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—
Chair

Mr. Brian Pallister

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•(1005)

[English]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): Good morning, committee members. Welcome back.

Officials, thank you for being here.

Pursuant to the order of reference of Monday, October 30, 2006, we will proceed with clause-by-clause consideration of Bill C-28, a second act to implement certain provisions of the budget tabled in Parliament on May 2, 2006.

Consideration of clause 1 is postponed.

I call clause 2. You have your package of amendments in front of you. There are no amendments to clause 2.

Yes, Mr. McKay.

(On clause 2)

Hon. John McKay (Scarborough—Guildwood, Lib.): I'll ask the officials a couple of questions so that I know what I'm voting on.

Under clause 2, with respect to tools, is there already an existing definition of tools in the regulations with respect to this particular amendment regarding the tools?

Mr. Gérard Lalonde (Director, Tax Legislation Division, Tax Policy Branch, Department of Finance): In the regulations there's a previously existing provision for tools that cost less than \$200. That will be changed to tools that cost less than \$500 as a regulation change, and be clarified pursuant to the budget provisions to indicate that it doesn't include electronic devices like—

Hon. John McKay: You're jumping your schedule from \$200 to \$500, but there's no definitional change of what constitutes a tool for the purposes of this deduction. Is that right?

Mr. Gérard Lalonde: The definition is expanded a little bit to ensure that it doesn't include things like BlackBerries and cellphones.

Hon. John McKay: That's exactly what I wanted to get at, whether it included computers and things of that nature.

Thank you.

The Chair: Mr. McKay, did you have other questions?

Hon. John McKay: I was looking at the way they calculate this. I was going to ask officials for the dummies version of how you calculated subclause 2.(2), but I think if I ask that we'll be here all day trying to get it through.

On page 5, are we still on clause 2, or is that moved to clauses 6, 7, and 8? No, I'm sorry. That's it for clause 2 for me, because it starts clause 3 as the next one there. I do have a question about clause 3.

The Chair: Well, proceed with your question about clause 3, unless another committee member has a question about clause 2.

We'll continue with questions here. On clause 3, you had a question, Mr. McKay.

Hon. John McKay: On the issue regarding the election of a capital gain, can you give me a quick summary of what that actually means? I understand election of a capital gain, but I want to understand what it means to you.

Mr. Gérard Lalonde: Sure. This is a provision that deals with eligible capital property. Usually, eligible capital properties don't generate capital gains. They generate something that's taxed similar to capital gains, but technically it's not a capital gain. Eligible capital property is included in an eligible capital property pool and is subject to depreciation deductions, unlike most capital properties.

For the most part, the eligible capital property pool is intended to include intangibles, things that you would buy for your business—for example, goodwill, some licences of indeterminate duration; they would go into your pool and they would be depreciated. In many cases, for example, with goodwill, if you were to buy goodwill, continue to carry on your business and then sell your goodwill, you wouldn't know whether you're selling some new goodwill that's been generated, selling the goodwill that you bought—it's sort of an amorphous asset—and the “eligible capital property” rules work well for that.

There are other cases where you might buy a licence of an indeterminate period—for example, a taxi licence. You know what it is. You know what you paid for it. When it comes time to sell it, you know what it is and you know what you'll get for it. As a result, if it were a capital property you would have been in a position to figure out quite clearly what your capital gain was. In those circumstances, this provision allows you to elect, basically to ignore the whole thing, take it out of your eligible capital property pool and treat it as a capital property that will generate a capital gain for you at the end.

Hon. John McKay: I'm have trouble thinking my way through. Let's take, for example, the case of a taxi licence. What is the relevance of the election there? Can you take the taxi licence out of the deemed disposition?

•(1010)

Mr. Gérard Lalonde: No. What happens is that instead of calculating a recapture of your eligible capital property pool, you just remove the cost of that taxi licence from the amounts that you've included in calculating the pool. That will adjust your pool. It may give rise to a recapture; it may not. But it ensures, with this election, that the gain on that licence is treated as a capital gain, and not as a recapture of eligible capital property amounts in the pool.

Hon. John McKay: So you're effectively moving it from a recovery of income stream to a capital recovery.

Mr. Gérard Lalonde: It's strictly a capital gain.

Hon. John McKay: Therefore, the lower taxation rate would apply.

Mr. Gérard Lalonde: That's right.

Hon. John McKay: Okay, I follow that. Thank you.

If I still have the floor, Mr. Chair, you have a deemed capital gain over on page 8 here, and that triggered in my mind a related question with respect to income trust, which may or may not fit within this budget.

The Chair: What section are you referring to in the bill?

Hon. John McKay: I'm on page 8, proposed subsection 5(1.2), to which this may have only tangential relevance, but I would like to get an answer to the question.

Am I correct in assuming that on December 31, those who converted from a corporation to a trust during the taxation year 2006 will have a deemed disposition and a taxable consequence?

Mr. Gérard Lalonde: No, that's not quite right. They may have an actual disposition if they disposed of their shares in the corporation in order to acquire an interest in an income trust. This bill doesn't have anything to do with that. The provision on page 8 deals with a recapture through the eligible capital property rules, but that recapture is generated in the context of a farming or fishing business. The portion of that recapture that represents the capital gain is deemed to be eligible for the farmers' or fishers' capital gains exemption. That's what this amendment is about.

Hon. John McKay: I appreciate that there was only tangential relevance there. I'll come back on that and on a section that's possibly a bit more relevant.

Thank you, Mr. Chair.

The Chair: Committee members, I would propose to use the same approach we have in the past, whereby if there are no amendments to clauses, I'll ask for your views on those clauses, absent the amendments, as a block. Unless there are further questions on clauses 2 to 9, do clauses 2 to 9 carry?

An hon. member: On division.

(Clauses 2 to 9 inclusive agreed to on division)

(On clause 10)

The Chair: We move now to clause 10, to which there is amendment G-1 in your kit.

Mr. Dykstra.

Mr. Rick Dykstra (St. Catharines, CPC): I don't know if you need me to read the amendment or whether it's there for everyone.

The Chair: Mr. Dykstra, if you would like to speak to G-1, that would be great.

Mr. Rick Dykstra: We're basically replacing lines 40 to 45 on page 27, line 46 on page 28, lines 36 to 39 on page 32, and line 22 on page 33. These are pretty straightforward amendments, and the explanatory notes are actually fairly detailed.

The Chair: To assist you, Mr. Dykstra, a persuasive tactic that is often used by committee members here is to describe all these as technical amendments.

Mr. Rick Dykstra: That's exactly what I was about to do, sir. Thank you.

(Amendment agreed to on division) [See *Minutes of Proceedings*]

(Clause 10 as amended agreed to on division)

(On clause 11)

•(1015)

The Chair: Now we have clause 11; that is page 5 of your kit.

Mr. Wallace, please go ahead.

Mr. Mike Wallace (Burlington, CPC): I'll move the technical changes replacing the lines. We begin with family fishing corporations, of which I have none, so I have no conflict. They are technical amendments put forward by the finance department.

The Chair: Thank you, Mr. Wallace.

