that extra dollar of passive income.

Ms. Maude Lavoie: But to pay those additional taxes, you need $6 of additional income, so I don't think you can just add on $1 the taxes that you would pay on $5 of active income. You would need overall to have earned $6 in order to pay those additional taxes.

The Vice-Chair (Hon. Pierre Poilievre): Right, okay. I guess what I'm saying that is the change in the taxability of that new dollar of passive income is already 50%—we all agree to that—but with the proposal in the budget, the act of earning that extra dollar of passive income would subject another $5 to a higher tax rate. That's correct.

So you would pay effectively.... By earning that extra dollar, would you not first lose 50¢?

Ms. Maude Lavoie: As is currently the case.

The Vice-Chair (Hon. Pierre Poilievre): Yes, and that will continue to be the case. Then, if nothing else changes in your situation, you would lose another 30¢.

Ms. Maude Lavoie: That's correct.

The Vice-Chair (Hon. Pierre Poilievre): Right, and 30 plus 50 is 80.

I understand that a member across the way does not agree that 30 plus 50 is 80, so maybe we went to different math classes in high school or in elementary school. The reality is, that is the margin.

Will this affect someone's access to lower provincial tax rates for small businesses?

Ms. Maude Lavoie: That's a decision to be made by provincial governments.

The Vice-Chair (Hon. Pierre Poilievre): Okay, but assuming that it doesn't have any change there, at a provincial level, we're already at an 80% marginal tax rate on $1 of passive income over $50 000. Thank you for confirming that.

We had the Parliamentary Budget Officer here. He indicated that the deficit for this fiscal year—of course, this is a budgetary matter, and we are discussing the budget bill—will be $22 billion, not the $18 billion that the government's budget has projected.

Can anyone on the panel today explain the difference?

● (1705)

Mr. Trevor McGowan: I'm sorry. I think we're here to explain the technical tax changes in parts 1 and 2 and other parts of the bill. I think that falls outside of the area of our expertise.

The Vice-Chair (Hon. Pierre Poilievre): Excellent, all right.

We'll turn the floor over to Mr. Albas.

Mr. Dan Albas: Thank you, Mr. Chair.

I certainly I appreciate that last round. I thought that was a very interesting round.

Quite early in my last intervention, Mr. McGowan made mention of the minister's failed consultation process in regard to small business tax changes or CCPCs.

One of the key goals, or at least the problem that was outlined in that document, was that there were more and more incorporated companies. My understanding is that the Government of Canada has never received so much corporate income tax but that there are more entities. Is that correct?

One of the things they said was that they see it as a growing concern that we have more and more incorporations. That was kind of the rationale for the whole tax fairness argument that they made.

Ms. Maude Lavoie: There is certainly an increase in the use of CCPCs, as has been observed in the data, very strong growth in recent years.

Mr. Dan Albas: Do you remember any of the data, just so that we can share it with the people at home?

Ms. Maude Lavoie: It was in the fall update, I believe, but we can definitely provide information.

Mr. Dan Albas: Again, it was cited as one of the concerns that there were more and more incorporations.

The minister has basically surrendered most of the suggestions in that, everything from intergenerational transfers to...to some extent. I just want to point out that the chair asked a lot of good questions about the cost of passive income. I have a lot of concerns in those areas.

By lowering the rate—the small business tax rate that Ms. Dzerowicz was discussing—will we not be encouraging increased incorporations through the implementation of this?

Ms. Maude Lavoie: I think there are a lot of reasons why CCPCs or entrepreneurs would choose to incorporate. The preferential tax system that applies to corporations is aimed at supporting firms to reinvest in their business and supporting them in raising equity in all this.

Mr. Dan Albas: I've spoken to a number of entrepreneurs in Canada. One of the things I've heard from many of them is that they believe that if you have rates like $50,000....on passive investments before you suddenly pay the much larger tax rate on that $50,001 up, they may end up simply incorporating further companies and seeing those profits go there.

For example, in many successful franchise companies, you have an entrepreneur who will have the trademark, the intellectual property, in a company. Then, they will lease out that intellectual property and return passive investment. Again, by incorporating some of these actions, do you not foresee that there could be a further stimulus to increased incorporation, particularly for those who deal in intangible items in passive investments? Has there been any modelling that you've done?

