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## Standing Committee on Finance

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EVIDENCE

**Tuesday, March 20, 2007**

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**Chair**

**Mr. Brian Pallister**

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Tuesday, March 20, 2007

• (1105)

[English]

**The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)):** Committee members know I prefer that we start on time and not punish those who are here by making them wait, so let's get started. Welcome back to the fold.

Welcome to Mr. Tweed. It's nice to have you at committee, and Madam Davidson. Thank you both for being here.

Pursuant to the order of reference of Wednesday, November 8, 2006,

[Translation]

the committee will now proceed with the clause-by-clause study of Bill C-253, An Act to amend the Income Tax Act (deductibility of RESP contributions).

[English]

(On clause 1)

**The Chair:** Monsieur St-Cyr.

[Translation]

**Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ):** I'd simply like to inquire about the amendment folder. I haven't received it.

[English]

**The Chair:** Mr. St-Cyr, apparently the folder is going around right now. However, there are no amendments for clause 1. Thus far we have three amendments, and those fall in clause 2.

Mr. McKay.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** The proponent has given me an amendment to clause 1, line 23, with respect to the French. It is to say

[Translation]

“après 2006, au résultat, positif ou négatif, du”.

[English]

**The Chair:** I'm sorry, Mr. McKay. I believe you're speaking about an amendment that falls in clause 2, unless I'm mistaken.

**Hon. John McKay:** It says, “in clause 1, to be amended by line 23”. It's still clause 1, isn't it? Is it clause 2? Okay. I'm sorry.

**The Chair:** It's page 1, John. Clause 2 starts on page 1.

**Hon. John McKay:** The sentence says clause 1.

**The Chair:** Yes, there is a drafting error there. It is clause 2. Members, there's a drafting error.

Again, I see no desire to discuss clause 1.

(Clause 1 agreed to)

(On clause 2)

**The Chair:** Mr. McKay.

Oh, I'm sorry, Mr. McKay, the Bloc amendment actually falls first.

[Translation]

**Mr. Thierry St-Cyr:** Thank you, Mr. Chairman.

If the amendment is adopted, there will be no need for us to deal with Mr. McKay's amendment, because it involves a partial withdrawal.

In fact, we've already stated that we supported the principle of the bill which calls for making contributions to RESPs tax deductible, as is the case with RRSP contributions. However, we find the \$18,000 limit provided for in the bill to be much too high. We also feel that the provision that would allow unused deductions to be accumulated is far too advantageous and that it would apply solely to the most wealthy individuals.

Aside from the amount the government contributes to a RESP—if memory serves me well, it contributes 20%—the only advantage compared to a conventional RRSP is the increase in the contribution limit.

For example, when a person contributes up to \$4,000 in a RESP, the government contributes an additional 20% to the plan. That's quite interesting. Aside from that, the only reason to increase contributions would be if one had already contributed the maximum amount to one's RRSP. Therefore, most members of the middle class and lower income earners will not be able to take advantage of this new provision.

The purpose of the amendment is twofold. First, it would set the maximum deduction at \$4,000 for 2005, and at \$5,000 for 2006. For 2007 and every year thereafter, it would be indexed to the cost of living. The second amendment to the bill as it is now worded would eliminate the possibility for taxpayers to accumulate unused contributions, which seems irrelevant. If a person waits until his child is ready for post-secondary studies, it's already too late to invest in his RESP.

•(1110)

[English]

**The Chair:** I want to ask Mr. McTeague a question about the effect of this amendment on his bill, which essentially tries to follow the RRSP contribution limits, if I understand it correctly. It would reduce the eligible contribution amounts to the amounts Mr. St-Cyr has suggested. The effect of the government's announcement yesterday would make irrelevant the annual contribution issue.

I'm interested in your feelings on both those issues.

**Hon. Dan McTeague (Pickering—Scarborough East, Lib.):** Mr. Chair, thank you for that. This is the first I've seen it, although I had a chance to talk to Mr. Paquette very briefly beforehand.

The average tuition in my province of Ontario is somewhere near \$10,000 a year—not in residence—so those numbers may not be satisfied by this. I don't want to be seen as putting a stick in the mud; however, I do recognize that the government has gone one step ahead. Although the bill has not passed, I don't know if the ways and means have been proposed at this point. But clearly I would want to make this in the context of RESP regime as it currently exists.

The move from \$4,000 to \$18,000 was to respect and be consistent with the RRSP so you wouldn't have one switching over to the other. I'm most concerned about the number proposed. Although I understand that the proposal by Monsieur St-Cyr is a very sincere one, I also think it may fail to address the ability of people to match, in a four- or five-year period, the contributions necessary for a student to go to school.

I'm not opposed to the suggestion—it's the first I've heard of it—but I also recognize that we're all in a bit of a pickle. The entire clause 2 of my bill has been rendered, if you pardon the expression, rather moot as a result of the announcement by the Minister of Finance. What is important here is to capture a larger number of people who will be able to take advantage of RESPs before taxes, as opposed to the existing regime, which is after tax.

**The Chair:** Mr. Wallace.

**Mr. Mike Wallace (Burlington, CPC):** Thank you, Mr. Chairman.

I was going to say virtually the same thing as the mover of the motion. I'm not supporting the amendment. Because of the changes that were proposed last night, assuming they pass, we don't need the amendment in front of us today.

**The Chair:** Thank you, Mr. Wallace.

Mr. McKay.

•(1115)

**Hon. John McKay:** While it may be rendered moot by virtue of the budget last night, there is no assurance that the budget will in fact pass. We'll probably have to treat things as they are, rather than as we anticipate they might be, in which case the motion as is presented is not necessarily relevant. I'm inclined to say we should leave the bill as is, notwithstanding the good intentions of the Bloc.

**The Chair:** Okay. I'll give Mr. St-Cyr an opportunity to wind up, seeing no other speakers.

Mr. St-Cyr.

[Translation]

**Mr. Thierry St-Cyr:** When we discussed the bill the first time around, we talked about associated costs. We haven't come up with a dollar amount. If we do not make any changes to the original bill and go with a maximum limit of \$18,000, the only people who really stand to benefit fully from the changes and from the increased contribution room will be those who are already able to contribute \$18,000 to an RRSP.

I would argue, Mr. Chairman, that very few Canadians are able to save \$36,000 a year. As it now stands, this bill will benefit only the wealthiest people.

I would also point out that if the original bill is not amended, we'll not be dealing with a simple matter of deferring tax, as is the case with RRSPs, but, to all intents and purposes, with a tax exemption issue. The person who will be required to pay tax upon withdrawal will be the student, not the contributor. In most instances, students have very little income, if any, and pay little or no tax. Therefore, we could face a situation where a very wealthy person may have accumulated \$100,000 in a child's RESP and, over a period of several years, will have transferred that money to a son or daughter who will pay virtually no tax.