(Amendment agreed to on division) [See *Minutes of Proceedings*]

(Clause 11 as amended agreed to on division)

(Clauses 12 to 20 inclusive agreed to on division)

(On clause 21)

The Chair: Clause 21 has a series of amendments. I believe the bulk of them are consequential to the first one.

Mr. Pacetti, I am going to rule on your amendment. I'll let you move it, and then I'll rule it out of order, Mr. Pacetti.

Do you want to withdraw it, or would you like to move it?

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): I don't believe it's out of order.

Which one are we talking about? Is it L-1?

The Chair: Yes.

Mr. Massimo Pacetti: It relates to eligible activity. All we're doing is—

The Chair: Mr. Pacetti is moving L-1.

Mr. Massimo Pacetti: I'm moving amendment L-1. I'm moving it in the sense that all I'm doing is changing the word "fitness" to "activity".

The Chair: Indeed.

Clause 21 of the bill creates two new sections to the Income Tax Act, the first for deductions for public transit, the second for deductions for "the cost of registration or membership of the qualifying child in a program of prescribed physical activity".

The amendment pertaining to the fitness expense proposes to change this to "activity". In my opinion, that would enlarge the category of individuals who could benefit from this deduction, and therefore it is beyond the scope of the bill. If you would like me to cite chapter and verse, I could go on. In my opinion, it is beyond the scope of the bill, and I am ruling it out of order.

Mr. Massimo Pacetti: We are allowed to expand deductions; we are not allowed to ask the Crown to spend more money. I believe those are the criteria we've been using up to now. I don't see what the problem is here.

The Chair: *House of Commons Procedure and Practice* states at page 654: "An amendment to a bill that was referred to a committee after second reading is out of order if it is beyond the scope and principle of the bill."

I'll rule this out of order. I should also mention that since amendments L-2, L-3.1, and L-3.2 are consequential to this amendment that I ruled out of order, they are also inadmissible.

Mr. Massimo Pacetti: I agree that they are all related, because what we're trying to do here is expand the fitness credit to include all activities—

The Chair: Right.

Mr. Massimo Pacetti: —because we're not sure it should be prejudicial to just one sector of the Canadian population. I'm not sure we're expanding the scope of the bill, but in fact making it better. I'm not sure why you're ruling it out of order, because all we're trying to do is make it better for Canadians.

The Chair: Mr. Pacetti, I appreciate the fact that you may think your amendment is trying to make it better—

Mr. Massimo Pacetti: I know it's going to make it better.

The Chair: However, as chair I am obligated to rule your proposed amendments as beyond the scope of the bill, and therefore out of order.

Go ahead, Mr. McKay.

Hon. John McKay: I just wanted to ask the officials how they are going to determine and who is going to determine how one qualifies for this fitness expense, and whether they have in fact costed the amount of money that will be required in order to be able to determine what's entitled to a fitness credit and what isn't entitled to a fitness credit. What will be the definition? How will they administer it? How much will it cost?

Mr. Gérard Lalonde: There are a lot of questions there.

Hon. John McKay: They're very short questions, but I know these answers can go on for ages.

• (1020)

Mr. Gérard Lalonde: As the member well knows, I'm a word merchant from the Department of Finance, not an economist.

Yes, they were costed. If you look in the budget measures, you will see that the children's fitness tax credit was estimated to cost \$40 million in 2006-07 and \$160 million in 2007-08.

Hon. John McKay: That is, though, the money that the government expects to lose, if you will, to use a poor term. What I'm talking about is the amount of money the government expects to spend in administration of this particular credit.

Mr. Gérard Lalonde: This credit would be administered by the Department of National Revenue—or the Canada Revenue Agency; I'm showing my age—and it would be folded in within the general, overall administration of the CRA.

Hon. John McKay: So there's been no breakout of the cost of this administrative burden on CRA?

Mr. Gérard Lalonde: No.

Hon. John McKay: Has there been any breakout of the cost of the administrative burden on other taxpayers?

Mr. Gérard Lalonde: No.

Hon. John McKay: Has there been...? Your definition is—how shall we say this—somewhat loose. How are you going to monitor what a taxpayer or say a camp...? I'll use that as an example, because it's probably easier. How are you going to know and certify that a camp that is a "fitness" camp is in fact doing the fitness activities it says it's doing and that it meets whatever the criteria might be, without in effect incurring huge costs in checking that out?

Mr. Gérard Lalonde: You've indicated that our definition is somewhat loose. We don't have a definition yet. We have a report from a committee that's been struck to provide recommendations on what would qualify as a prescribed physical activity. I expect our minister will be releasing a response to that report soon indicating the government's intentions with respect to a more formal definition of what a prescribed physical or education activity—

Hon. John McKay: I read that report, and I thought that was going to be incorporated into the regulations. And it was loose.

Mr. Gérard Lalonde: Well, the regulations have not been released yet. I understand that the minister has accepted a number of recommendations of the report, but it remains to be seen when the draft regulations are released to give more guidance to taxpayers.

Hon. John McKay: So we don't know the administrative cost to CCRA, we don't know the administrative cost to other taxpayers, and we have as yet no regulations for this credit.

Mr. Gérard Lalonde: With all due respect, none of the measures in the budget have been costed with respect to administrative costs to the CRA. The CRA is obligated to administer the Income Tax Act as amended and passed by the government of the day. They're a very professional organization, and they don't seem to have a lot of difficulty with these proposals.

Hon. John McKay: You'll pardon me if I'm not among the true believers.

The Chair: Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairperson.

I was going to ask about the three-person task force report that the minister had initiated, but I think I have the answer. You're saying that the minister will announce his response to the report at some point in the near future. Do you have any idea when?

Mr. Gérard Lalonde: Those decisions aren't up to me at the officials level.

Ms. Judy Wasylycia-Leis: Have you heard any rumblings?

Mr. Gérard Lalonde: I've heard lots of rumblings, but I'm not going to engage in spreading rumours here at the finance committee.

Ms. Judy Wasylycia-Leis: All right.

The Chair: The chair appreciates that.

Are there any further questions?

Ms. Judy Wasylycia-Leis: I have another question.

Let me approach it from another angle. This is supposed to be up and running by when?

Mr. Gérard Lalonde: It's supposed to be effective for expenses incurred after 2006; i.e., for the 2007 and subsequent taxation years.

Ms. Judy Wasylycia-Leis: When do people need to have access to the precise information and regulations in order to calculate for next year's tax year?

•(1025)

Mr. Gérard Lalonde: For the most part, the calculations are set out in the budget bill. It's more a question of what activities will qualify and what activities won't. Clearly, there are some core activities that one could reasonably assume, regardless of when the guidance comes out, will qualify. But I think certainly there's a desire to get the details out before the end of the year.

Ms. Judy Wasylycia-Leis: For the deadlines set out, when are the regulations supposed to be ready?

Mr. Gérard Lalonde: The regulations will be effective, when passed, for the 2007 and subsequent taxation years.

Ms. Judy Wasylycia-Leis: Sorry, when did you say they would be ready?

Mr. Gérard Lalonde: I didn't say when they would be ready. I said when they are passed they will be effective for the 2007 and subsequent taxation years.

Ms. Judy Wasylycia-Leis: Do the regulations go into the *Canada Gazette* for comment?

