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Chair

Mr. Massimo Pacetti

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● (1110)

[*English*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning, everybody.

Let's begin. I know everybody is excited about the news, but let's try to stick to the *ordre du jour*.

This is a continuation of the study and the witnesses we've been having regarding the private member's Bill C-259, an act to amend the Excise Tax Act (elimination of excise tax on jewellery).

As a witness today we have Mr. Trueman, senior tax policy officer, sales tax division, tax policy branch, Department of Finance.

Mr. Trueman, I understand you have a five- to ten-minute opening statement, and then we'll go to members.

We'll try to stick to the time. I think we're supposed to go to 12:30, but it says here until one o'clock. I think we'll try to go to 12:30.

Mr. Trueman, go ahead, please.

Mr. Geoff Trueman (Senior Tax Policy Officer, Sales Tax Division, Tax Policy Branch, Department of Finance): Thank you very much.

I don't think my comments on the excise tax on jewellery will be able to compete with the news of the day, but I'll do my best to make this as interesting as possible.

A voice: They say diamonds are a girl's best friend.

Mr. Geoff Trueman: That's right.

The Chair: Okay, how long is this going to take? Let's have thirty seconds to get it out of the way.

Can we begin?

Mr. Geoff Trueman: Thank you to the chair, and thank you to the members of the committee for the opportunity to appear today and to provide some comments on private member's Bill C-259 as it affects the federal excise tax on jewellery.

As members of the committee are well aware, the excise tax on jewellery is currently the subject of two legislative initiatives, private member's Bill C-259, which seeks to repeal the tax effective on royal assent, and also Bill C-43, which would enact the phase-out of the tax as announced in the federal budget tabled on February 23 of this year.

Clearly, with the attention focused on the jewellery excise tax, it's worth making a few general comments about this particular levy that we've had with us for a very long time. An excise tax is imposed under part 3 of the Excise Tax Act on the following items that are collectively referred to as jewellery: on clocks and watches, on articles made in whole or in part of semi-precious stones or metals, and on jewellery, whether real or imitation, including diamonds and other semi-precious stones. The tax is payable by the manufacturer on the sale price of domestically produced jewellery and by importers on the duty-paid value of imported jewellery. Jewellery that is exported from Canada, including diamonds, is exempt from the tax. Also, the tax is not payable by manufacturers with sales of less than $50,000 in a calendar year, and it is not collected on jewellery with a sale price or a duty-paid value of less than $3.

Over the two most recent fiscal years, the tax has generated annual revenues in the order of $85 million. As most of you I'm sure are aware, this tax was first introduced following World War I, as part of a number of excise taxes on what were considered luxury or non-essential items, to fund the debt coming out of the war and then as part of ongoing government revenues.

Various studies over recent years, in the 1990s, commissioned by the department and others have certainly identified administrative and technical deficiencies in the tax. Certainly we know that the jewellery industry and their representatives have lobbied for many years for a repeal of the tax, which they consider to be an unfair burden on their industry. To date, over recent years, fiscal constraints and competing tax reduction priorities have precluded any movement on that issue. More recently, over the past year in particular, there's been renewed interest in the excise tax on jewellery. We've had the October 2004 report from the finance committee, private member's Bill C-259, and the budget announcement.

I'd like to return briefly to the relationship between these items, the private member's bill, the budget proposal, and the recommendation from the finance committee, which we received last fall. Generally speaking, as you're all aware, it is the government of the day that is responsible for initiating and presenting revenue and expenditure proposals to Parliament. All bills that would implement new spending measures must be accompanied by a royal recommendation, and bills that would levy new or increased taxes must be preceded by a ways and means motion, both of which can be introduced only by a minister of the crown.

It's the annual budget exercise that provides the main opportunity for the government to develop and present its proposed fiscal framework to Parliament and to outline and integrate its expenditure and revenue initiatives. In the course of developing that budget, there is wide consultation and analysis, priorities are identified, and the government makes the fiscal choices that it will propose to Parliament.

Notwithstanding all of this, of course, current law and procedures do allow private members of Parliament to introduce tax relief bills for consideration by Parliament on a one-off basis. If supported by Parliament, these bills can certainly become law. It's important to recognize, though, that the private member tax bills that are put forward may have an impact on the government's fiscal framework that is similar to new spending measures. It will reduce revenues available for other spending and tax relief priorities. It's worth noting that while it's not possible they could all be passed into law, there are currently roughly 20 private member tax relief bills that are either on the order paper or before the House. These could represent a collective fiscal cost of as much as $2 billion per year.

● (1115)

Ideally, all tax relief measures would be brought forward in the context of the annual budget planning process, as this would allow for the careful development and articulation of the proposed measures, it would allow for prioritization of measures vis-à-vis other competing tax relief or expenditure proposals, and it allows for the integration of these measures into the fiscal framework.

The proposal that was contained in Budget 2005 to phase out the excise tax on jewellery represents, to our way of thinking, a very good example of how tax relief proposals can be integrated into the budget process and the fiscal framework.

Following Budget 2004, the Minister of Finance wrote to this committee and asked that the finance committee assist the government in assessing and prioritizing a number of tax relief proposals, including one to eliminate the excise tax on jewellery. In response, the finance committee issued its report in October 2004 recommending that the government phase out the excise tax on jewellery over a five-year period. Budget 2005 in turn responded by announcing that the excise tax on jewellery would indeed be phased out by a series of rate reductions beginning on the day following the budget announcement.

I think this proposal to phase out the excise tax on jewellery represents an important accomplishment for the finance committee and a very good example of how the government of the day and parliamentarians can cooperate in a fiscally responsible manner on tax-relief proposals.

With those few comments, I would certainly be happy to answer any questions.

The Chair: Thank you, Mr. Trueman.