As I see it, the bill, as it now stands, will benefit wealthier families much more than middle class ones. Our amendment would provide an additional benefit to middle class families over and above the money they already receive from the government. The government is planning to increase the limit and that is all well and good. When the ways and means are tabled, we'll have an opportunity to discuss this matter once again, but for now, we're debating the bill based on the current status of the law, not on the basis of hypotheses. We're still in the dark as to the content of the ways and means.

Therefore, I believe our amendment makes this bill very interesting for middle class families. It ensures that wealthier families do not receive any undue advantage and that costs will not be exorbitant. We still don't know how much this initiative will ultimately cost us.

[English]

**The Chair:** *Merci beaucoup, monsieur.*

I would venture at this point, committee members, to again emphasize that this bill proposes to make

[Translation]

a fundamental change to the RRSP program.

[English]

It's not after-tax money going in under this proposal. So Mr. St-Cyr's motion quite thoughtfully attempts to address the fact that money contributed under the current program is after-tax money, and money contributed under the new proposal would be before-tax money. The money that would be contributed under Mr. McTeague's proposal, being tax deductible, would create a circumstance where before-tax money could be taken off a parent's income and be transferred to a child's name and subsequently be withdrawn in the child's name. This is a major advantage, an incredible opportunity for income splitting, that makes seniors' income splitting pale by comparison.

Mr. St-Cyr's proposal is to limit the amount that would be eligible for such treatment on an annual basis. If we disregard Mr. St-Cyr's amendment or in any way disregard our responsibility to address the issue of what would be the allowable limit for contribution on an annual basis for deductibility—because that is what Mr. McTeague is proposing—I would suggest we are not discharging our responsibilities to the Canadian taxpayer very well.

The government's proposal yesterday was not to allow one-time deductibility of \$50,000, but to allow contributions up to that amount in a lifetime, per child, of after-tax dollars, not before-tax dollars. So what Mr. St-Cyr is trying to address in this amendment is both logical and thoughtful, in my estimation, and I would encourage further discussion on this issue before we move to a vote, because I'm not convinced from the tenor of the discussion that this has been well thought out by our committee members.

Mr. Thibault.

• (1120)

**Hon. Robert Thibault (West Nova, Lib.):** The question I have is for Mr. McTeague, Mr. St-Cyr, or the chair. Somebody can explain it to me.

Under the proposal by Mr. McTeague, the contribution would be before taxes, and then I presume the contribution by the federal government to that account would remain.

**Hon. Dan McTeague:** May I?

That's not up to me, Chair. The contribution would be rendered redundant, in my view, since you would have people making contributions anyway. They pay income tax. Therefore, there would be the opportunity for them to use that income tax designated toward a student at some point down the road. Bearing in mind, of course, that the average four-year in-college or in-university program is \$100,000, I would see that a larger number would obviously catch a lot more individuals.

As proposed by Monsieur St-Cyr, at \$4,000, \$5,000, \$6,000, or whatever number, then at \$100,000, which is what we're heading toward in terms of education costs across Canada, it would be a long time before somebody is able to save up that amount in order to be able to help to offset or pay for the costs of tuition.

**Hon. Robert Thibault:** Could Mr. St-Cyr answer my question? The question I have is whether the federal government's contribution into the account would still exist under both these circumstances.

**Hon. Dan McTeague:** They could change that, but yes.

[Translation]

**The Chair:** Go ahead, Mr. Wallace.

[English]

**Mr. Mike Wallace:** Mr. Chairman, thank you for that.

I'm just seeing the amendment this morning for the first time, of course, but if I'm reading it right, based on the discussion we've had so far, to resolve the issue that you portrayed and want us to give thoughtful consideration to, my problem with the bill at the end isn't the changing in the amount and all that, from the \$4,000—and obviously it made it to the budget—my problem is the view that it changes from pre-tax dollars to after-tax dollars.

Based on your arguments, as long as we're taxing the parents first before they contribute to their RRSP, there is no issue, whether it's \$50,000 or not. Am I not correct on that?

You got into the discussion on it, so I'm asking for clarification from your position, since I'm listening to everybody's position on this. If the bill did not include the issue of pre-tax dollars, you'd have no issue. You like this amendment, or you want us to consider this amendment, because it includes dollars before the parents pay tax on it. Is that not correct?

**The Chair:** Essentially, if we adopt this as it's proposed, without limit, what we would create is a situation in which RRSP deductions, which are currently 18% of earned income, up to a maximum of \$18,500, could be deducted. That's irrelevant to this proposal. But there's no reference to say one or the other, so you could deduct from your earned income close to 20% of your RRSP contribution, as is the case now. In addition, you could also deduct an equal amount and contribute to an RESP fund for your child or children. And I think it's limited to that amount for a child or children; I don't think it's 18.5% for each child. That would be too much.

• (1125)

**Mr. Mike Wallace:** Right, and you would not pay tax on it, based on the—

**The Chair:** You could then transfer those funds into the name of the child, to be withdrawn in the child's name.

**Mr. Mike Wallace:** Right.

**The Chair:** We have Finance officials here. Perhaps committee members are interested in knowing what the revenue implications of this particular form of income splitting are.

Theoretically, at least, I suppose we could recognize that the amount of income tax displacement or loss of revenue on these dollars could be fairly considerable, given the likelihood that the money would be withdrawn in the child's name when they are a young adult who does not have very significant additional income—perhaps summer earnings or part-time earnings. Essentially you'd be taking that amount out of the revenue stream for tax purposes in the adult's name, assuming very likely a higher marginal bracket, and moving it into the child's name, to be withdrawn at a time when there would be very likely little, if any, tax to be paid. You're talking about a major revenue implication here.

I would invite Finance officials to come forward now, if they would.

**Mr. Mike Wallace:** I don't mind asking the question.

**The Chair:** Yes, that would be good. I'd appreciate it if committee members asked the questions rather than me. I'm trying not to involve myself too much in this.

**An hon. member:** Too late.

**The Chair:** Again, I think there needs to be more fulsome discussion than we've had thus far. I hope Mr. McTeague would agree with that.

Welcome, and please state your name for the record.

[Translation]

**Mr. Yves Gingras (Chief, Employment and Education, Personal Income Tax Division, Tax Policy Branch, Department of Finance):** My name is Yves Gingras and I'm the Chief of Employment and Education with the Personal Income Tax Division at the Department of Finance.

[English]

**The Chair:** Thank you for being here, Mr. Gingras. We'll ask Mr. Wallace and then Mr. St-Cyr if they have questions for you.

**Mr. Mike Wallace:** Thank you, Mr. Chair.

Things are a bit fluid, based on last night's budget, in terms of where we are today on the \$4,000 piece. My concern is the second part of the bill, where under the recommendation of the bill's mover it becomes pre-tax, not after-tax, dollars.