Ms. Maude Lavoie: Is your question that the reduction in the small business rate will encourage incorporation, or...?

Mr. Dan Albas: Well, there are multiple factors here. Again, there's a smaller tax rate coupled with the fact that now someone can say, for example, “I'm going to take certain trademarks, certain intellectual properties, and if I hit that threshold of $50,001, then I can simply spin off part of those intellectual properties to another company.” They can begin to do that.

Are we not creating a situation where we're encouraging what the government originally saw as a problem?

Ms. Maude Lavoie: The $50,000 will have to be shared amongst the associated corporations. It's based on rules that already exist for the small business deduction. In your example, where the entrepreneur would own the other company and just split up its operations to benefit from more of the $50,000, that wouldn't work under the rules that are being proposed.

● (1710)

Mr. Dan Albas: Again, could there be some strategies between shareholders where they bring other people in to share that income so that they pay that lower rate?

Mr. Trevor McGowan: Perhaps I can build on Maude's comments.

First of all, I don't know that one of the goals was to prevent the proliferation of corporations so much as it was to ensure that when corporations are used, the appropriate tax results occur. You mentioned as well the use of an asset that in one corporation would be actively used in the business, transferred to another corporation, and then used by corporations within a related group in their businesses. One of the key exclusions for this small business deduction or eligibility reduction is that income from active assets are excluded from that, which could include an asset that is used by a related company in its business.

As Maude said, these are supplementary to the existing small business deduction grind that occurs in respect of taxable capital employed in Canada. Those do apply in respect of an associated group of corporations. Just incorporating more companies won't get you out of the rules. I can't say there's no planning out there to try to avoid the rules. There certainly is an incentive to do so. But in general terms, it applies based on a group concept.

Mr. Dan Albas: Has any modelling been done just to see if we're not pushing that—

The Vice-Chair (Hon. Pierre Poilievre): Mr. Albas, we have to go to Mr. Fergus.

Mr. Dan Albas: Fair enough.

Thank you. I appreciate the time.

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

My question will be pretty short.

If I understand correctly the worker benefit, Mr. Leblanc, the idea was to have this amount; to have, as you said, a longer phase-out; and to start the phase-out later. The purpose of it—correct me if I'm wrong—is that when you have people of the same income, one receiving benefits and the other one working, the people who are working at a certain level, the working poor, have some disadvantages, and it would be rational for them, rather than seeking work, to seek social benefits just because of the way in which our tax system, benefit system, and all ancillary things work in the whole process. It doesn't work in their favour.

So the idea of having the benefit, or the working income benefit, is that you're allowing them to make the rational choice to choose work. Of course, work has many advantages. There's the possibility of gaining greater income. It's an ennobling activity. It could lead to future growth and future opportunities.

Do I have that right?

Mr. Pierre Leblanc: That's right. I think that's a fair observation.

I mean, another way to think about it relates to what was said on the issue in a previous round of questions. There are different decisions in relation to work. I think a lot of research has shown that a key decision is just whether or not to be in the workforce. The measure we think of there is sometimes called the “participation” tax rate. Basically, that's the effective tax rate comparing two states of the world: one, I don't work; and two, I work.

Let's say I work 1,500 hours a year at minimum wage. Looking at it the way you just set it up, I would consider how much of those earnings I would be able to keep. A key question there is that even though the Canada workers benefit, as proposed, would be phased out over a longer range, it still could be the question between someone getting some Canada workers benefit and nothing, under the current system.

So there, as they think about that decision and make those calculations—especially as they learn over time, perhaps if they work another year, how the system works—they might think, “Okay: now that I'm working this many hours at minimum wage, I'm getting something from this benefit.” We think that will play some part in their calculations when they make these decisions.

● (1715)

Mr. Greg Fergus: There's also the added incentive, or the added innovation, which I believe you also testified to today, that now the Canada Revenue Agency will make that calculation automatically for workers. They don't have to go out and fill out schedule 6 to be able to do that, so it makes it a lot easier for them to see the benefit.

Mr. Pierre Leblanc: That's right, and just to confirm, that element of the proposal is not in this.

Mr. Greg Fergus: It will be in the next.