Okay, we'll try for five-minute rounds.

Mr. Pallister, then I have Mr. McKay.

Mr. Brian Pallister (Portage—Lisgar, CPC): Thank you for your remarks, Mr. Trueman.

I'd like just a couple of clarifications. I'm always concerned with the disproportionate burden placed on smaller businesses with regulatory compliance—tax compliance and so on. I'm just curious as to your statement that this generates about $85 million in revenue. Do you have any idea what the cost of compliance is?

● (1120)

Mr. Geoff Trueman: I can give you the cost of compliance or an estimate thereof on the government—the CRA—administration side, where over recent years we're looking at an upper bound of probably $1 million on the CRA side, in terms of the annual compliance costs for administering the tax on the government.

Mr. Brian Pallister: Of course, that doesn't take into account the cost of compliance from the small-business side.

Mr. Geoff Trueman: Absolutely. On the small-business side, you're right, this is one of a number of taxes that the small businesses have to deal with, in terms of GST. And absolutely, for the jewellery industry this represents an additional tax that is unique to their industry that they're dealing with.

Mr. Brian Pallister: In terms of the cost of compliance, do you have ratios? Do you have a knowledge of what the cost of compliance is? Is it disproportionately high relative to the cost of compliance for other taxes, for example?

Mr. Geoff Trueman: Certainly I wouldn't want to speak on behalf of the jewellers themselves. In the meetings we've had with them they haven't given us a number or an amount. Certainly they've indicated that yes, it's a burden for their members, but they haven't given us a financial amount that I could refer to.

Mr. Brian Pallister: Okay.

From the government's perspective, is that ratio of $1 million to $1.5 million to collect $85 million a standard ratio?

Mr. Geoff Trueman: It's not out of line with other amounts. Some taxes demand more or less administration. It's generally a function of the complexity of the tax and the number of registrants. In this case we have a fairly broad base of registrants and a number of small businesses, so that amount is not out of line, certainly, with other excise taxes.

Mr. Brian Pallister: The phasing out of this, which changes the numbers each year, and so on, does that add in any way to the compliance costs from a government perspective? I know it would increase the frustration probably already in existence among the members of the industry.

Mr. Geoff Trueman: Right, although the phase-out is designed to keep in place the same reporting and collecting mechanism and simply reduce the rate each year. In that way there's no change in the actual type of transaction that these small retail jewellers would face. They would continue to do the same type of paperwork in the same way, and the rate would be reduced, so there would be no new requirements imposed on them.

Mr. Brian Pallister: Obviously, there's an interface between what are perceived to be unfair taxes and the use of other mechanisms, say the underground economy, we'll use that phrase. Has any evaluation been done by the department as to the impact a reduced excise tax may have in bringing transaction levels to the surface that otherwise might not be the case?

Mr. Geoff Trueman: Yes, this was included in some of the earlier studies that were undertaken in the 1990s. Again, there's always a great difficulty in trying to quantify underground activity in the first place, and then there's the subsequent quantification of how much of that would return to the legal market. But certainly, where you have a levy imposed on a particular industry, the standard line of thinking would be that if you remove that levy, then some of that underground activity that exists may come back into the mainstream. It depends on how ingrained those black market practices are, and the size of the levy, as well.

Mr. Brian Pallister: No pun intended here, but is the underground economy working in the mining industry? Is that where we speculate this is happening?

Mr. Geoff Trueman: Certainly there's been evidence and anecdotal evidence over the year that there are some black market transactions in the world of jewellery. The studies that were done at the time were not able to come up with a robust quantification effort. But there is the thinking that if the excise tax on jewellery were removed, some portion of those sales would likely find their way back into the mainstream. There certainly would not be not enough to make up for the amount of jewellery excise tax revenue foregone, but there would be some modest recovery.

● (1125)

Mr. Brian Pallister: I think everyone on the committee understands that this money that wouldn't be forwarded wouldn't be lost to our economy, and would be reinvested by the individuals engaged in this business. There's also a potential offsetting revenue generation by leaving the money in the hands of the people who are actually doing the transactions, the mining, and the business.

Mr. Geoff Trueman: Certainly by removing the excise tax on jewellery, some amount of revenue is then available in the economic chain. Whether that ends up in the pockets of the retailers, the consumers, or the wholesalers, that money would absolutely return to the economic chain.

Mr. Brian Pallister: I guess I'm alluding to a sort of misconception that I often hear voiced by my socialist colleagues—primarily in the New Democratic Party, I thought until recently—that defines tax reduction as revenue lost, repeatedly. Actually the revenue doesn't just disappear, does it?

Mr. Geoff Trueman: No. Certainly that 10% would take some other form, whether it's a profit margin for the jeweller or a reduction in prices to the consumers, and that would feed into the economic chain as well.

Mr. Brian Pallister: Do you have any idea on what the employment impacts might be on the jewellery industry, particularly in the diamond industry, if this bill becomes law?

Mr. Geoff Trueman: It's important to remember, of course, that Canadian diamonds are not disadvantaged on a global scale. Diamonds that are exported from Canada are free of the tax, and they compete in the global marketplace with other diamonds on their merits. Similarly, diamonds that are coming into Canada are taxed, and Canadian diamonds sold in Canada are also taxed. So there's no competitive imbalance per se for the Canadian diamond industry.

Mr. Brian Pallister: Wouldn't there be a competitive imbalance, in the sense that this tax would interfere with the likelihood of a flow of locally produced diamonds into a local market?

Mr. Geoff Trueman: Although Canadian diamonds are no more expensive than imported diamonds coming into Canada, they're each subject to the 8% excise tax on jewellery. So there's no competitive imbalance in the domestic marketplace or the market for exports.