If we leave it as after-tax dollars, and you are able to contribute where we indicated last night, the issue of collecting tax on it somewhere along the line is moot. Based on the chairman's perspective, likely students won't pay very much tax, so that revenue or income does get taxed at least once.

If we move to Mr. McTeague's bill, that money doesn't get taxed from me, because I have a student coming soon, for example. It doesn't get taxed from me when I contribute to my RESP. Then when my daughter goes to school, she won't be paying any tax, so it doesn't get taxed again.

Is that an accurate statement? What effect does that have in terms of money for the treasury?

[Translation]

**Mr. Yves Gingras:** Regarding Mr. McTeague's proposals, as I understand it, where contributions result in a tax deduction, there will be significant financial implications for the government during the contribution years. When the funds are withdrawn in the student's name, because students for the most part do not pay any taxes, the tax revenue would not be recovered.

Based on our understanding of the proposed initiative, we've drawn some conclusions, in terms of the bill's tax implications. Assuming that taxpayers' behaviour would not change, meaning that the new measures would not result in additional contributions, we have estimated that the financial cost of implementing the new measures would be \$565 million in the first year. As I stated, these costs would not be recovered in instances where the funds would be withdrawn in the student's name, because generally speaking, students do not pay any taxes.

We could do a more detailed calculation and take into account the fact that some of these amounts could be taxable. However, it is logical to assume that most of the contributions would not be taxable when withdrawn for the students' benefit.

The costs could increase substantially, if we take into account the fact that contributors could increase their contributions to take advantage of the tax incentives.

• (1130)

[English]

**Mr. Mike Wallace:** As an additional question—I don't know if you've had a chance—but did you see Mr. St-Cyr's amendment?

[Translation]

**Mr. Yves Gingras:** No.

[English]

**Mr. Mike Wallace:** Okay, thank you.

**The Chair:** Monsieur Gingras, it would seem imminently logical that if contributions could be made deductible from a person's income, the rate of contribution would increase rather significantly, would it not? Certainly our proponent has said this is the goal, and we realize that. Therefore, the revenue impact would be considerably increased as a consequence of the appeal to be able to deduct the contributions.

So when we say projected revenue impact of over half a billion dollars annually, is that based on current contribution levels?

[Translation]

**Mr. Yves Gingras:** The Department of Finance based its calculations on certain assumptions, specifically that contributors would not behave any differently. Based on that assumption, it concluded that additional costs would be in the order of \$565 million.

We're talking here about the cost to the federal government. We can't lose sight of the fact that there will also be a cost to the provinces, given that the deduction would affect their tax base and hence their revenues. Provincial costs must therefore be added to federal costs.

[English]

**The Chair:** Madame, we'll put you on the list; welcome.

Go ahead, Monsieur St-Cyr.

[Translation]

**Mr. Thierry St-Cyr:** I'm satisfied with that explanation. I think that by changing this from after-tax to pre-tax, we're creating a major tax benefit which comes very close to being a tax loophole, since young people will pay virtually no tax on these funds. I'm not opposed to encouraging parents to save for their children's education. What I'm saying—and that's the substance of my amendment—is that if we open the door to a limit of up to \$18,000, that will prove to be far too costly from a fiscal standpoint, besides which only the wealthy will benefit from this measure.

The annual limit proposed in my amendment, namely \$5,000, seems more than adequate. Over a period of 20 years, for example, contributions would total over \$100,000. Everyone who contributes to an RRSP knows that with compound interest, which in itself is tax exempt, it is likely that the plan will grow to somewhere nearer to \$300,00. Therefore, I think my amendment is entirely reasonable. I think it's a good compromise that will help the middle class without giving wealthier individuals an unfair advantage.

One more thing: earlier, Mr. Wallace stated that under the current system, money invested was after-tax dollars. Nevertheless, there is a benefit here because the value of the funds increases and the money is sheltered from tax. Therefore, more compound interest is earned. However, as it now stands, the bill provides a much bigger tax advantage and that's why we're proposing to limit contributions.

[English]

**The Chair:** Mr. St-Cyr points out quite accurately that the current system does provide a tax incentive for contributions, which is the fact that the interest growth on the contributions is sheltered from the effect of annual taxation until the point of withdrawal by the student.

Your projected number of over \$500 million annually is based on current contribution levels continuing, which we both agree is not an accurate hypothesis because most likely contribution levels would increase. Does your tax loss number take into account the reality that the interest currently is also tax sheltered? In other words, under a perpetuation of the current plan, there would be no revenue to be gained by the government from the interest earned on the contributions once they are tax sheltered in the name of the child in any case. Is that impact number a number net of that fact, or not?

• (1135)

**Mr. Yves Gingras:** The number I cited, which is an annual cost of \$565 million, does not do a net calculation. If it did, not much of it would disappear, because most students are not effectively taxable. It is fair to assume that at the end, when this money was taken out in the name of the student, very little would be recouped from that initial fiscal cost.

**The Chair:** Fair enough.

We continue now with questions. Mr. Dykstra is next, please.

**Mr. Rick Dykstra (St. Catharines, CPC):** Thank you, Mr. Chair.

The clarification I think I have is that the difference between the amendment and the current motion as I see it is that Mr. St-Cyr is suggesting a post-tax amendment. The original motion is obviously pre-tax. Is that correct?

**The Chair:** No, that's not my understanding.

Monsieur St-Cyr, I will attempt to clarify Mr. Dykstra's question on your behalf.

I believe Mr. St-Cyr is accepting the premise that there be deductibility. He is simply trying to limit the amount of deductibility by proposing these numbers. The current RESP program, of course, does not allow for tax deductibility, but rather only for tax sheltering of the money in the child's name once contributed. What Mr. St-Cyr is attempting to do is not to alter the fundamental goal of Mr. McTeague's motion, which is to allow for tax deductibility, but simply to limit the annual amount that could be deducted.

Is that correct, Mr. St-Cyr?

[Translation]

**Mr. Thierry St-Cyr:** Yes and moreover, the deferral mechanism for unused contributions has been eliminated, which means that if parents really want to save for their children's education, they must do so for a period of 18 to 20 years. One cannot accumulate

\$100,000 in unused contributions and use them all up in one year. That's my answer.

I have another comment. I mentioned wealthy individuals who stand to benefit from the bill as it is now worded. Let me use our own situations as an example. In light of our income, we surely are among the more fortunate members of our society. We have good working conditions and our employer contributes to a good pension fund. Most of us cannot contribute at all, or can only make very modest contributions, to an RRSP. Since I'm going to be a father in September, it would be wonderful if this bill passes. It would mean that I could contribute an additional \$18,000. That money would in fact be tax exempt, not merely sheltered from tax, because my son or daughter will pay virtually no tax when the time comes to pursue an education. This measure would be very beneficial to me and to all of us seated here at this table. However, we need to be realistic. The middle class finds itself in an entirely different situation. There's no need for us to increase the limit this dramatically in order to make it interesting for people.