Mr. Gérard Lalonde: Yes, they do.

Ms. Judy Wasylycia-Leis: How much time do you need for that?

Mr. Gérard Lalonde: It's a minimum of 30 days for part I. After that, we receive comments, if any, and it can be turned around and included in part II of the *Canada Gazette* at that point.

Ms. Judy Wasylycia-Leis: It would seem, based on all the different tax credits and changes in this bill, that there are a lot of regulations required on a number of different fronts.

Mr. Gérard Lalonde: We have a number of regulations to prepare, yes.

Ms. Judy Wasylycia-Leis: Are you at all worried about getting all of that work done in the timelines set out?

Mr. Gérard Lalonde: We are responsible in the department for preparing draft regulations for approval by the minister. We're all working very hard on getting that done, as well as the other legislative initiatives of the government.

Ms. Judy Wasylycia-Leis: Right. So when people come to us and ask us for information about tools for tradespeople, transit passes, fitness credit, etc., when can we say they can expect to access the final information they need for calculating their income tax?

Mr. Gérard Lalonde: Well, in the context of the fitness, as I've indicated, the minister is aware of the issue and wants to get the regulations out as soon as possible. With respect to the other credits that you've mentioned, they're in this bill. So when the bill is passed, they'll know.

Ms. Judy Wasylycia-Leis: Do any of the other changes in the bill require regulations?

Mr. Gérard Lalonde: There are a number of changes in the bill that require regulations. I don't have them at the tip of my fingers right now.

Ms. Judy Wasylycia-Leis: The tools for tradespeople don't, the transit passes don't?

Mr. Gérard Lalonde: No.

The Chair: Thank you, Madam.

Mr. Wallace now.

Mr. Mike Wallace: Yes, very quickly.

Since I'm new and I know Mr. McKay's been here for a while, he was indicating that there's been a change in the way things have happened in terms of overheads for CRA. For any changes in previous budgets that required some minor credits or not credits that had to be administered by CRA, was there a dollar figure attached to those in terms of what the changes might be, or did they consider it part of work?

Mr. Gérard Lalonde: The CRA annually, as does every other department, makes a submission to Treasury Board indicating the funds they need to do their work. It's independent of the budget and there's no direct connection between the budget measures and the request by the CRA. There may or may not be a reference in the CRA—

Mr. Mike Wallace: But there's been no change to the process as between this government and the previous government on these kinds of things, has there?

Mr. Gérard Lalonde: No.

Mr. Mike Wallace: Thank you.

The Chair: Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

I'd like for us to reconsider that this amendment be now ruled out of order, because we have heard from the official that there is no definite costing and there's no definition that's tangible. All this amendment is doing is clarifying or making it more clear as to who can qualify for an activity. Again, "fitness" does not describe anything, whereas "activity" will—

Mr. Mike Wallace: Playing in a playground.

Mr. Massimo Pacetti:—more aptly describe what is the intent of this bill, "activity" meaning not only hockey, not only soccer. My daughter does not play hockey. I don't see why my daughter, being in figure skating or in ballet or in gymnastics, cannot qualify for this activity, or some other person taking some other.... So I argue—

The Chair: Mr. Pacetti, to review, your amendment says "prescribed activity", and the bill says "prescribed physical activity". Your amendment therefore broadens the definition. It's beyond the scope of the bill and is out of order. I've ruled on it already, so I would like us to move on.

• (1030)

Mr. Massimo Pacetti: The finance officials haven't put a costing on it, so I don't understand how we can expand by changing a word, or expanding the scope of the bill. I don't see the link. All we're doing is changing the word "fitness" to "activity". We're not expanding the scope of the bill.

The Chair: That's correct, Mr. Pacetti.

Well, to clarify then, I believe the ruling would be based on the assumption that all activities are not physical but that a subset of those activities may be.

Mr. Massimo Pacetti: May be.

The Chair: Yes, indeed. Now—

Mr. Massimo Pacetti: Right, and which we do not have a definition—

The Chair: We'll move on. If you have an amendment you'd like to bring, I suggest Liberal-3 is in order. If you'd like to bring that—

Mr. Massimo Pacetti: No, but if I have to, then, Mr. Chairman, I will challenge the chair.

The Chair: Well, you have to.

Mr. Massimo Pacetti: Well, I'll have to challenge the chair, then.

The Chair: Very good.

All in favour of the chair's ruling, so indicate.

(Ruling of the chair sustained.)

The Chair: Would you like to move to Liberal-3 now, Mr. Pacetti?

Mr. Massimo Pacetti: Liberal-3?

The Chair: Yes. That's the age of 18 years amendment.

Mr. Massimo Pacetti: Well, I'm not sure why we stopped at the age of 16. I thought kids were still active and I think the delicate age is between the ages of 16 and 18. I think we want to keep kids active

not just until the age of 18, but I guess forever. The age of 18 is pretty—

The Chair: Mr. Wallace has a point of order.

Mr. Mike Wallace: Well, maybe it's the wrong wording, but you ruled him out of order previously because it expanded the scope of the bill. Does adding two more years not extend the scope of the physical activity?

The Chair: It doesn't change the definitions in terms of the activity so designated in the bill—

Mr. Mike Wallace: Okay, thank you.

The Chair:—and so is not beyond the scope of the bill itself, although I'd be interested to know, Mr. Lalonde, if there's—you said there is—some pricing that's been done, based on some general estimates, at least, of the impact the 16-to-18-year change Mr. Pacetti proposes would have. If you could give us any indication of that, it would be appreciated.

Mr. Gérard Lalonde: We didn't know that this amendment would be proposed, so we haven't done any calculations.

The Chair: Well, that's a darn good excuse, Mr. Lalonde.

Mr. Massimo Pacetti: Surprise, surprise!

Mr. Gérard Lalonde: But I guess, as I had indicated before, the government estimates that the costs would be \$40 million in 2006-2007, \$160 million in 2007-2008. If you assume an increase in the category of children who qualify from age 16 to age 18, that's two more years than the 16 so far. You can do the math, the same as the rest of us.

Mr. Massimo Pacetti: Mr. Chairman.

The Chair: Yes, Mr. Pacetti.

Mr. Massimo Pacetti: I would have liked to extend this to say 18 years or anybody who's still dependent, using the same criteria we use for the education or dependency rules under the Income Tax Act. I think I was quite generous in just proposing up to 18 years.

It's consistent with every other basic law we have in this country, where kids are known to be minors until the age of 18. I think it only makes sense to keep the age at 18 years old.

The Chair: Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: First of all, I have a question on that issue.

Was this discussed at all in the report by the three consultants?

Mr. Gérard Lalonde: There was some discussion about extending the credit to older children and to disabled children. That part of the discussion was beyond, of course, what the mandate of the committee specifically was, which was to provide information on programs and prescribe physical activity. The government is taking those representations under consideration, but those representations would have to be under consideration in a different process than through this bill.

Ms. Judy Wasylycia-Leis: What was the logic originally of the cutoff at 16? I think my colleague makes a good point. Usually 18 is the end of high school; you're in the full period of your youth and leisure activities. It just seems that it's hard to argue against extending to 18, other than from the sheer question of cost.