Mr. Brian Pallister: That's apart from the fact there'd be reduced consumption of that item as a consequence of higher prices.

Mr. Geoff Trueman: Absolutely.

The Chair: Thank you, Mr. Pallister.

Mr. Brian Pallister: Thank you.

The Chair: I've got Mr. McKay, Mr. Côté, Mr. Bell, and then Mr. Penson.

Hon. John McKay (Scarborough—Guildwood, Lib.): Aren't you going to Mr. Côté?

The Chair: It doesn't matter.

Go ahead, Mr. McKay.

Hon. John McKay: I'll defer to Mr. Bell then. I didn't realize I was supposed to be asking any questions.

The Chair: I'll tell you what....

[*Translation*]

Are you ready, Mr. Côté?

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): I am, Mr. Chairman. Thank you very much.

We know which side we sit on. We're ready.

Thank you for your presentation. With respect to the excise tax an jewellery, has the Department of Finance done any studies to determine the point at which a tax becomes counter-productive, impedes the circulation of goods and encourages black market activity? Has the department looked at various scenarios?

Mr. Geoff Trueman: I'm sorry, but I'll have to answer you in English. I want to be certain that I give a clear answer.

Mr. Guy Côté: We have good interpreters.

[*English*]

Mr. Geoff Trueman: Merci.

Certainly the question you raise is very interesting from the tax policy point of view of where a particular tax becomes counter-productive or encourages black market activity. It's very difficult to identify a turning point per se. Certainly the general rule is that as you increase a tax on a specific item there is more likely to be black market activity. Probably the best example we have had of that over recent years was the situation with contraband tobacco in the early 1990s. There you had a rather rapid series of escalating federal and provincial taxes on a specific product, and you could clearly see that as those taxes increased, the level of contraband activity with respect to tobacco rapidly increased.

Here, with respect to the excise tax on jewellery, we've had a tax that has been in place for more than 90 years, at a rate of 10%. Except for slight variations during the period in World War II and the Korean War when the tax was raised, it has been at a level of 10% for virtually its entire history. Against that backdrop, the price effectively is built into the market, so there has been no incentive for contraband activity to increase or decrease over time particularly.

What we've seen in the studies we've done is that there is some contraband activity. It tends to be related simply to the very high value of the products that are involved. A diamond being small and of significant value, smuggling a diamond, for example, and avoiding not only the excise tax but also provincial and federal sales taxes can certainly find some incentive. For smaller-value items, there's much less incentive.

It's difficult to quantify, and certainly there's been no thought that the 10% level is excessive in terms of encouraging contraband activity.

● (1130)

[*Translation*]

Mr. Guy Côté: Beyond the specific subject under discussion today, has the Department of Finance done any studies to determine the point at which a tax becomes counter-productive in various sectors?

[*English*]

Mr. Geoff Trueman: What we've seen is a couple of studies during the 1990s with respect to the excise tax on jewellery, at a time when there may have been a greater interest on the part of industry in perhaps reforming the tax. But again there was no specific focus on the counter-productivity of taxation per se. As I said, I think the best example I can give you is probably the tobacco example, where there was a really pronounced swing in the marketplace.

[*Translation*]

Mr. Guy Côté: When he brought down his budget, the Minister of Finance presented the gradual phasing out of the excise tax as the most expeditious and the simplest option, from an administrative standpoint, for the jewellery industry. However, during the course of its consultations, the committee saw very clearly that the vast majority of the industry was very much in favour of the immediate elimination of the excise tax on jewellery.

I'd like to know what the Minister's reasons were for proposing this option. Logically, phasing out a tax over five years is more complicated that taking steps to eliminate it immediately.

[*English*]

Mr. Geoff Trueman: Yes, I won't dispute that a phase-out certainly implies at least a longer time period and a slightly greater degree of complication than an immediate repeal or elimination of the tax. The difficulty is that most of the people who come to see us at the Department of Finance are looking to have their taxes repealed immediately. An important consideration for us is the planning for the fiscal framework. As well, we had a recommendation from the finance committee itself, when it had assessed the priorities, that a phase-out was reasonable in the circumstances. For those reasons, we went with the recommendation of the finance committee to phase it out over a period of years.

[*Translation*]

Mr. Guy Côté: Thank you.

[*English*]

The Chair: Merci, Monsieur Côté.

I have Mr. Bell, Mr. Penson, and then Mr. Epp.

Mr. Don Bell (North Vancouver, Lib.): I have a couple of questions, and I think I know the answers, but I may as well ask anyhow. Back when this tax was introduced, I doubt that we phased it in, and I doubt that we phase many taxes in. We don't ramp them up; we don't go to the industry and say we'll start at zero and next year go to 1%, and then we're going to take you up to 10% over ten years or five years.

Mr. Geoff Trueman: Right.

Mr. Don Bell: Okay, I just thought I'd—

Mr. Geoff Trueman: I'm searching for an example, but, no, I can't think of any.

Mr. Don Bell: Okay, I suspected that.

This is one of those taxes—there were two, I gather, at least—put in for emergent reasons: income tax, which was going to be a temporary tax, and this one; and they've both endured.

Having said that, the other question I wanted to ask is what is the cost to administer clocks, if we take the proposal? As I understand it, the government bill takes it off everything, including clocks. Is that correct?

Mr. Geoff Trueman: That is correct.

Mr. Don Bell: Ultimately there would be no administrative cost.

Mr. Geoff Trueman: Correct.

Mr. Don Bell: We would in effect save ourselves $1.5 million a year, theoretically, in administering that.

Mr. Geoff Trueman: Correct.

Mr. Don Bell: Do we really save it, or is the reality that people will be laid off?

Mr. Geoff Trueman: Certainly it would depend on the allocation of resources at the Canada Revenue Agency.