[English]

**The Chair:** Thank you, Mr. St-Cyr.

I'm just warning you that I will now go to other speakers and give you an opportunity to wind up at the end, rather than bouncing back and forth.

We go to Mr. Thibault, now.

**Mr. Rick Dykstra:** I'm not actually done yet.

**The Chair:** I'm sorry, Mr. Dykstra. Please proceed.

**Mr. Rick Dykstra:** Thank you for that clarification. It's an understanding that the amendment would actually reduce the \$18,500 suggested by Mr. McTeague to \$5,000, as suggested by Mr. St-Cyr.

The only other issue is this. I guess Mr. St-Cyr is suggesting \$5,000 a year per child for 20 years. That's what I heard when he was speaking.

[Translation]

**Mr. Thierry St-Cyr:** No, I was merely using this as an example. It could be 10 years instead of 20 years. If you want to know why I'm proposing this amount, I would answer that the government contributes up to the current limit of \$4,000. Over and above that amount, the government does not make any contributions. All we've done is indexed this amount to take into account inflation. Had the \$4,000 limit been indexed to inflation since 1997, it would now stand at about \$5,000. Paragraph 146.1(1)e) of our amendment follows this logic to its conclusion, bearing in mind inflation.

• (1140)

[English]

**Mr. Rick Dykstra:** So the other—

**The Chair:** I'm sorry, Mr. Dykstra, this raises a whole other sequence of discussion, frankly. The Finance official talked about the revenue impact of increasing deductibility; he hasn't talked about the increased dollars that would go to the grant program, up to \$4,000 per year. This is a separate category of revenue impact that exists as well. The question of how the two interface, if in fact this committee wants to have the bill allow for a continuation of the grant program in addition to deductibility, is also a matter of some debate.

Mr. St-Cyr, if you will, I will try to leave the discussion focused, for this time, on the specific motion.

So we move now to Mr. Dykstra to conclude, but I will not accept any more questions to Mr. St-Cyr because—

**Mr. Rick Dykstra:** No, I have clarification here. I appreciate that.

**The Chair:** Our of respect for Mr. Watson, who is waiting here as well, I don't want to overly prolong the discussion.

Mr. Dykstra.

**Mr. Rick Dykstra:** The one concern or question I had for the representative from the finance department revolves around the fact that no one has made a suggestion.... Maybe this further complicates things, and I certainly don't intend to do that, but we talk about the fact that the contribution will be made by the parent and withdrawn by the child/student. Part of the solution to this, I would think—and maybe it's been considered—is why wouldn't the income as withdrawn at the time by the child/student not be attributed against the parents' income when it's withdrawn? That's how an RSP works.

Don't even worry about it. Don't even answer it.

I have one final point, and that is— Sorry, I know you want to rush me along here, Mr. Chair—

**The Chair:** No, Mr. Dykstra. I absolutely do not want to rush the discussion at all, but I do want to try to keep it somewhat focused.

**Mr. Rick Dykstra:** The second part is the difficulty I have is this. One of the questions I had was how this was going to impact the federal government's contribution towards the obviously inflated contributions that we would all make on behalf of our children. It seems to me that two streams of revenue are going to impact the taxpayer. One is the \$565 million we talked about; then the increased level of contributions that parents would make would obviously mean that the federal contribution towards each one of the categories, each one of the children, would increase.

I know you want to keep those issues separate, Mr. Chair, but I don't know how we do that without at least having a clear understanding of the financial....

We're talking about over half a billion dollars now, if things stay the way they are; we're not talking about the additional contribution the federal government would have to make based on an increase in contributions. I see this thing as being extremely expensive in terms of implementation.

**The Chair:** Thank you.

Mr. Thibault is next.

**Hon. Robert Thibault:** *Merci, monsieur le président.*

I want to give Mr. McTeague a chance to comment. I agree with the principle of Mr. McTeague's bill, but I do also agree with this amendment. I agree with the principle that we encourage parents to have the opportunity to contribute, that we use the tax system to make the contributions so that they prepare for their children's future, and that we improve the system we have now. It is quite a good system, but if we can improve on it with tax deductibility, I'm all for it.

The ones that concern me out there aren't the children of the wealthy; it's the children of the less wealthy and the working class who will have real trouble financing post-secondary education. I agree with Mr. St-Cyr's contention that this is balancing in favour of the wealthier, and you could even say that the less wealthy are subsidizing the wealthier because of the half-billion-dollar cost of this program in the tax sense. From that point of view, I would support Mr. St-Cyr's amendment.

I ask Mr. McTeague if he's had a chance to consider whether the bill as it would be amended by Mr. St-Cyr would still meet the great principles that he's advancing and putting forward with this good bill.

**Hon. Dan McTeague:** Thank you for that, Mr. Thibault.

The spirit of this was to make sure it's consistent with RRSPs and that it would have the same benefits to encourage a greater of number of students to come in and take up—Granted, we're not going to get everybody, but we're going to do a lot better than the 27% who are currently taking advantage of this. The purpose is really to get more students into post-secondary education and then tax them down the road when they finish with that kind of higher education, which will be a boon for the treasury, no doubt, in years to come.

Something that could be considered—and I'm in no position with this bill, nor could I be without being blocked in Parliament—is to make a decision tactically on a question of budget to remove the incentive. I understand from our previous finance department that if you were to remove that 20% incentive, which might not even be necessary in most circumstances, it would in fact be revenue-neutral.

The government currently is putting \$575 million out as the plan exists now. Mr. Gingras can confirm that. What this would cost in forgone revenue—and “forgone” is important since it's not cost but forgone revenue—is \$565 million, by the looks of it, if that 20% were to be taken away, which is not the purpose of this bill, but it could obviously be rendered null and void, or unnecessary, considering what this would do.

Specifically to Mr. St-Cyr's comments and to his recommendation, I have no problems with the \$5,000 except for one thing. He is looking at the issue of CPI; I'm interested in looking very clearly in his province, in my province, and across the country as to the level of education and the rise in tuition fees. I can guarantee you, Mr. Thibault, they are rising a lot more quickly than the index of inflation and the consumer price index—which is why, if he's uncomfortable with \$18,000 and has postulated a theory that would go from \$4,000 to \$5,000, we're still going to wind up with a lot of students who are going to be short, and a lot of people in this country who can barely make the \$100 a month and who may not even be able to take advantage of it.



I'm suggesting that perhaps somehow, in some way, someone might want to consider the \$5,000 a little bit more than that. I'm not tied to \$18,000, and if that's what it takes to have Mr. St-Cyr and other parties agree with it, I'm prepared to do it.

Overall, my biggest concern is that neither I nor anyone here could have predicted what happened yesterday, and I understand the Bloc Québécois will be supporting the measure of \$50,000 as a complete lifetime amount. That's something they'll have to resolve. In terms of getting this bill forward, if that's what it takes, then let's do it.