Mr. Gérard Lalonde: You mention leisure activities, and I think that begs some clarification. This credit is not designed to encourage people to take part in leisure activities. It's more, in part, to get Canada's youth into the habit of carrying on physical activities. Once you get into the habit, you don't need an incentive after that point to continue. That's part of the reason why age 16 was proposed in this measure.

•(1035)

Ms. Judy Wasylycia-Leis: Yes, it was clearly just a—

Mr. Gérard Lalonde: Quite clearly, I could have learned to engage in some of that physical activity at a younger age myself.

Ms. Judy Wasylycia-Leis: The use of the word “leisure” is simply as a general descriptive for... I have no problem with the word “fitness”. For many young people, a fitness program is their leisure program. It's their break away from school, and it gives them a lot of satisfaction to be involved in a gym program or some exercise regime.

I'm inclined to support the amendment, because it seems to me it's very hard to justify the cutoff at 16. I'm not so sure, and I'd love to see a study on this that shows the—

Mr. Mike Wallace: (*Inaudible—Editor*).

Ms. Judy Wasylycia-Leis: But I presume there's some review done before one makes legislative changes, especially in terms of income tax.

Mr. Rick Dykstra: That's clear.

Ms. Judy Wasylycia-Leis: I'd like to see whether in fact it's true that habits are entrenched by the age of 16 and therefore that it's just extra to go beyond the age of 16. From what I can tell with young people, I think they're just at a formative stage at that age and that anything you can do to keep ingraining into them certain habits and regimes and regimented activity, the better.

Unless hearing otherwise, I'd be inclined to support the extension to 18.

The Chair: Is there any further discussion on the amendment?

Mr. Pacetti, again.

Mr. Massimo Pacetti: I think I understand the logic of the government. I know the intent was for the Prime Minister's son to get a deduction while he played hockey.

Mr. Mike Wallace: Oh, come on.

Mr. Massimo Pacetti: It's probably because most players play hockey until the age of 16, the midget level, and then when they go on and play junior hockey, they wouldn't qualify because they think they're getting paid. But again, I think the most sensitive years of youth are between 16 and 18. And I think it's important we just don't think about kids in an activity such as hockey, but that there are other activities.

Mr. Mike Wallace: Between 16 and 18—

The Chair: Mr. Wallace, you had a point?

Mr. Massimo Pacetti: No, I think he was interrupting.

Mr. Dean Del Mastro (Peterborough, CPC): No, he's doesn't have a point.

Mr. Mike Wallace: No, I withdraw it. Let's vote.

The Chair: All right.

Mr. McKay.

Hon. John McKay: Actually, if we're just dealing with that issue, all I would do is support my colleague.

The Chair: That's what we are doing.

Hon. John McKay: But there is another point I want to make further on.

The Chair: Is there? Okay, but not on this specific amendment, Mr. McKay?

Hon. John McKay: Not on this specific one.

The Chair: Okay.

On the amendment, you're all ready for the vote then, yes?

(Amendment negatived)

(Clauses 21 and 22 agreed to on division)

The Chair: Mr. McKay, I'm sorry, but your question was pertaining to which clause?

Hon. John McKay: It's on page 72, the post-secondary textbook credit. I just wanted the official to march me through this.

The Chair: Which clause, Mr. McKay?

Hon. John McKay: It's proposed subsection 118.6(2.1), which refers to A and B and “A x B”.

The Chair: Okay, good.

We have an amendment proposed on that from the Liberal Party.

I'll just verify, first, have we carried clause 22, or did I interrupt the proceedings to make sure Mr. McKay didn't have a question on that? Do you recall?

A voice: Clause 22 carried.

The Chair: Clause 22 was carried, okay.

Mr. McKay, we do have Liberal amendment 4.

Mr. Pacetti—

Hon. John McKay: Let him speak to the amendment first and then I'll—

The Chair: And then your question may pertain to that, I believe?

Hon. John McKay: Yes.

The Chair: Mr. Pacetti, would you like to speak to Liberal amendment 4?

Mr. Massimo Pacetti: Yes, it's straightforward. I think the amount in the original bill was \$100. All we're asking is to change it to \$200. It's based on a monthly credit. Most students go to school full-time for a maximum, I would imagine, of 10 months. So on the original amount, it would be 10 months times \$100, which would be \$1,000 at a 15% tax rate, therefore only giving students \$150. And that would obviously only give them the \$150 the year after they'd spent the money, and not necessarily in the month they incurred the expense. So all I'm trying to do here is to make this deduction, which is actually a credit, useful by doubling the amount from \$100 to \$200 so that the—

• (1040)

The Chair: Mr. Pacetti, it's \$65 in the bill now.

Mr. Massimo Pacetti: No, \$65 is for part-time students.

Sorry, it's \$65, so it's even less. We're trying to make it so that students get at least \$300 or \$400 of actual money in their pocket after all the money they—

The Chair: So you're taking it from \$65 to \$200 in your amendment?

Mr. Massimo Pacetti: That's right.

The Chair: That's just for clarification.

Mr. Mike Wallace: Based on your ruling earlier, how is that not expanding the costs?

The Chair: The scope of the bill is not expanding; the actual dollar amounts within the bill are within the realm of legitimate amendments, but expanding the scope of those dollar amounts is not.

Mr. Mike Wallace: I see, I've got you. All right. It's not the money; it's the—

Mr. Massimo Pacetti: I just lost my concentration again, with Mr. Wallace interrupting me.

The Chair: Should we take a break then?

Mr. Mike Wallace: You've lost your concentration? We'll come back in a day.

Mr. Massimo Pacetti: No, if the government's intent is real and they want to make an impact, it's nice to say \$65 a month, but \$65 a month over a 10-month period is \$650 times 15%, which I think is 25 cents and is not going to do anything for students. So all I'm trying to do here is actually to do something for the students who incur expenses to go to school. We heard from numerous groups during the pre-budget consultation that they need help. Any type of help is helpful. This is not the best type of help for them, because this is only going to come 12 months after they've incurred the actual expense, but at least it's a step in the right direction.

So \$200 times 10 months is a \$2,000 credit, and times 15% it is \$300. That's nothing compared with what the students are actually incurring in purchasing books; sometimes they're incurring \$1,500 to \$2,000 per semester for books. So it's not a big deal. If we're going to actually do something, I think this is the right way to do it.

The Chair: Madame Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: I thought this approach would fit right in with the Liberals' approach of band-aid, ad hoc measures to deal with a serious problem—that is, student access to a university education. The problem we have goes back many years. This is just

one more band-aid, following zillions of band-aids by Liberals, so I don't know what their concern is.

Is the intention of this section on credit for the purchase of textbooks to get a certain portion of the cost of textbooks into the hands of students? Is it \$65 that they end up with?

Mr. Gérard Lalonde: The intent of this measure is to provide added assistance to students. It's not intended to cover the full cost of education or the full cost of textbooks. It's intended to provide some assistance. As indicated, it is calculated as \$65 per month, for those who qualify for the education tax credit.

There's an example in the budget documents of an individual spending eight months of the year at a Canadian university, claiming \$3,200 in education amounts and \$4,000 in tuition, for a tax savings of \$1,116—and increasing the amount of that assistance by \$80.60 as a result of this new textbook tax credit.