Mr. Don Bell: It might be offsetting against somewhere else.

● (1135)

Mr. Geoff Trueman: It might be elsewhere.

Mr. Don Bell: The other issue goes to what I think I heard Mr. Pallister ask, and that was the issue regarding offsetting the sale of diamonds. As I understand the jewellery industry's point, where it hurts them the most is in those cities closest to the U.S. border where, if somebody is going to make a purchase of a high-priced item, what can be saved, potentially, is enough to make it worthwhile crossing the border—and with the cost of gas, I guess, the cheaper gas to get back. That was the issue, I think. Is that fair?

Mr. Geoff Trueman: Certainly subject to proper use of the exemptions for travellers, there could be taxes exigible on a person entering the country who says yes, I've purchased a $10,000 diamond.

Mr. Don Bell: I suspect we don't know this, but geographically—I forget what the exact figure I heard was—something like 70% or 75% of the people in Canada live within five miles of the U.S. border, and I wonder if we know what percentage of our tax comes from those areas that might be most closely affected by being close to the border.

Mr. Geoff Trueman: No, I do not have that information for you.

But returning to one question I may not have answered, you're correct with respect to administrative costs. If the tax were to remain in place on watches, for example, I would assume that most of the current registrants for the excise tax on jewellery would also sell watches, so those administrative costs would continue in place.

Mr. Don Bell: My understanding—and I thought I wrote it down, but it may be on another piece of paper that I had from the last meeting—was that jewellery made up about 75% or 80% of their sales, and watches were 20% or 25%. Do you remember?

Mr. Geoff Trueman: I've heard similar figures from the jewellery industry, yes.

The Chair: It's 20% to 30% sales in watches, depending on the store.

Mr. Don Bell: Okay, it's 20% to 30% watches. The difference between what's being proposed by the government right now—we're talking about a five-year phase-out of everything—and the original private member's bill, which was to immediately eliminate the excise tax on jewellery only, is that we now have a proposal to amend this further to include watches and clocks under $50.

Mr. Geoff Trueman: Yes, sorry, the excise tax applies to clocks and watches over $50.

Mr. Don Bell: Is that for watches as well?

Mr. Geoff Trueman: Yes.

Mr. Don Bell: I thought the phrasing I saw here was on clocks adapted to household or personal use, except those designed for the blind, where the price exceeds $50. That doesn't talk about it.

Doesn't the existing legislation use the phraseology “clocks and watches”? Therefore, “clocks” doesn't include “watches” here, does it?

Mr. Geoff Trueman: That's correct. The legislation currently refers to clocks and watches, yes.

Mr. Don Bell: If we went with this, it would be everything except clocks, as opposed to watches, so a wristwatch over $50 would still not be taxed. It would only be clocks, mantel clocks or alarm clocks, over $50. That's got to be a pretty small part of the market.

Mr. Geoff Trueman: One would think so, yes.

Mr. Don Bell: This is the final question I have. When we heard the industry, there was the difference of what it preferred in terms of phase-out. The industry representatives said that if presented with the alternative of no reduction or a phased-out reduction, they would favour the phased-out reduction. They came into the last meeting with that position.

When the alternative was immediate phase-out or no phase-out at all, they preferred immediate. The question that was put to them was, in terms of small merchants in particular—in the case of jewellery, but even with this now—the majority of their inventory would be affected if there was immediate phase-out. Everything they have in inventory they would have paid that extra 10% on. Is it 8% to 10%, or is it 10%?

Mr. Geoff Trueman: Effectively, they carry a tax-paid inventory, so anything they've purchased prior to the budget would be at 10%. Anything they've purchased since the budget and the current day would have been at 8%.

Mr. Don Bell: At 8% on the phase-out—

Mr. Geoff Trueman: Yes.

Mr. Don Bell: —as opposed to a total reduction, which would be zero.

Mr. Geoff Trueman: Yes.

Mr. Don Bell: So if it was going to be zero, then they would prefer the total phase-out and be prepared to bite the loss, or the inventory adjustment, rather than having the phase-out.

● (1140)

Mr. Geoff Trueman: Right.

Mr. Don Bell: So it comes down to a question of the loss of revenue to the government of $85 million a year, on average, and whether this is phased out over a period of time or whether we take the hit right away.

Mr. Geoff Trueman: That's right.

Mr. Don Bell: The underlying argument is that, having gone through the process with the Minister of Finance, we are faced with other bills. There are approximately 20 private member's bills in the process that have a potential $2 billion cost. Taking these one-off, out of the context of the big picture, is what you're objecting to.

Mr. Geoff Trueman: That's correct. When you look at the private members' bills one by one, they all have merits. When you take them as a collective whole, there can be a tremendous impact on the fiscal framework. The ones currently on the order paper before the House could cost as much as $2 billion per year.

Mr. Don Bell: As a matter of process, is it not possible to bring all those private member's bills at once? Otherwise, you're faced with a problem: this will always be the argument against a private member's bill—you can never inject it if it has any cost, because it hasn't been considered in the total framework.

Mr. Geoff Trueman: That argument can always be raised. But it is a point that is always relevant with private members' bills that propose a reduction in the tax system. They're different from private members' bills that are not tax-related. With those that deal with the tax system, it is important that we consider the fiscal cost associated with them.

The Chair: Thank you, Mr. Bell.

I have Mr. Penson, Mr. Epp, and Ms. Kadis.

Mr. Charlie Penson (Peace River, CPC): It's clear where we're at on this bill before us. It's a question of whether we continue with the phase-out introduced in the budget, or whether we completely eliminate the tax.

In your last meeting, an amendment was brought forward that wasn't in order because the translation wasn't quite right on the French side. I wonder, Mr. Chair, if I can move the amendment correcting that. There may be some more debate, but we're at the stage where we need to decide this question on the amendment and, if it passes, vote on the bill.