• (1145)

**The Chair:** *Merci.*

Mr. Thibault, since you have nothing supplementary, we'll go over to Madame Savoie.

[*Translation*]

**Ms. Denise Savoie (Victoria):** Thank you very much.

First of all, the NDP has always been a supporter of RESPs and considers them to be one way in which families can help their children pursue an education.

Perhaps I move in different circles, but the parents to whom I've spoken are having trouble contributing the maximum amount currently allowed.

[*English*]

From what I understand of the CESG limit and judging from the government's own statistics, Canadian families are not using the total ceiling they would have access to.

We have an understanding from the financial analyst on the cost of this proposal. It was a concern that we had because it seemed to disproportionately benefit those who were already making use of this system. Is there any way he could give an assessment on what the cost would be, given the amendment that is being proposed?

I'm still concerned that we're providing a system that disproportionately benefits certain families who can already afford this. Given that there is a limit to how much we can help students, I think we should consider how much we're going to provide to those who are already saving, for example, in comparison to students who are going to university this fall and who will have no help at all in dealing with those tuition fees. We're not looking at a grant system that would apply to students when they need it, instead of 20 years later, as this whole system seems to be focused on.

Can we get an assessment on what the financial implications are in order to know what the revenue that we're forgoing is?

• (1150)

**The Chair:** Madam Savoie, earlier we had a comment from Monsieur Gingras with respect to an estimate of annual reduced revenue, assuming contribution levels remain at the present levels of over \$565 million.

**Ms. Denise Savoie:** I understood it was the amount of Mr. McTeague's proposal, if Mr. McTeague's proposal were accepted, not the amount of this motion if it were amended in the way that is being proposed.

[*Translation*]

**The Chair:** That's a good question. Thank you, Ms. Savoie.

Mr. Gingras.

**Mr. Yves Gingras:** Mr. McTeague's bill proposes to do away with the annual limit and replace it with the limit that applies to RRSPs, while maintaining the deduction applied to contributions. This measure would cost \$565 million annually.

Moreover, as I understand it, the plan would be amended with contributions continuing to be tax deductible. Since our starting premise is that people do not contribute the maximum allowable amount as it is, there would not be any changes in contribution levels. Therefore, from a fiscal standpoint, our costs would be the same, that is \$565 million would be diverted from the state's coffers each year. Contribution patterns will not change, even though the limit on contributions will. Since most people do not contribute the maximum amount as it is, this limit is non restrictive.

[*English*]

**The Chair:** Mr. McTeague.

**Hon. Dan McTeague:** It is really important for people to understand the subtle difference. It's an important difference, and there's the question of how the committee will have to try to address it.

The current regime will clearly allow a certain number of people to take 100% advantage of it, and that's obviously very few. But before tax, we all have contributors within our ridings who pay taxes, so the number notionally and intuitively would have to be much higher. It's important for the committee to bear in mind that if you do it before tax, the number of people who are paying taxes and have children who could potentially be in university or post-secondary education would naturally have to be higher.

It's probably not an answer the finance department can give, but it's extremely important for us to understand that this difference pre-tax or post-tax will mean there'll be a hell of a lot more people taking advantage of this.

**The Chair:** Monsieur Gingras.

[*Translation*]

**Mr. Yves Gingras:** I can answer that question. We have briefed our minister based on a scenario where contributions will increase. The figures have been circulated and made public to Parliament.

Mr. McTeague, you calculate that a 20% increase in contributions would translate into an overall cost of \$765 million, as compared to the projected cost of \$565 million if contributions patterns remain the same. We're talking about a difference of \$200 million per year.

[*English*]

**The Chair:** Monsieur McTeague.

[*Translation*]

**Hon. Dan McTeague:** People will tend to take advantage of these measures. They already pay tax. There's no question about that. However, the minister might feel that it is not necessary to apply this 20% in all cases.

I don't know if that's the case here. That's not really the issue. I must also add, Mr. Chairman—

[*English*]

**The Chair:** Order, please.

Mr. McTeague, proceed.

**Hon. Dan McTeague:** Mr. Chair, thank you.

I'm having some difficulty understanding if the maximum amount—which would be \$18,000 as proposed by this bill, or \$50,000 as proposed by the government as a lifetime limit down the road that could be contributed annually—would not have an impact in the take-up. Certainly this would be a bit of a stretch, and I think it's something the Department of Finance would want to give some thought to.

**The Chair:** What we have before us is a dichotomy. Of course, on the one hand, there's likely an increase in contributions expected as result of deductibility. On the other hand, there's the argument about the class warfare issue here. The additional benefit to be derived by the families that can take advantage of this deductibility is also indisputable.

So you have a revenue loss on the one hand, which is natural as a result of a higher savings rate toward post-secondary education. There's a benefit and an advantage to be derived from the additional contributions. There's a revenue loss as a consequence of the over-contributions. This is a natural consequence of increasing the contribution.

What is at issue here, however, is Mr. St-Cyr's amendment. Mr. St-Cyr's amendment proposes to limit said contributions to \$4,000 or \$5,000 a year. Madame Savoie has made comments addressing this issue. It will limit the additional advantages that some families might derive under Mr. McTeague's proposal, but not eliminate them entirely. That's what Mr. St-Cyr is after.

We'll continue with the discussion. Mr. McKay.

• (1155)

**Hon. John McKay:** Thank you, Mr. Chair.

The discussion about how much this is going to cost is somewhat irrelevant to me. The way billions were thrown around yesterday, I don't know why I should feel overly constrained about the half-billion.

**The Chair:** Mr. McKay, would you like to address the amendment now?

**Hon. John McKay:** I appreciate that your fearless leader appears to be not overly fussed about the multiple billions of dollars that were doled out yesterday. So Mr. McTeague's proposal at one level is quite modest.

Having said that, it is a very attractive proposal for those who can afford it. It is a deductible scheme, it is also a deductible scheme with a grant, and then it's a deductible scheme with a grant and an income split. So all of those things add up to a very attractive package for those who can afford the package.

Mr. St-Cyr proposes to limit the deductibility to \$4,000 and \$5,000. But my question is to Mr. Gingras, with regard to the BQ-1 amendment's proposed paragraph 2(1)(e), which says:

for 2007 and subsequent years, the total of the RESP annual limit for the preceding taxation year and the product obtained when the RESP annual limit is multiplied by the average percentage change in the Consumer Price Index for the year

I'm not clear about what that means. Are we basically taking the \$5,000 amount for 2006 and then adding a consumer price index multiple that will determine the amount you can deduct?

If that's correct, then my second question would be, is there any limit to the additional contributions, assuming you didn't want to take advantage of the deduction? In other words, for argument's sake, if you contribute \$7,000 in 2010 but you really want to contribute \$10,000, can you then deduct \$7,000 and still contribute the other \$3,000? That's my question.