Ms. Judy Wasylycia-Leis: What would this proposal do in dollar terms?

Mr. Gérard Lalonde: It would increase it by a little over three times—

Ms. Judy Wasylycia-Leis: Three times.

Mr. Gérard Lalonde: —from \$65 up to \$200.

It would also increase the tax expenditures, as indicated in the budget documents, by the same proportion. We're looking at some \$135 million and \$125 million per year in the budget documents. So you could look at thrice that.

Ms. Judy Wasylycia-Leis: Mr. Chairperson, I'll just say that since we're left with nothing to do but put band-aids on band-aids, I have to support it.

The Chair: Mr. McKay, then Mr. Del Mastro, then Mr. McCallum, and then Mr. Savage.

I urge committee members to further the debate.

Hon. John McKay: To make it fairly clear, so that Madame Wasylycia-Leis is clear on the Liberal position, this is a collection of the dumbest band-aids I've ever seen, and this is one of the dumber ones.

I have a daughter in first year at McMaster University.

Mr. Rick Dykstra: Conflict.

Some hon. members: Oh, oh!

Hon. John McKay: Exactly, that's why I declared it.

I want to follow the bouncing ball here and actually figure out what her tax credit might be this year. I'm talking \$65, multiplied by the number of months referred to in proposed paragraph (a).

Because she started in September, I take it that she gets four months. Is that correct, \$65 times four months?

• (1045)

Mr. Gérard Lalonde: She's just started this year?

Hon. John McKay: She just started this year.

Mr. Gérard Lalonde: There are only four months to qualify for this year.

Hon. John McKay: So I'm four months. We're doing her income tax return here as we speak. So four months is three times \$65, is that right?

Mr. Gérard Lalonde: No, it's \$65 for each month.

Hon. John McKay: It's \$65 a month for four months, so she has \$280, or whatever.

Mr. Massimo Pacetti: She's part-time.

Hon. John McKay: This is the kind of practical difficulty people are going to run into.

I just want to understand it for my own purposes here. Am I correct that I have \$260?

Then you have a second proposed paragraph, where \$20 is multiplied by the number of months referred to in proposed paragraph (b). So it's \$20 times four months, is that correct?

Mr. Gérard Lalonde: The proposed paragraph is talking about part-time students.

Hon. John McKay: That's which?

Mr. Gérard Lalonde: Part-time students.

Hon. John McKay: That's part-time students. But it says "and" at the end of proposed paragraph (b).

Mr. Gérard Lalonde: Yes, because it's possible for a student to be a part-time student—for example, in January, February, March, and April—then go off for the summer and come back as a full-time student.

Hon. John McKay: Okay, I see what you're saying.

Mr. Gérard Lalonde: So you would calculate your credit based on the number of the months in the year in which you're in school.

Hon. John McKay: So for her purposes, essentially she has \$65 times four months.

Mr. Gérard Lalonde: In this particular example, yes.

Next year, presumably she'll be in university for the whole two semesters, and it would be eight months.

Hon. John McKay: You said times 15%—

Mr. Massimo Pacetti: Which is \$39.

Mr. Gérard Lalonde: It's 15.5%.

Hon. John McKay: Okay, it's \$39 if she pays tax. Is that right?

Mr. Gérard Lalonde: That's right.

Hon. John McKay: Is that transferrable? Can I get the \$39?

Mr. Rick Dykstra: You have to pay for it.

Hon. John McKay: Who else is paying for it?

Mr. Rick Dykstra: Then you're going to get it.

Hon. John McKay: Is that a transferrable credit?

Mr. Gérard Lalonde: Yes, it is a transferrable credit, and it's indicated in the budget documents.

Hon. John McKay: There's dancing in the streets as we speak.

Thank you.

Mr. Dean Del Mastro: Mr. Chair, I think part of the confusion here is that we're looking at one part of our aid package for students in isolation. We know that there were significant measures in budget 2006 for students, and this is one of them. Students can earn up to \$19,000 completely tax-free after Budget 2006. Scholarships are no longer taxable. Student loans are much more broadly available. A significant amount of money was invested by the government to do that. This is one step in isolation, and I think it's part of a very comprehensive package to assist students.

Ms. Judy Wasylcyia-Leis: Where did you put money for student loans?

The Chair: No, Madam.

Mr. Dean Del Mastro: Judy, it costs money to make student loans more broadly available.

The Chair: Mr. Del Mastro, express your remarks through the chair and not directly to other committee members.

Mr. Dean Del Mastro: I'm just trying to help Judy understand, that's all, and it's difficult.

The Chair: Go ahead, Mr. McCallum.

Hon. John McCallum (Markham—Unionville, Lib.): I'm certainly grateful that the NDP is supporting—

The Chair: Order.

Hon. John McCallum: Judy, I'm trying to express gratitude to you. We're very grateful for NDP support on this motion.

Ms. Judy Wasylcyia-Leis: It is bridging NDP support.

Hon. John McCallum: I also totally agree with you that this is a band-aid. The problem is that in our election platform we had, for example, the fifty-fifty plan, which would have put in billions of dollars—but we lost.

Mr. Mike Wallace: I think in 1993 you promised to cut student tuitions, too, but they doubled.

Hon. John McCallum: My only point is that when you're stuck with band-aids and that's all you have, you might as well make the band-aids a little better.

I do appreciate your support.

The Chair: Go ahead, Mr. Savage.

Mr. Michael Savage (Dartmouth—Cole Harbour, Lib.): What we heard from students as we travelled the country doing our consultations for next year's budget was that taxes don't do the job for students, if you believe that the number one issue is access.

In fact, Mr. McKay spoke about his daughter. She's already in university. We're going to benefit, to a small extent, people who are already in university. If you really want to get at the issue of access, then we all, including Judy, should have supported the economic update of a year ago, in which there were billions for low-income students and many other students, as well as what Mr. McCallum mentioned. It's too close to Christmas for party politics, but let me—

•(1050)

The Chair: Mr. Savage, speak to the amendment or do not speak further.

Mr. Michael Savage: I'm speaking to the amendment.

If we're going to do something in the form of taxes, \$80, which is what I think it amounts to for a full-time student, is a pittance and a disgrace. What Mr. Pacetti is proposing is at least a step forward. It is a bigger band-aid, if you will.

The Chair: Are there any further comments?

(Amendment negatived: 6 nays; 5 yeas) [See *Minutes of Proceedings*]

The Chair: The amendment is defeated.

We'll move to L-5.

Go ahead, Mr. Pacetti.

Mr. Massimo Pacetti: Thank you, Mr. Chairman.

It's basically the same idea. We're trying to help part-time students. Instead of the \$20 monthly credit, I was proposing \$60. It was in the same proportion as the previous amendment. If we're not going to try to help full-time students, I'm not so sure this committee wants to help out part-time students. But if we're going to bother—and I'm just trying to do a calculation for \$36—I would suggest that we delete the \$20 rather than have it. So I would say we increase it to \$60.

The Chair: So are you withdrawing your amendment, then?

Mr. Massimo Pacetti: No. Perhaps you could just wait until I finish speaking.

I don't know what it is with the Conservatives.