So I would put the amendment now. I move that Bill C-259, in clause 1, be amended by replacing lines 22 and 23 on page 1 with the following:

> 1. Section 5 of Schedule I to the Excise Tax Act is replaced by the following.
>
> 5. Clocks adapted to household or personal use, except those specially designed for the use of the blind, ten per cent of the amount by which the sale price or duty paid value exceeds fifty dollars.

The Chair: We're not at clause-by-clause, and I'm not even sure if all the members got it. Did all the members get it?

Mr. Charlie Penson: It was circulated.

The Chair: It was circulated? Okay.

But we're not at clause-by-clause.

Mr. Charlie Penson: I'm aware of that.

Hon. John McKay: So why are you moving it now?

Mr. Charlie Penson: In my view, we have already talked it out. We know what the issue is. It's a very simple matter, and I would suggest that we move to clause-by-clause if we're not there.

The Chair: We've talked, but we still have two more speakers. I'm not sure if they've talked it out, and this was the purpose of the meeting. I'd like to at least give an opportunity for—

Mr. Charlie Penson: Mr. Chair, may I seek clarification, then? Will you agree to move to clause-by-clause after we finish the—

The Chair: Yes, if I get unanimous consent and if it's the wish of the committee members. When we get to that stage, we'll see what the members have to say.

I have Mr. Epp and—

Mr. Charlie Penson: I want to be on the agenda, at the end of the speakers list, to seek unanimous consent.

The Chair: Mr. Epp and Ms. Kadis.

Mr. Ken Epp (Edmonton—Sherwood Park, CPC): Thank you.

Thanks for your insight and for sharing your wisdom with us.

I want to ask you a question with respect to the announcement. This was announced in the budget. Is the tax rate you're collecting now down to 8%?

Mr. Geoff Trueman: That is correct. On the basis of the ways and means motion that was—

Mr. Ken Epp: How do you know that the NDP isn't going to object to the reduction of a luxury tax, causing the budget to be changed before this is implemented?

Mr. Geoff Trueman: There is certainly always that danger, but the parliamentary precedent is that tax initiatives are generally administered on the basis of the notice of ways and means motion that accompanies their introduction in the House.

Mr. Ken Epp: So you just go ahead. How about the other parts of the budget? Are they implemented on the same basis?

Mr. Geoff Trueman: Certainly most tax initiatives, yes, would be —

Mr. Ken Epp: On the day of announcement?

Mr. Geoff Trueman: —on the basis of the ministerial recommendation, yes.

Mr. Ken Epp: Okay.

The announcement in the budget I think indicated specifically the phase-in rate—10%, 8%, 6%, 4%, 2%, zero—over the next six years. Is there an impact from that? Do manufacturers tend, then, to stockpile and thereby slow down the rate at which they produce the product? Revenue actually is reduced by this announcement. Would you not have been better off to just leave it alone for another year and say “This year it's gone—boom!”?

● (1145)

Mr. Geoff Trueman: Certainly that would be one option, but at the time we wanted to move on the recommendation from the finance committee on the phase-out. One of the benefits of a stepped and measured phase-out such as this is that with the reduction of two percentage points per year there's not a huge incentive to stockpile transactions to release them after the reduction. Certainly there could be some around that date, but retailers and jewellers need to sell their inventory before Christmas, before Valentine's Day, before certain big sale dates, so the phase-out should not have a significant effect on the usual purchasing patterns in the industry.

Mr. Ken Epp: Does your department actually engage in a study, an econometric projection of the revenue that is replaced? I know this question was asked before. I wonder whether you could enlarge a little on what kind of studies you actually do—or do you do any? It seems to me that whenever a tax is reduced, the activity in that area is increased, with the result that there is some offset on the loss of government revenue. What kind of studies do you do, or have you done, etc., on this one?

Mr. Geoff Trueman: Yes, certainly studies were done, as I said, in particular during the 1990s, when there was a flurry of activity with respect to the jewellery excise tax. But also, as noted, it is very difficult, because you're engaged in a real “what if” scenario, to get a solid quantitative analysis of what happens when a tax or an input cost is reduced and how it affects that particular industry.

There are a number of areas where that amount of tax could end up. It could end up in a margin for the retailer. It could end up in reduced prices for the consumer. Each of those, for example, has very different effects. A reduced price for the consumer should certainly cause some increase in sales. An increased profit margin for the jeweller would, at a minimum, find its way back into the income tax system. Those are certainly positive effects.

Generally, in the studies we've done, I believe the amount of revenue brought back into the system is less than the forgone revenue with the elimination of the tax, but there certainly is some positive in-flow of economic activity, absolutely.

Mr. Ken Epp: My last comment—it will be a comment only, and I will not expect you to respond to this—is that the total elimination of this tax would be about the same as the amount of money that's gone missing in the ad scams. That's the end of my statement.

The Chair: Thank you, Mr. Epp.

Ms. Kadis.

Mrs. Susan Kadis (Thornhill, Lib.): Thank you very much.

I've had several constituents talk to me about this issue, so I'm pleased to be here substituting today. How would you respond to the assertion by the industry that the elimination would actually increase profitability and therefore perhaps generate new tax revenue for the federal government? Has that been looked at, and what would be your response to that?

Mr. Geoff Trueman: As I indicated, that is certainly one of the possibilities, where this excise tax is removed. There's a margin then that is certainly available to the jewellery retailer, whether the jewellery retailer reduces prices or is able to increase profitability. It could find its way back into the tax base through the reporting of profits by the jeweller, for example. It would be less than the amount of revenue forgone, but it is a possibility, yes.

Mrs. Susan Kadis: That's something to take into consideration.