[*Translation*]

**Mr. Yves Gingras:** Regarding the first question, my understanding is that after 2006, any increase in the contribution limit will be based on the consumer price index. Taking into account inflation, the new limit would be set at \$5,000 beginning in 2006. As I understand it, contributions would be limited to \$5,000 per child. Any additional contributions would have to wait until the following year.

[*English*]

**Hon. John McKay:** All right. Okay, thank you.

**The Chair:** I'm in the committee's hands. We are approaching the time we've allocated for discussion on this private member's bill. We also have witnesses for the subsequent private member's bill who are here to testify to the committee. I am reluctant to suspend the discussion, but I see no choice, given the other private member's bill.

Mr. McKay.

**Hon. John McKay:** Before we get to the actual discussion of the amendment, I wonder whether the mover would entertain a friendly amendment of \$8,000 as his base limit.

[*Translation*]

**Mr. Thierry St-Cyr:** We know the cost associated with the current contribution limit, Mr. Gingras has shared that information with us. We also know that no one will be able to exceed the limit. That was already the case.

In my opinion, a \$5,000 limit is adequate and allows people the set aside some money, even after tax. The limit will be indexed to the cost of living and will increase over time. It's a good start.

• (1200)

[*English*]

**The Chair:** *Monsieur St-Cyr, je suis désolé, mais* it's a no.

I'm going to allow one more comment from Mr. Pacetti, and then I have to suspend discussion on this.

Welcome, Mr. Merasty.

**Mr. Mike Wallace:** On a point of order, does that suspend this item or do we move to line-by-line after that?

**The Chair:** No, we'll move to the time we've allocated for another private member's bill.

**Mr. Mike Wallace:** Okay, so we'll pick it up on another agenda. Okay, thank you.

**The Chair:** Exactly.

Mr. Pacetti.

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** Thank you, Mr. Chairman.

In the spirit of your motion to suspend, Mr. Chairman, I just want to ask Mr. McTeague how long this private member's motion has been in the works. I have here that the first reading was May 2006. Is it the first time? I think you have tabled this type of motion more than once.

**Hon. Dan McTeague:** Yes, this is my second appearance before the committee.

**Mr. Massimo Pacetti:** When did we have you testify—about a month ago?

**Hon. Dan McTeague:** It was a month and a half ago, six weeks ago.

**Mr. Massimo Pacetti:** What I'm getting to is whether you have had any discussions with Finance regarding this bill and how you can make it better.

**Hon. Dan McTeague:** I've spoken to the minister himself.

**Mr. Massimo Pacetti:** And have there been any negotiations?

**Hon. Dan McTeague:** There haven't been to this point. I think they clearly want to leave it. I can only presume what that minister wants, and that's to leave it to the fate of the committee. I'm prepared to have the committee do that in the same way as I'm prepared to allow Mr. St-Cyr's amendment to stand.

**Mr. Massimo Pacetti:** That's fair. Maybe there could be further discussions, and when we do come back, we can probably have something that everybody could agree to.

**The Chair:** I think we'd all encourage that. Of course it's been a fulsome discussion. I think a number of good points have been raised. I congratulate the committee on the tone of the discussion as well, apart from Mr. McKay, of course.

Now I will suspend, and we'll ask the other—

**Hon. John McKay:** I could say the same of your chairmanship too.

**The Chair:** Thank you.

I'll ask the other witnesses to come forward.

Thank you, Mr. McTeague, again, for being here.

A point of order, Madame Savoie.

**Ms. Denise Savoie:** As I'm not a regular member, could you clarify where we're going with this—both the amendment and the bill?

**The Chair:** It remains on the agenda. We will determine a future date to continue discussion. At this point, though—

**Ms. Denise Savoie:** So it will reappear at a future committee date? It will not be dealt with today?

**The Chair:** It will be at a future meeting. That's correct; it will not be today.

Monsieur Thibault, on a point of order.

**Hon. Robert Thibault:** Are you still receiving amendments to the bill?

**The Chair:** Why not? I think so. We're dealing with kind of a moving target here, as we all know. Certainly I think for all committee members, if you have other amendments, bring them forward. I would suggest, though, that you make it as soon as possible, naturally.

**Hon. John McKay:** Why don't we go to clause-by-clause now?

**The Chair:** We're going to hear from our witnesses.

**Hon. John McKay:** No, but if we do clause-by-clause, it's all over with.

**Mr. Massimo Pacetti:** When do we have to report back?

**The Chair:** On a point of order, Mr. Wallace.

**Mr. Mike Wallace:** As with Mr. St-Cyr's amendment, if there are other amendments coming that present significant changes to this bill, I'd like them in advance so we can figure out what we're doing.

**An hon. member:** That way you can wake up afterwards and find out what you voted on.

**Mr. Massimo Pacetti:** When do we have to report back?

**The Chair:** Could we have order? I'm responding to some questions that have been raised.

We have to report back sometime in the fall. I don't have a specific date, but we do have some time granted to us by the House to deal with this.

I would make the suggestion, though—and it will seem matter-of-fact, I think—that when you're coming with an amendment, come with numbers to back it up or show some research in advance. You may find that you'll speed the passage of your amendment or the defeat of it, either way.

**Mr. Massimo Pacetti:** Speak to the mover of the bill. That would help.

**The Chair:** Speak to the mover of the bill.

Mr. McKay, on a point of order.

**Hon. John McKay:** On a point of order, Mr. Chair, it seems to me that pretty well all the discussion on this bill is over with. The clauses are agreed to, and I don't know why we can't have a very short form—go to clause-by-clause, and get rid of this bill. What's wrong with it?

**The Chair:** I've already called for the witnesses to come forward. We have invited them to do so.

**Hon. John McKay:** Then I challenge the chair. I don't see why we wouldn't—

[*Translation*]

**Mr. Thierry St-Cyr:** Mr. Chairman, the committee is free to manage its affairs as it sees fit. If committee members are ready to vote, I don't see why we cannot do that right away.

**The Chair:** Certainly.

● (1205)

**Mr. Thierry St-Cyr:** I'm ready to vote, but I can't speak for my colleagues.

[English]

**Hon. John McKay:** Vote on the amendment, and the rest is easy.

**The Chair:** There are three amendments before us, committee members—this, and two others from the Liberal Party.

I am reluctant, as I said. We have witnesses who have come to testify before us today. I'd like to proceed to having them do so now.

I invite the witnesses to come forward now so that we can continue with our deliberations on the next private member's bill. Please take your seats.

**Hon. John McKay:** We'll challenge the chair. We'll have a vote on whether we're going to proceed to clause-by-clause, because I don't like things just hanging around.

Could you call the vote, Chair?

**The Chair:** The chair has been challenged. Those who wish to support the procedural rulings of the chair may so indicate now.

(Ruling of the Chair overturned)

**The Chair:** I see that we have an alliance formed here, so the chair's ruling is overturned.

[Translation]

It was thrown out.