The point is that \$20 for part-time students represents—

The Chair: Mr. Pacetti, order. Order.

Mr. Pacetti, you just said in your preamble that we may as well delete.... But that's not what your amendment says, so I'm asking you—

Mr. Massimo Pacetti: I'm in the middle of a sentence. I said that we may as well delete it because the \$20 is representing \$36 to a part-time student. By changing the amount, or amending the amount from \$20 to \$60, at least we're giving \$100. Why bother doing all this for \$36? That's provided a part-time student goes to school for 10 or 12 months. At least if we're going to do something, do something.

The Chair: Okay.

Mr. Massimo Pacetti: Thirty-six dollars for all this is not worth it.

The Chair: I believe we just had this discussion a moment ago on another amendment.

Mr. Massimo Pacetti: So all I'm doing here is trying to put it to a reasonable amount. Sixty dollars represents a hundred dollars to a student who goes to school part-time for 10 to 12 months a year. That's my point. So I suggest that we adopt my amendment.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Pacetti.

All in favour of the amendment?

Mr. Massimo Pacetti: A recorded vote, please.

(Amendment negatived: nays 6; yeas 5) [See *Minutes of Proceedings*]

(Clause 23 agreed to on division)

(Clauses 24 to 34 inclusive agreed to on division)

The Chair: We have new clause 34.1. How can I have new clause 34.1 when I just carried clause 34?

Mr. Dean Del Mastro: Mr. Chair, I can explain that for you.

The Chair: On new clause 34.1, Mr. Del Mastro.

Mr. Dean Del Mastro: Yes, thank you.

Amendment G-3.... We're actually going to insert a new clause into the bill on page 90. The new clause will be 34.1, a proposed subparagraph in section 127.52.

It's a technical amendment, Mr. Chair.

The Chair: Mr. Pacetti.

Mr. Massimo Pacetti: Yes, it looks like by adding this clause we're going to expand the scope of the bill. I'd like Mr. Del Mastro to explain it to me.

•(1055)

The Chair: He's kidding. That was good.

Nice shot.

Any discussion on this?

Mr. Massimo Pacetti: Could somebody just explain it? It doesn't mean anything to me.

Mr. Dean Del Mastro: Mr. Pacetti, we have to take in the whole scope of the bill to understand this.

Mr. Massimo Pacetti: Can anybody from finance...? I don't have a problem with it, but it just doesn't say anything—

The Chair: Mr. Lalonde, would you like to take a shot at explaining this amendment, please?

Mr. Gérard Lalonde: Sure.

The bill includes amendments to extend the \$500,000 lifetime capital gains exemption to fishers. One of the existing provisions in the Income Tax Act dealing with the \$500,000 lifetime capital gains exemption for farmers ensures that capital gains that are eligible for that exemption are not subject to the alternative minimum tax. This amendment would ensure, as well, that in the same situation for a fisher, their gains eligible for the \$500,000 lifetime capital gains exemption would also not be subject to the alternative minimum tax.

The Chair: Thank you, Mr. Lalonde.

(Amendment agreed to on division) [See *Minutes of Proceedings*]

(Clauses 35 to 38 inclusive agreed to on division)

(On clause 39)

The Chair: Clause 39 has an amendment, G-4.

Mr. Mike Wallace: I'll move amendment G-4.

The Chair: Thank you, Mr. Wallace.

Mr. Mike Wallace: It's a technical amendment, as usual. It says:
the amount is paid under the letter of

Mr. Rick Dykstra: It's so technical that even we—

The Chair: Mr. Lalonde, here we go again—"under the letter of". It's over to you.

Mr. Gérard Lalonde: This truly is a very technical amendment. It has to do with other provisions in the budget that allowed for pension funds to assist in their financing. One of the measures they're allowed is to obtain financing through a letter of credit from a bank. Only certain persons are allowed to contribute to a pension fund, so if the letter of credit were called upon a bank might have to contribute to the letter of credit. The existing words in the bill indicate that this bank would be paying an amount to the pension fund in the event of a default under the terms of the letter of credit, and it's turned out that since the bill was originally tabled, we've discovered that in some cases the terms of default under which a letter of credit would be called upon may not be in the letter of credit but may be in other associated documents.

This amendment ensures that the bank can make the payment into the pension fund under the terms of the letter of credit even where the.... It resolves the fact that the default provisions might not be technically under the letter of credit itself.

Is that clear?

The Chair: My only confusion is that the only thing that's being removed here is the terms, so you mean it might not be under the terms of the letter itself. That's why the phrase "the terms" is being removed.

Mr. Gérard Lalonde: Exactly.

The Chair: Okay, that's clear to me.

(Amendment agreed to on division) [See *Minutes of Proceedings*]

(Clause 39 as amended agreed to on division)

(On clause 40)

The Chair: Madam Wasylcyia-Leis.

Ms. Judy Wasylcyia-Leis: I have a question about clause 40. I'm not sure what it means exactly. I'd like to know what's defined as "taxable capital", and how much this would actually cost the treasury.

Mr. Gérard Lalonde: Let me just refresh my memory as to what clause 40 is about.

Ms. Judy Wasylcyia-Leis: It's the minimum tax on financial institutions.

Mr. Gérard Lalonde: As indicated in the budget documents, the minimum tax on financial institutions is being revised from a two-stage tax to a one-stage tax and the base amount that's not subject to the tax is being reduced. If you look in the budget documents you'll see that the tax cost of the changes to the minimum tax on financial institutions are \$15 million in 2006-07 and \$30 million in 2007-08.

● (1100)

Ms. Judy Wasylcyia-Leis: Okay, just to go through it, we're changing the minimum tax, the rate before which taxes on taxable capital kick in, from \$200 million to \$1 billion. What you're saying is right now this would cost the treasury, for the next two years, \$45 million.

Mr. Gérard Lalonde: If you add it up for the next two years, that's correct, yes.

Ms. Judy Wasylcyia-Leis: My question is this. Was there a lot of pressure from big banks to do this? Where did it come from, when in fact we're looking at probably the most profitable time in the history of financial institutions. This year's profits are by far the record in the history of bank profits. Why are we doing this now?

Mr. Gérard Lalonde: The government has been moving, over the past several years, to try to reduce capital taxes. The general capital tax applicable to corporations overall has been eliminated. The tax on the taxable capital of financial institutions is still in place but it's being modernized and the base amount that's exempt from the tax has been increased to reflect that the original base amount was implemented some 20 years ago, when part VI was introduced.

Ms. Judy Wasylcyia-Leis: That still doesn't account for why we would suddenly give this huge benefit to big banks. Why would the government suddenly change the level from \$200 million to \$1 billion? "Modernization"? Is that the euphemism for catering to the big banks' demands? I would assume that they want bigger and better profits so that they can—

The Chair: What exactly is your question for Mr. Lalonde?

Ms. Judy Wasylcyia-Leis: I just don't understand why we are doing this at a time of tight resources, given the economic update. At a time when banks are more profitable than they have ever been, why would we do this now?

The Chair: Madam, I don't know. If you're wanting to propose—

Ms. Judy Wasylcyia-Leis: There's nothing I can do about it now.

The Chair: —an amendment of some kind, I'd invite you to do so. Otherwise, this is just by way of remarks and really not very productive.