I think I missed part of this—forgive me—but I'm quite interested in the issue of the underground and what the impact would be. What has it been, to your knowledge, in other countries that have taken it away? How has it worked in terms of the impact underground?

Mr. Geoff Trueman: It's always difficult to compare across countries. Some other countries have had much higher rates of excise tax on jewellery. For example, I believe Korea had a 19% levy that was eliminated a few years ago. Australia also had a levy that was eliminated as part of their more broad-based tax reform a few years ago. So it would be very difficult to compare from one country to the other, as reporting mechanisms are very different and the degree of quantification of the black market economy is very hard to undertake.

Mrs. Susan Kadis: It's hard to assess. Do we know the extent of the underground?

Mr. Geoff Trueman: In the jewellery industry, as I say, the excise tax has been in place for almost a century at a rate of 10%. There have been no economic incentives that would cause black market activity to drop, or not. Certainly wherever you have a high-value commodity that is small, such as a diamond, there will be underground activity, and that's a global phenomenon, for sure.

● (1150)

The Chair: Thank you, Mrs. Kadis.

Mr. Hubbard, please.

Mr. Charles Hubbard (Miramichi, Lib.): Thank you, Mr. Chair.

Mr. Trueman, would you just read the last sentence or two of your presentation?

Mr. Geoff Trueman: Sure. I believe I stated that the proposal to phase out the excise tax on jewellery in Budget 2005 represents an important accomplishment for the finance committee and it is also a good example of how the government and parliamentarians can cooperate in a fiscally responsible manner on tax relief proposals.

Mr. Charles Hubbard: So your position would be that it should be phased out. Now we're discussing a bill here that would eliminate it directly.

Mr. Geoff Trueman: Absolutely.

Mr. Charles Hubbard: And you're aware of an amendment that's been put in in terms of the private member's bill—excluding clocks over $50—that would mean that they would continue to be taxed indefinitely.

Some may call this a nuisance tax; others may call it a tax on luxury. I think probably back in 1918, or whenever it came in, it was a tax on luxury—in other words, a tax on people who could well afford.... Apparently, it's never really been amended all that much in terms of the three-dollar fee or the three-dollar levy. It would appear that probably in this whole field, there's an opportunity for taxation. When you exclude the small business groups with the minimum, there's probably about a billion dollars of industry in each year of sales, if we take and use 10% and extrapolate that up to about a billion dollars worth of....

In terms of it being perceived as a nuisance tax, we had a lot of lobby groups here on the Hill trying to exclude this tax. I guess they have been effective, because both in terms of the budget and in terms of the private member's bill we see the eventual elimination of it.

We always have to be concerned. If you lose $81 million or $80 million a year, who else is going to make up the difference? How are we going to do that? Does it mean that the guy carrying a lunch pail is going to have to see his taxes increase, or is there enough flexibility within the present fiscal opportunities to simply say, well, we'll forget about that $80 million this year? Mr. Epp wants to give it to somebody.

Anyway, what are the implications in the long run with that $80 million?

Mr. Geoff Trueman: I think that gets back to the point I was trying to make about the fiscal framework and responsible planning. Certainly in the tax policy branch, whenever we look at a tax reduction or a tax cut it's always a question of whether there is an amount of forgone revenue and whether that revenue is being applied in the most efficient way. Are there other priorities that need funding ahead of that? By eliminating this tax and taking the revenue hit of $80 million, are there other areas, are there other priorities that are more worthy? I think that was what the Minister of Finance was getting at when he wrote to the finance committee, following budget 2004, to seek the help of the committee in assessing and prioritizing some of the initiatives related to small business.

And then the report that was tabled in October 2004 indicated that the phase-out of this tax, over a number of years, should be the priority recommendation going forward.

Mr. Charles Hubbard: And it is affordable in terms of our present taxation policy.

Mr. Geoff Trueman: Yes, that's right.

Mr. Charles Hubbard: Thank you, Mr. Chair.

The Chair: Thank you.

Mr. Bell.

Mr. Don Bell: I'd like a quick clarification on the proposed amendment on clocks. Do I understand, then, that the effect of this, from your point of view, would be that the original private member's bill only removes the excise tax on jewellery? The argument from the industry was that it should include watches as well. I'm trying to ask the department here for some clarification so I understand it.

This is a way in which to roll watches in by redefining section 5. This would then in effect mean, by removing all the paragraphs in section 5 and replacing them with only a reference to clocks over $50, that everything else is covered. Right now paragraph 5(a), I think it is, makes reference to clocks and watches, and then paragraph 5(c) or whatever it is refers to jewellery.

● (1155)

Mr. Geoff Trueman: Yes. Without having seen the amendment, I'd say yes, that sounds correct in terms of—

Mr. Don Bell: Why would clocks be left in? Is there any particular reason? Is that something that makes sense, clocks over $50? Why not just eliminate it all, as our bill...? The bill eliminates it all over five years.

The alternative would be to eliminate it all right now, but what's being proposed here eliminates it all now except for clocks over $50. Clocks are not watches, because clocks and watches were defined differently in the bill; therefore, we're talking about something that sits on a mantle or an alarm clock that's over 50 bucks.

Mr. Geoff Trueman: That's correct.

The Chair: Thank you, Mr. Bell.

Mr. Penson, do you want to give it a shot?

Mr. Charlie Penson: Yes, Mr. Chair. I would just like to move the amendment I proposed earlier. Do you require me to read it again? It's been circulated.

The Chair: No, it's fine. The committee can accept the amendment, and then when we get to clause-by-clause, we'll....