[English]

We've had a request to call for a vote; however, other speakers have indicated that they wish to speak to the amendment, so despite the attempt to call for a vote, I move now to Mr. Wallace.

**Mr. Mike Wallace:** Thank you, Mr. Chair.

I was saving them for next time, but they're just so I can have clarification. If I'm wrong, maybe the mover of the bill could fill me in.

**The Chair:** I should, by the way, point out that our official from Finance has vacated the facilities at this point. We no longer have him available to answer any detailed questions.

I don't want to sound petulant here, but I did indicate that we were moving on. Because of that, I feel somewhat responsible for the loss of resource people who are not with us now.

I'll go to Madame Savoie, on a point of order.

**Ms. Denise Savoie:** On the point that you're making, I feel very concerned about both the financial implications and the implications for those who absolutely need a grant system to pursue their post-secondary educations. We are not able to factor them in because we don't have the financial implications of either the amendment or of any future amendments. That's a concern to me.

**The Chair:** Yes, it is a concern, Madame Savoie. You do have a quite legitimate point, but it's not a point of order.

I must move now to Mr. Wallace.

**Mr. Mike Wallace:** Thank you, Mr. Chairman.

I have a quick question for the proposer of the bill.

We heard from the Finance people, who are no longer here, that we should cut it off at \$550 million or whatever it was. Your

response was that if the Government of Canada was not giving the grant portion of the money, and if the uptake was a certain amount, then it wouldn't matter for parents such as me. I actually have two teenaged daughters who I hope will attend post-secondary education. If the uptake were such, maybe we wouldn't need the grant portion and that would be a tax savings for the treasury.

Can I be clear that you are not proposing removing the grant portion of this in your bill?

**Hon. Dan McTeague:** Mr. Wallace, as a father of five children, I declare my conflict of interest right away.

I am not proposing that, nor does the bill propose that. I am simply suggesting that should this pass—and I believe it ought to—it will have two effects. One is that it will get a larger number of people contributing, and a larger number of students who can potentially take advantage of this. It will do tremendous work for the economy. More importantly—and this is something on which others can maybe comment—it won't require the same incentive.

The 25% proposed top-up is really to get people to invest after-tax dollars, for those who can. Clearly, between pre-tax and post-tax, you lose a lot of potential contributors. That's what the bill is trying to address.

**Mr. Mike Wallace:** On that particular point, Mr. Chair, I disagree. If this bill is really designed to get the folks who can afford to pay this—and let's say lower- to middle-income Canadians—pre-tax or post-tax isn't going to make that much of a difference. I think it's those who have the cash to make the limits who are going to be taking advantage of it. Let's be frank about that.

I am certainly still in favour of the grant portion that's here. I'm very concerned that even the mover of the motion is suggesting that, well, if it affects the treasury, maybe we'll get rid of the grant piece because of the take-up side. I think that is the wrong approach for us to be taking. I am not going to my public to say I am supporting a position that because of the take-up we are going to get rid of the grant part, that all Canadians are contributing to the advantage of having students in post-secondary education and bettering our economy. I think you cannot do it; you can't pass this bill without consideration of that as a serious option that gets removed as... I think it's disingenuous not to make sure it's in the record and on the record that we want to do this.

I have as much time as I want, I think, Mr. Pacetti.

• (1210)

**The Chair:** Well, depending on whether you continue to be somewhat relevant.

**Mr. Mike Wallace:** Two points are that suddenly there has been a discussion—

**The Chair:** Order, Mr. Wallace.

You don't have as much time as you want. You have as much time as the chair deems you to have, and I will deem you to be in order as long as you're relevant. Continue to be relevant, and you'll be continuing to speak.

**Mr. Mike Wallace:** I appreciate that guidance, and I am summarizing.

Suddenly today we talked about removing the piece that's not in the bill, in terms of the grant side, which I think even the Bloc folks would find not favourable, because I think it does go directly to help those who—It's an assistance top-up that wouldn't be there, I think, under this proposal.

If the concept is that it gets more lower-income people involved in the program—part of the bill is to make it pre-tax—I don't think that makes a significant difference. It would be interesting to see what the statistics are in terms of low-income families being able to afford RRSPs, for example. It's probably not as great as it should be, but it's because they have cashflow issues, and they need to make those cashflow determinations as a family to survive from one week to another. I think it would be the exact same argument on their RESP.

So I think the system we have now is fine. We have made some changes to it in terms of the amount you're able to contribute over the lifetime of an RESP, and I think that's really based on the cost of the education to which it has gone. That was part of the first part of the bill.

**The Chair:** Mr. Wallace, I'm sorry, you'll be allowed to continue, but Mr. Thibault had a point of order.

**Hon. Robert Thibault:** It's not been easy for you, Mr. Chairman, but I don't think the member is discussing the amendment. I think he is debating the bill. I recognize that we cannot disagree on the bill, but on the amendment specifically.

**Mr. Mike Wallace:** I appreciate that from the member, but I think the amendment has a number of components to it. We've been discussing one part of that bill in particular, but it makes a fundamental change to the private member's bill, in my perspective.

I'll leave it at that, though, Mr. Chairman. Those are my comments. I appreciate the time the committee has indulged me with.

**The Chair:** Before I call for the vote, I want to go on record with a couple of points.

I think all of us should take very seriously the recommendations that come from this committee when we adopt bills. I think this particular amendment, as I endeavoured to point out earlier, is quite thoughtful on the issues it raises and tries to address. But I will sincerely tell you, colleagues, if we proceed to this vote and it makes the subsequent two amendments irrelevant, we are proceeding to adopt the bill as amended. It will follow logically.

Here are some issues we have not addressed. We have not addressed the issue of the grant. How the current granting program will interface with this proposal certainly remains to be discussed.

We have not properly addressed the revenue impact of the amended bill as proposed. There have been a number of points raised on this, including by the proposer of the amendment.

We have not thoughtfully addressed the issue of how this will impact differentially on certain families at certain income levels, and how these changes will affect them.

We have not discussed in any way the interface between the proposal we would be endorsing as a committee, if we proceed with this, as I fear we may, and the current program, and what impact it

will have on the current RESP program. And although I would agree with the mover that the current program is underutilized, it is still utilized by 27% of Canadian families right now. We have not discussed that.

We have not discussed the impact this proposal may have on the rate of contribution to RRSPs. There's only so much revenue in Canadian families' budgets; there's only so much money to go around. What impact will the application of tax deductibility to RESP contributions have on RRSP contributions, in terms of the long-term security of those who should be saving for their own retirement? What will the impact be? We have not discussed that.

And we have not examined the issue of income splitting as it relates to income splitting from parent to child—because essentially this is income splitting we're talking about. We have not really examined the impact that would have.

And we certainly have not discussed, to my satisfaction, the overall impact this proposal will have.