Ms. Judy Wasylcyia-Leis: I was hoping for some sort of explanation where I could see some light to this, but I don't. I won't move an amendment now, but I'll consider it for report stage.

The Chair: Madam Ablonczy, perhaps you have a response.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): I think it's fairly simple. Canada wants to attract investment capital to our country, and this tax puts a brake on that. What we're trying to do is stimulate our economy, our productivity, and our competitiveness, so that our standard of living and the quality of life that we've come to enjoy will continue. This is one of the impediments that the government is trying to remove.

The Chair: Shall clauses 40 to 43 inclusive carry?

Mr. Pacetti.

Mr. Massimo Pacetti: Mr. Chairman, can we have a recorded vote?

The Chair: A recorded vote on—?

Mr. Massimo Pacetti: On clauses 40, 41, and 42. We can do all three at once or one at a time, but I would like a recorded vote.

The Chair: You would like recorded votes on all of those, then?

Mr. Massimo Pacetti: Yes.

(Clauses 40 to 42 inclusive agreed to: yeas 10, nays 1) [See *Minutes of Proceedings*]

(On clause 43)

• (1105)

The Chair: Did you want a recorded vote on clause 43? No?

Mr. McKay, on clause 43.

Hon. John McKay: I want to ask Mr. Lalonde a few questions with respect to part 2, “Amendments to the Income Tax Act (Dividend Taxation)”.

I read proposed subsection (1.1) and I'm not clear on what it actually means. What is the harm that you're trying to remedy by inserting this particular proposed subsection?

Mr. Gérard Lalonde: Proposed subsection (1.1)?

Hon. John McKay: It's proposed subsection (1.1), on page 95, under subclause 43(1):

Notwithstanding subsection (1),

—I'm not sure where that is—

if in a taxation year a corporation has paid a stock dividend to a person and it may reasonably be considered that one of the purposes of that payment was to significantly alter the value of the interest of any specified shareholder of the corporation, the fair market value of the stock dividend shall, except to the extent that it is otherwise included in computing that person's income under any of paragraphs 82(1)(a), (a.1) and (c) to (e), be included in computing the income of that person for the year.

I don't understand what that means.

Mr. Gérard Lalonde: That's an existing anti-avoidance provision that's being amended to reflect the fact that the dividend inclusion is being changed under the new high-rate dividends.

Hon. John McKay: Well, that may be. I still am not too much further along in my understanding of what that actually means. What is the corporation doing and how is the person who is receiving the benefit from the corporation being taxed here? I'm not clear as to what you're going after.

Mr. Gérard Lalonde: Sorry, what page are you on?

Hon. John McKay: I'm on page 95, the bottom of page 95 and the top of page 96.

The Chair: This section references the stock dividend. If the purpose of the declaration might be considered that it was to alter the value of the interest of any specified shareholder, the fair market value of the stock dividend would be considered in computing the income of that person.

Mr. Gérard Lalonde: This is the amendment to subsection 15 (1.1) of the Income Tax Act.

The Chair: This is not an amendment. This is just a question about existing clause 43, with no amendment reference. He's just asking a question pertaining to clause 43 and proposed subsection 15 (1.1), I believe.

Is that your question, Mr. McKay?

Hon. John McKay: Yes.

The Chair: Your question is why is that particular reference in there?

The reference itself refers to where it may reasonably be considered that one of the purposes was to significantly alter the value of the interest of a specified shareholder, the fair market value of the stock dividend shall, except to the extent that it is otherwise included in computing that person's income, be included. So it would be deemed to be included in income if the purpose was to alter the value of the share.

Mr. Gérard Lalonde: To alter the value of an interest—

The Chair: Of the interest—

Mr. Gérard Lalonde: —of any specified shareholder.

That's an anti-avoidance rule that comes into play when stock dividends are paid on certain shares in an attempt to, as indicated here, change the value of shares held by a specified shareholder. This ensures that this rule doesn't come into play if it's otherwise picked up as a dividend under the new dividend rules.

The Chair: It's to limit the discretionary tax avoidance tactics available to corporate structures for structuring dispositions to favour one or another shareholder specific to their tax situation.

• (1110)

Mr. Gérard Lalonde: That would be a fair enough way of describing it.

Hon. John McKay: Can you give me an example?

Mr. Gérard Lalonde: No, I can't give you an example offhand, right now.

Hon. John McKay: Am I going on with the wild, wild realm of speculation that a closely held corporation wishes to reward the most significant shareholder in the corporation and just simply give it shares, which to another shareholder would be worth x , but to this particular shareholder would be worth x plus?

Mr. Gérard Lalonde: I don't think that's a particular case of this, but the upshot of this amendment is to ensure that if it's otherwise picked up as a dividend, this rule won't apply.

It used to talk about paragraph 82(1)(a), which is where the existing dividend rules were for picking it up. Now it's adding a cross-reference to paragraphs 82(1)(a.1), 82(1)(c), and 82(1)(e) to ensure that it picks up dividends under the new dividend regime.

Hon. John McKay: I don't want to beat this horse to death, but I just frankly don't understand it. Maybe other members understand what they're voting on, but I certainly don't.

You have a concept here called “excessive eligible dividend designation”, on page 99. What's that?

Mr. Gérard Lalonde: This has to do with the fact that under the new dividend regime, a corporation—

The Chair: Sorry, Mr. Lalonde.

John, let's hold off on that until we get to that section. Okay?

Hon. John McKay: I was just asking questions with respect to the overall section, too, just so I understood what the point—

The Chair: No, we'll deal with it clause by clause, as we have been doing.

Hon. John McKay: All right.

The Chair: Okay, we are back to the vote on clause 43

Shall clause 43 carry?

Hon. John McKay: I will record an abstention on that particular clause. I've already said I don't understand it, so I'm not going to vote either for it or against it.

The Chair: Then we need a recorded vote to record an abstention for Mr. McKay, do we?

(Amendment agreed to: yeas 6; nays 1; abstentions 4)

The Chair: Oh, a corporate loophole there, left open. That's interesting. Okay, that is carried.

Mr. Rick Dykstra: In all seriousness, if there is the concern that Mr. McKay has expressed in terms of clarity, would it be fair to ask the ministry to come back with a bit of an explanation to give him—

The Chair: That might be fair, but we'll let Mr. McKay decide that and do it on his own time.

Now we'll move to amendment G-5, new clause 43.1. That's a government amendment.

Mr. Del Mastro.

Mr. Dean Del Mastro: Yes, thank you, Mr. Chair.

What we're looking to do here is amend, after line 9 on page 96, the following.... The French version of the act will be replaced in section 43 after article (ii), and in the English version paragraph 74.4 (2)(f) will be replaced as indicated by the memo before you. They're both technical.

The Chair: They're technical amendments.

Mr. Dean Del Mastro: They're both very technical.

The Chair: Any discussion on those?

(Amendment agreed to on division) [See *Minutes of Proceedings*]

(Clauses 44 to 46 inclusive agreed to on division)

(On clause 47)

The Chair: On clause 47, there is an amendment, G-6, which is on page 21 of your package. I am hesitant to assume another technical amendment here, but—

Mr. Mike Wallace: Don't be hesitant.