Mr. Charlie Penson: Further to that, I would ask that because we have discussed this in some detail for quite a long time now—I think the issue is very clear—it's only a matter of whether we stay with the phase-down that was in the budget, Mr. Chair, or accept Mr. Duncan's private member's bill as the amendment I have put forward today. It seems to me we should be able to move to clause-by-clause and finish this very quickly, if we can get consent of the committee to do that.

Mr. Charles Hubbard: I have a point of order, Mr. Chair. Is it on the agenda to do that today?

The Chair: No.

I'll make this easy. I think there are basically three options, Mr. Penson, and we need motions for all three of them. We have to report this bill to the House by May 31, so the first motion would be for a 30-day extension. The second is to dispose of the bill, and the third is to go to clause-by-clause.

Now, in all fairness, on the third point, we didn't provide notice for the clause-by-clause. I don't know if there are going to be any other amendments, and seeing the political environment we're in, I suggest we go to clause-by-clause on May 30. Unless I have unanimous consent that we go to clause-by-clause right away, that's what we're going to do.

Do we have unanimous consent to go to clause-by-clause right away?

Mr. Charlie Penson: Mr. Chairman, I see there is no unanimous consent. We have tabled the amendment. I would suggest that you schedule the clause-by-clause for Thursday, when our committee can meet next, and let's dispose of this then. Rather than try to get an extension that wouldn't be required, I think it would be reasonable to expect we move to this on Thursday.

The Chair: The motion you tabled, does that replace the other one that was deposited by Ms. Yelich last week?

Mr. Charlie Penson: My understanding, Mr. Chair, was that there was some problem with the translation, the French side, so this clarifies that and it would take the place of Ms. Yelich's amendment.

Hon. John McKay: You've withdrawn Ms. Yelich's and replaced it with this one, which has the correct...and that's filed today.

The Chair: We already have a meeting scheduled on Thursday. Like I said, because of the political environment we're in, I'm not comfortable having clause-by-clause on this issue, which is in the budget, on Thursday. We'll wait, because the vote is only going to be at 5:30. If we vote prior to it, then I have no problem.

The next possible day we could meet is Monday, so May 30 is the day.

Mr. Charlie Penson: Mr. Chair, I suggest that we allow for some extra time on Thursday's meeting. We function according to how the committee decides to function, Mr. Chair, and I would move that we create time on Thursday to go to clause-by-clause on Mr. Duncan's bill.

● (1200)

The Chair: Does anyone want to speak to that?

What is your motion, Mr. Penson?

Mr. Charlie Penson: That we create the time necessary during Thursday's meeting to consider clause-by-clause of Mr. Duncan's private member's bill, Bill C-259, and I would ask for a vote of the committee.

The Chair: Mr. Hubbard.

Mr. Charles Hubbard: Mr. Chair, is this a notice of motion? I think it takes 48 hours notice. I suspect the chair will take notice of it today and we'll consider his motion on Thursday.

The Chair: I would have to agree. Look, as chair I have to decide on the agenda or the workings of the committee. In this environment, I don't see anything wrong with going on May 30. I think we're trying to be reasonable here.

Mr. Charlie Penson: What environment, Mr. Chair?

The Chair: The political environment. We have a vote on the budget on Thursday. I think that will make a major difference on what the committee will decide to do.

Mr. Charlie Penson: On this bill?

The Chair: Yes.

Hon. John McKay: Not a significant difference.

Mr. Charlie Penson: You think the budget vote is going to impact on how we vote on this bill?

The Chair: Absolutely. Yes, this is included in the budget.

We're going to go to Mr. McKay.

Hon. John McKay: We have a budget implementation bill that's scheduled to be voted on on Thursday. The budget implementation bill contemplates the regime that was put forward by the finance committee. So I think depending on how that vote turns out, you then schedule your other votes on this particular bill accordingly.

The Chair: Yes.

Mr. Pallister.

Mr. Brian Pallister: I'm going to lead up to a question, Mr. Chair.

My understanding is that the committee is in charge of its workings. If we establish that the committee wants to make time to discuss this clause-by-clause on Thursday, and we want to make the time to do that, I'm not clear on how you're able to overrule a decision of the committee as its chair. I don't understand how that could possibly happen or be allowed to happen.

The government has already demonstrated that the budget it had originally proposed wasn't fixed in stone. It could certainly make changes to it as it wished. Clearly, we as a committee can demonstrate our wishes as well, and when it comes to this bill, that's exactly what clause-by-clause allows us to debate and to do so if we wish to. So I'm not sure as to the logic of postponing a meeting based on your perceptions, Mr. Chair, when in fact the committee may well decide that it wants to deal with this issue on Thursday. I don't see how that would be fair to the members of the committee, frankly.

The Chair: Monsieur Loubier.

[*Translation*]

Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ): Mr. Chairman, I agree with my colleague. Everyone is in agreement on this measure. Therefore, we can dispose of the matter quickly on Thursday.

The Chair: Not everyone is in agreement.

Mr. Yvan Loubier: The majority of committee members are.

[*English*]

The Chair: Mr. Bell.

Mr. Don Bell: This is a procedural point. Do I understand that in order to go to clause-by-clause it requires unanimous agreement?

The Chair: If we go to clause-by-clause today.

Mr. Don Bell: Today.

The Chair: I'll send out a notice whenever....

Mr. Don Bell: But if it's put as a notice for a meeting, for a future meeting, then clause-by-clause does not require unanimous agreement because it's on the agenda. Is that correct? I see. Thank you.

The Chair: That's right.

Hon. John McKay: Can I speak to the overall issue? The government responded to the committee's deliberations in a full and complete fashion in the budget implementation bill. The budget implementation bill is to be voted on on Thursday. On Thursday we will know whether that measure is going to succeed. So if in fact the committee, an hour or two prior to that vote, decides that this is an appropriate bill to go forward, it will be in effect a contradiction of the budget. And I think the committee then would look very strange, the government having adopted the recommendations of the committee prior to.... Then you have the committee contradicting itself by passing a bill that is in direct contravention of the budget implementation bill, which was the committee's. It seems to me if you want to destroy committee credibility, this is the way to go about it.