Mr. Pierre Leblanc: It would be fair to say that we can expect it in the next budget implementation act. We'd still like, in a lot of cases, people to fill out schedule 6. It could just mean they'll get the money sooner rather than later. In those cases where they don't right now under the current system, they're not receiving anything, and the proposal is for them to receive the benefit that they've earned and for CRA to do the calculations for them.

Mr. Greg Fergus: Thank you for that. That leaves me one last question.

I think it's an important innovation for CRA to make that calculation, which will come out in the second budget implementation act in the fall. It reminds me of the importance of other basic benefits that Canadians can profit from. Perhaps CRA should start taking on a little bit more actively helping people along so that they don't lose that opportunity to take full advantage of all the benefits they are eligible to receive.

Mr. Pierre Leblanc: I think that's an important point. I'll just touch on them briefly, because others are better placed to discuss them than me. There are important initiatives in budget 2018 to provide more people support with tax filing, which is often an important gateway to receiving benefits, so there's more funding for the community volunteer income tax program that basically organizes volunteers across the country.

Mr. Greg Fergus: It's a huge success in my riding.

Mr. Pierre Leblanc: You have more targeted funding, in particular to go on reserves to reach out to indigenous communities to encourage them to file, but also to make sure their children are registered for the Canada child benefit. Maybe I'll just leave it there, but that work is important, too.

The Vice-Chair (Hon. Pierre Poilievre): We have to move to Mr. Sorbara.

Mr. Greg Fergus: Understood. Thank you, Mr. Chair.

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

With the BIA legislation, what will the small business tax rate be effective January 1, 2019?

Ms. Maude Lavoie: It will be 9%.

Mr. Francesco Sorbara: What is it currently today?

Ms. Maude Lavoie: Today, under the proposed legislation, it is 10%, but it was 10.5% last year.

Mr. Francesco Sorbara: Thank you. So that's about up to that $500,000 mark by January 1, 2019, and I understand there's about $7,500 of tax savings for small businesses.

How does our small business tax rate compare internationally?

Ms. Maude Lavoie: The small business tax rate compares very well. We are the lowest in the G7 and among the lowest in the OECD.

Mr. Francesco Sorbara: With the legislation contained in the BIA part I here with regards to passive investments, is there any change, or is there a change on the tax rate with regard to passive investments?

Ms. Maude Lavoie: No.

Mr. Francesco Sorbara: In my estimation, an entrepreneur or professional using his normal rate of return of, say, 5% to get to that $50,000 mark would have to accumulate a few million dollars, if I'm not mistaken, or over $1 million of passive investments to achieve, say, $50,000 in passive income to then be brought up from the small business tax rate of 9% to the general corporate tax rate of about 15% on their active income.

Ms. Maude Lavoie: If you are assuming that the rate of return is 5%, then $50,000 would be consistent with $1 million of passive assets. Before then, your measure starts to gradually reduce a small business deduction, and it would be fully phased out at $3 million.

Mr. Francesco Sorbara: Exactly, so someone who would have approximately $3 million in passive investments would be asked to pay the general corporate tax rate of 15% on their active income versus 9% on their small business tax rate.

● (1720)

Ms. Maude Lavoie: That's correct.

Mr. Francesco Sorbara: That would affect approximately 3% of 1.8 million or 1.6 million of CCPCs that exist in Canada.

Ms. Maude Lavoie: That's correct.

Mr. Francesco Sorbara: The Conservatives are worrying about the richest of the richest, the wealthiest of the wealthiest, those 3%—and I'm going to make a political statement—while we are worrying for all Canadians, and ensuring that all Canadians benefit from low tax rates, and also ensuring that corporations continue to invest. Most corporations are at the general tax rate, so anybody out there.... Think about entities in my riding. I met this morning with the Canadian Franchise Association, and they're very happy that we're cutting the small business tax rate from 10.5% to 9%, and about a number of the measures we put in place, including skills training.

One element that you brought up, and my colleague Ms. Dzerowicz mentioned, was the automatic enrolment for the CWB. Is that contained in this BIA?

Mr. Pierre Leblanc: It's coming soon.

Mr. Francesco Sorbara: I want to clarify.

Will the CCB be indexed this year?