Mr. Dean Del Mastro: Yes, amendment G-6 asks that in clause 47 we amend after line 21 on page 118, beginning with new paragraph 89.(1)(c), the following as indicated by the memo before you, Mr. Chair.

•(1115)

The Chair: Okay. Seeing no desire for conversation on that amendment—

Mr. McKay.

Hon. John McKay: On the amendment, Chair, on subclause 47.(1) at page 99, the concept of “excessive eligible dividend designation”, could I have an explanation of what that means?

The Chair: On subclause 47.(1)—

Hon. John McKay: On subclause 47.(1) under—it looks like definitions—page 99, line 20.

The Chair: Do you want to restate your question, please, John?

Hon. John McKay: Simply, what does “excessive eligible dividend designation” mean? Could you explain it in the context of what you're trying to capture here?

Mr. Gérard Lalonde: Sure. Under the new dual rate dividend tax credit proposals that are included in this bill, dividends may be eligible for a higher rate of dividend tax credit in the hands of the individual shareholder, if those dividends are paid out of income that was subject to the high rate of corporate income tax.

Now, a shareholder doesn't need to go and find out from the corporation whether or not the dividend is paid out of income subject to the high rate of corporate income tax. The corporation will tell the shareholder by designating that dividend.

It may be possible, however, for a corporation to designate a greater amount of dividends as being eligible for the high-rate dividend tax credit than are actually eligible. If that's the case, then that corporation would have an excessive dividend designation.

Hon. John McKay: So if I'm a shareholder and I have received this designation that this is an excessive eligible dividend, my credit is therefore higher?

Mr. Gérard Lalonde: No. You would receive a designation that you have an eligible dividend—that is, that the dividend is eligible for the high-rate tax credit.

Hon. John McKay: And who chooses whether I get the higher rate or the lower rate of that credit?

Mr. Gérard Lalonde: The corporation would be the one to designate whether the credit was paid out of high-rate income or out of low-rate income. It's the corporation that designates the dividend.

If the corporation designates too much dividend, it's the corporation that would have an excessive eligible dividend designation.

Hon. John McKay: So where does that shift the tax burden—onto the shareholder or onto the corporation? If in fact the corporation chooses to have an excessive eligible dividend, where is the tax burden being shifted—to the corporation or the shareholder?

Mr. Gérard Lalonde: The shareholder would see no impact as a result of that. They would continue to claim their dividend tax credit as if the dividend actually were eligible as a high-rate dividend. The corporation would have to pay a special charge—which is also included in this bill—to make up the difference.

Hon. John McKay: Why would the corporation do that? What would be the point of doing that?

Mr. Gérard Lalonde: It could be an error. It could be—

In the absence of some measure to stop you from doing that, it would be a way to generate excessive dividend tax credit to shareholders. You have to have some mechanism to ensure that a corporation doesn't designate dividends as eligible dividends when it doesn't have the—

Hon. John McKay: I'm having trouble following the benefit here, though. Where is the tax benefit going? If it's not going to the shareholder, it has to be going to the corporation. If it's going to the corporation, then it has to have some good reason for doing that. What's the good reason for doing that?

Mr. Gérard Lalonde: There would be a tax benefit to the shareholder in having an eligible dividend. You'd get a higher dividend tax credit, so that would—

Hon. John McKay: So that's where the tax benefit goes—ultimately to the shareholder.

Mr. Gérard Lalonde: The tax benefit ultimately goes to the shareholder. It would be in a corporation's interest to ensure that their shareholders get the maximum tax benefits and that they designate the maximum that they can as eligible dividends.

In the absence of some mechanism to stop them from doing so, they might designate even more than they were eligible for, and that's what this is about. This is to calculate any excessive dividend designation that may have been made in order to ensure that the corporation then has to pay up an amount to reflect the additional cost of the higher-rate dividend tax credit being claimed, or claimable, by the shareholder.

Hon. John McKay: I can see my colleagues are fascinated by this. It actually is quite interesting, because—

• (1120)

The Chair: Just for clarification, this is in part to prevent corporations, for whatever reason, from paying excess dividends out in a year beyond what they made that year to create a competitive advantage to themselves or to attract further investment to their company. Is that—

Mr. Gérard Lalonde: It's to prevent them from over-designating their dividends as being dividends eligible for the high-rate dividend tax credit.

The Chair: Right.

John.

Hon. John McKay: If a corporation is being prevented from doing this.... What I'm driving at here is how do the activities of the corporation affect the credit of the shareholder?

Mr. Gérard Lalonde: If the corporation designates the dividend as an eligible dividend, the shareholder will get a greater dividend tax credit.

Hon. John McKay: As just simply an eligible one. But if it's an excessive one, the shareholder doesn't get that benefit?

Mr. Gérard Lalonde: Suppose a corporation had the ability to pay dividends out of income that was taxable at the high rate of \$1 million, but they had some other sources of income taxable at the low rate. They actually would have the capability of paying a \$1.5 million dividend. Under these rules they should pay a half-million-dollar dividend as a regular dividend that is eligible for the low-rate

tax credit, and they would have \$1 million that they could pay as a dividend eligible for the high-rate dividend tax credit.

But it may be that they designate the whole thing as eligible for the high-rate dividend tax credit. Maybe it's a mistake, or maybe it's otherwise. If they do so, the shareholder will be eligible for the high-rate dividend tax credit. They don't have to look behind what the corporation has told them.

In this circumstance, the corporation would have had an excessive eligible dividend designation of a half million dollars because they designated half a million dollars too much, and they would have to pay a charge to offset the fact that the shareholder is getting a higher dividend tax credit on that dividend than is warranted.

Hon. John McKay: Does this concept exist currently?

Mr. Gérard Lalonde: This whole part 2 of the bill is new, to implement the dual rate dividend tax credit that was originally proposed a year ago November and was included in the 2006 budget.

Hon. John McKay: Refresh my mind. Was this to do some equalization among corporations? Pull me to back to November 2005 and point me to where that issue came up.

Mr. Gérard Lalonde: That issue came up in response to certain pressures on the government of the day to deal with income trusts.

Hon. John McKay: Okay, so this is the implementation of that enhanced dividend tax structure for the corporations?

Mr. Gérard Lalonde: That's correct.

Hon. John McKay: Okay, so that's the tie-in. Well, that's actually helpful.

The Chair: Thank you, Mr. McKay.

(Amendment agreed to on division) [See *Minutes of Proceedings*]

(Clause 47 as amended agreed to on division)

(Clauses 48 to 63 inclusive agreed to on division)

(Clause 1 agreed to on division)

The Chair: Shall the title carry?

Some hon. members: Agreed.

An hon. member: On division.

The Chair: Shall the bill as amended carry?

Some hon. members: Agreed.

Some hon. members: On division.

The Chair: Shall the chair report the bill as amended to the House?

Some hon. members: Agreed.

Some hon. members: On division.

The Chair: Shall the committee order a reprint of the bill as amended for the use of the House at report stage?

An hon. member: If necessary.

The Chair: If necessary.

We reconvene on Thursday in East Block at 3:30. We have the Canada Revenue Agency joining us on Thursday at 3:30. We are adjourned.

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