The Chair: We're well on our way.

Monsieur Côté is next, and then Mr. Pallister.

[*Translation*]

Mr. Yvan Loubier: We'd like to make two comments.

First of all, I find the committee is straying from its mandate, and that's cause for concern. The committee is comprised of MPs. It is autonomous and can propose whatever it likes. We are not here to serve the Executive or the government, or to carry out government decisions. Mr. McKay is attempting to manipulate the committee to ensure that its proceedings are in keeping in every respect with the Executive's decisions. That is not how this Committee works. I will oppose any attempt at manipulation. Mr. MacKay appears to want to control the committee from the Minister's office and to have it implement government decisions. That's not how this committee operates.

Don't let yourself be dragged into this, Mr. Chairman.

● (1205)

The Chair: I don't believe that's the case.

Mr. Côté.

Mr. Guy Côté: Mr. Chairman, we're talking about adopting or rejecting an amendment to a private member's bill. It doesn't mean the bill will be adopted tomorrow morning in the House of Commons. Therefore, there is no immediate impact in so far as the budget is concerned. We're seeking approval of an amendment to a private member's bill. We're not calling for an amendment to the budget. Thursday's vote will have no effect whatsoever on the adoption of the amendment and of this bill. There is no direct connection between the two initiatives.

Mr. Chairman, I too fail to see any connection between this initiative and the government's agenda.

[*English*]

The Chair: Thank you.

Mr. Pallister.

Mr. Brian Pallister: Thank you, Mr. Chairman.

Mr. McKay has commented about us dealing with an issue that's been before the committee for some time, a private member's issue that has potential ramifications, in terms of an effect on revenue, of $85 million. He's saying that somehow, expressing a view in support of a private member's bill that would eliminate that excise tax immediately, as opposed to phasing it out, affects the credibility of our committee, in direct contrast to a government that introduces a supplementary budget for over $5 billion of spending.

It defies logic that someone would make the assertion that it's somehow damaging to our committee's credibility that we deal with an issue we've been dealing with for some length of time. This is coming from a member of a party that puts a supplementary budget before the House of Commons to spend $5 billion

Come on, give me a break, Mr. Chair. Let's deal with this issue and let's vote on it.

The Chair: I just want to remind the member that this committee already addressed this, and we have already tabled a report in the House. So this is not something that's related to the budget.

The only reason I brought up the budget was that seeing the political environment we're living through, I thought it would be more prudent if we went to clause-by-clause on Monday. It has nothing to do with whether this is included in the budget or not. That is my point.

On Mr. McKay's point, I'm not sure if he was speaking for the government, but I assume he was speaking as a member.

I'm going to Mr. Penson, and then Mr. McKay.

Mr. Charlie Penson: What's being said by Mr. McKay is completely illogical. We've been working on this process for a while. We're now at the stage where we're considering clause-by-clause at committee. That's what's being requested for Thursday.

As Mr. Côté has said, even if that passes it has to be reported back to the House. It has to have debate in the House. I have no idea how this impacts Thursday's vote, because it won't go back that quickly. Nobody knew when we started this process when the budget vote was going to be. It doesn't make any sense what Mr. McKay, and quite frankly you, Mr. Chairman, are saying in this regard.

So I think we've had pretty broad support around the committee table. It's logical that we move to clause-by-clause and get it back to the House, where it can be debated further at report stage and third reading. It will move along quite nicely. I see no reason why any member would want to hold up the clause-by-clause. I think we should make time on Thursday, take a hour, start the committee at 10 o'clock if we need to, and deal with the clause-by-clause. Get the officials here and move forward.

I suggest, Mr. Chair, you take a vote on the motion I have made.

The Chair: Now we'll hear from Mr. McKay.

Hon. John McKay: This is all a matter of deference to Parliament, because the budget implementation bill does contain a particular section on the jewellery excise tax. Presumably committees, which are creations of Parliament, would prefer to hear what Parliament has to say on this issue. Parliament will speak at five or six o'clock on Thursday, so I don't quite understand the enthusiasm the honourable members opposite have for, in effect, pre-empting the work of Parliament.

If in fact the budget fails, which is a possibility, that will be Parliament speaking with one voice from one particular perspective. If the budget passes, it will speak to this particular issue. I would say that the committee has effectively funked us with respect to Bill C-259, because Parliament has spoken once again.

● (1210)

Mr. Charles Hubbard: I ask the question again: Did you receive notice of Mr. Penson's motion 48 hours before—

The Chair: It's not a motion for additional work. It's a motion on the subject of today, so it's accepted.

Mr. Charles Hubbard: So you rule it acceptable.

The Chair: It's acceptable.

What is the question? Go ahead.

Mr. Charlie Penson: Mr. Chairman, the motion is that this committee move to clause-by-clause study of Mr. Duncan's private member's bill, Bill C-259, as I've moved the amendment, on Thursday. If we need to make extra time in your agenda, I suggest we start to do that at 10 o'clock instead of 11 o'clock.

(Motion agreed to)

Mr. Charles Hubbard: Thank you.

The Chair: So I'll send out the notice for Thursday.

[*Translation*]

Mr. Yvan Loubier: Mr. Chairman, yesterday, I tabled two motions with the Clerk's office, one respecting tobacco taxes and another respecting our meeting on Barbados. I intend to move them on Thursday with a view to having them adopted. In so doing, I believe I will have met the requirement of giving 48 hours' notice.

The Chair: Fine. I will take this matter under advisement.

The meeting is adjourned.

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