Mr. Pierre Leblanc: That's in this bill before you, and that's right. Child benefits, like some other income benefits, work on a July to June schedule. In July 2018 it will be based on your 2017 income. Both the maximum benefits and the income thresholds will be indexed at 1.5%, which is the indexation that applies to the 2018 tax year.

Mr. Francesco Sorbara: My understanding is that over a two- or three-year fiscal period, for the province of Ontario—if I remember the numbers correctly—roughly another $2 billion plus will flow to many families here in Ontario, including the ones in my riding of Vaughan—Woodbridge.

Mr. Pierre Leblanc: Over the fiscal planning period it's $5.6 billion nationally, so that seems consistent.

Mr. Francesco Sorbara: I'll stop there, Chair. We have a vote.

The Vice-Chair (Hon. Pierre Poilievre): The floor goes to Mr. Julian. We have 25 minutes until the vote. I propose we allow Mr. Julian to make his intervention.

Mr. Peter Julian: I second that, Mr. Chair.

The Vice-Chair (Hon. Pierre Poilievre): We have a seconder.

Mr. Peter Julian: Ms. Norrie, I'd like to come back to the scenario you laid out for us, the 25-year-old veteran with five years of service, and the $3.9 million over.... I have two questions coming out of that.

First, what is the actuarial table? We're talking about that amount of money over what period of time?

Second, how would that compare to that same case with the benefits that existed prior to the BIA's being introduced? If you don't have an answer right off the bat, if you could provide it in writing that would be wonderful.

Ms. Kathy Norrie: Sure. I can follow up with some of that information.

As to the first part of your question, the $3.9 million would be over the veteran's expected lifetime. That's part of what's been designed into these pension for life benefits. Currently, before the BIA we would have had a lump-sum disability award. These payments would be monthly for life.

Mr. Peter Julian: I understand, but for the actuarial table, what would the estimate be over the lifetime?

Ms. Kathy Norrie: Unfortunately, I don't have that information with me, but I'd be happy to provide it.

Mr. Peter Julian: That would be wonderful. Thank you very much. Giving us the existing structure of benefits for that same veteran would be helpful as well.

Ms. Kathy Norrie: Sure.

Mr. Peter Julian: If you don't mind, I'll move to another subject, which is around the CPP.

Mr. McGowan, in Bill C-26, as you're aware, we had no provision for dropout provisions in the expanded CPP. I'm wondering if there were Department of Finance estimates or models around what the cost would have been for dropout provisions had they been included in Bill C-26.

● (1725)

Mr. Pierre Leblanc: Others in the Department of Finance who look after the Canada Pension Plan would be able to respond to your question. We can bring it back to them, or we can see at what point they'll be here on this bill.

Mr. Peter Julian: Okay, thank you.

Further to that, then, we have the drop-in provisions. I'd like the same models around the drop-in provisions. I would like to be able to compare the benefits that would have accrued to people under CPP with the dropout provisions that were not only for base CPP, but also for the expanded CPP, and then compare that to the drop-in provisions that have been applied in the BIA. As with the veterans, that gives us a good sense, clearing away the fog that sometimes exists in politics, to actually see whether there is a net benefit to people as a result of that, and particularly people with disabilities. That's of keen interest to a number of us around the table.

Is that something we could entrust you to pass on to your colleagues at Finance? And can you back to the committee in fairly short order, because of course we'll be hearing from witnesses starting in the next day or two?

The Vice-Chair (Hon. Pierre Poilievre): You will have to make the answer very quick, and that will have to be the last question.

Mr. Pierre Leblanc: My understanding is that for other parts of the bill you'll be able to ask our colleagues that question directly.

Mr. Peter Julian: I have one brief question for follow-up as well.

The Vice-Chair (Hon. Pierre Poilievre): Go ahead.

Mr. Peter Julian: For income sprinkling and spouses, is there department model analysis over the possible inclusion of spouses in income sprinkling for businesses, and are there estimates on the cost of that? That would be the other question I had for today.

Thank you very much, Mr. Chair.

The Vice-Chair (Hon. Pierre Poilievre): Excellent.

I thank the witnesses for being with us today. They will return tomorrow to discuss parts 3, 5, and 6.

Unless there is any other business, that will adjourn today's meeting and we will proceed to voting.