I agree with the sentiments of the mover, as you well know. Most of us, of course, have proclaimed our support for the importance of investing in education, but we have not debated properly in any way the proposals that are before us vis-à-vis, for example, whether money should be going generally into furthering transfers for post-secondary education, as the budget did yesterday—in other words, global increases in funding as opposed to targeted tax incentives such as this.

We have not debated these issues. So I will certainly go on record as encouraging that we do that, because I take very seriously the quality of the recommendations emanating from our group here.

It was proposed that we call the vote.

Mr. Dykstra.

● (1215)

**Mr. Rick Dykstra:** I have a quick point of clarification. Have we dealt with all the amendments or not? My understanding is that we've dealt with two amendments, and there are three.

**The Chair:** Mr. Dykstra, in answer to your question, if we adopt this amendment as proposed, we will make the other two amendments irrelevant. Thank you.

Madame Savoie.

[*Translation*]

**Ms. Denise Savoie:** I have a procedural question. We're going to vote on the Bloc amendment and then, we'll debate the bill, as amended. Is that correct?

[*English*]

**The Chair:** We will continue to follow the clauses.

Madame.

**Ms. Denise Savoie:** We're only on the amendment right now?

**The Chair:** That's correct.

Monsieur McTeague.

**Hon. Dan McTeague:** Mr. Chair, I think you'll find the two other amendments are in fact just housekeeping. I say this just to make sure we're not going to lose them, that they will not be lost in this, I hope. I think you left the impression with Madame Savoie that those two small changes Mr. McKay pointed out would not be lost in this. It's important because it's a drafting problem.

**The Chair:** Okay.

The other two amendments are housekeeping, but they are related to the clause Monsieur St-Cyr is proposing to amend, and therefore they are wiped out and are not relevant anymore. Okay?

Seeing there is no further discussion, I call for the vote.

(Amendment agreed to)

(Clause 2 as amended agreed to on division)

(On clause 3)

**The Chair:** Monsieur St-Cyr.

[*Translation*]

**Mr. Thierry St-Cyr:** In light of the amendments that have just been made, clause 3 needs to be deleted, since it is no longer relevant. It refers to the RESP deduction limit. The definition has changed, since the carry-forward provision has been eliminated.

[*English*]

**The Chair:** I think you are referring to paragraph three, Monsieur St-Cyr, which has already been addressed by your previous amendment. It was included in it and has already been approved.

[*Translation*]

**Mr. Thierry St-Cyr:** That's not what I'm saying. I'm only telling committee members that they need to vote against clause 3 because by amending clause 2, we've done away with the idea of an RESP deduction limit. There's no point referring to one. We can leave the wording as it, but it would be meaningless.

Clause 3 states the following:

3. Paragraph (a) of the definition "excess amount" in subsection 204.9(1) of the Act is replaced by the following:

By amending clause 2 and doing away with the carry-forward provision, the reference to "excess amount" becomes obsolete. We've said that the limit was \$5,000 per year. If that amount isn't used one year, it is lost.

[*English*]

**The Chair:** Mr. St-Cyr is saying that clause 3 refers to excess amounts, and because the committee adopted clause 2 previously there are no excess amounts. It's irrelevant, so you simply vote against the clause and it won't be in the bill.

(Clause 3 negated on division)

**The Chair:** Shall the title carry?

**Some hon. members:** Agreed, on division.

**The Chair:** Shall the bill as amended carry?

**Some hon. members:** Agreed, on division.

**The Chair:** Shall the chair report the bill—?

Madame Savoie.

• (1220)

**Ms. Denise Savoie:** I have a question on process. Are you saying that this bill has passed on division? I would ask for a recorded vote.

**The Chair:** You're quite welcome to ask for a recorded vote. We will have a recorded vote now because of that request.

**Ms. Denise Savoie:** I have another question on process, if I may. It seems to me that we spent a lot of time discussing the amendment and not much time discussing the bill itself and its pros and cons. You summarized some aspects of the implications of the amendment, but I'm very concerned that this bill is just flying through the finance committee.

**The Chair:** Madame, excuse me.

**Ms. Denise Savoie:** Perhaps it was discussed in my absence.

**The Chair:** Madame Savoie has made a very cogent point, but it's not a point of order. We will now have the vote.

Madame Clerk.

**Mr. Massimo Pacetti:** I have a point of order, Mr. Chairman.

**The Chair:** Sorry. Committee members, we have a point of order from Mr. Pacetti.

**Mr. Massimo Pacetti:** If we're going to allow points of order during a meeting—She's insulting the other members of this committee. This committee works hard. We've already had meetings on this bill. If the member decides to show up on any day and turn the committee upside down just because she wasn't present or wasn't able to read the minutes of the previous meeting we had on this bill, I find it unacceptable, and I find it unacceptable that we can debate during votes.

**The Chair:** Again, what Mr. Pacetti is pointing out is quite accurate, and it's totally unacceptable for Mr. Pacetti to be talking while we're trying to have a vote.

Let's proceed with the vote, as we previously indicated.

(Bill C-253 agreed to: yeas 6; nays 5)

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

**Some hon. members:** Agreed, on division.

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

**Some hon. members:** Agreed, on division.

**The Chair:** Thank you very much, Mr. McTeague.

• (1225)

**Hon. Dan McTeague:** Thank you, everybody.

**The Chair:** Could the next witnesses please come forward as quickly as possible?

We'll now continue pursuant to the order of reference

[Translation]

of Monday December 4, 2006 with respect to Bill C-305, An Act to amend the Income Tax Act (exemption from taxation of 50% of United States social security payments to Canadian residents)

[English]

We have several witnesses with us today, including our colleague Mr. Jeff Watson, who I will invite to speak for no more than five minutes.

Mr. Watson, I'll indicate to you and to other witnesses when there is a minute remaining. Of course, I'll then unceremoniously cut you off.

Committee members may want to consider that during these five-minute presentations—I believe we have three of them—there will be a balance of approximately 20 minutes remaining for discussion and, if possible, clause-by-clause.

I welcome Mr. Masse to our committee as well. Thank you for being here.

I will invite committee members to ponder that and possibly the need to extend the time to further discuss it, if they so desire.

We go now to Mr. Watson. Welcome.

**Mr. Jeff Watson (Essex, CPC):** Mr. Chair, thank you very much.

Thank you to all committee members here. It is indeed a very different experience to be on this side of the microphone and not being the one grilling potential witnesses here.

I also want to thank the witnesses who are appearing here with me—Mr. Gleberzon from CARP, and Mr. Bill Thrasher from Canadians Asking for Social Security Equality. We do have one witness who apparently was unable to make it today—the Canadian Union of Transportation Workers—but I certainly appreciate their contributions to this discussion.

I have one other note of thanks on this issue, and that is to the member for Calgary Southeast, who has been a strong advocate on this particular issue since 1997.

As a brief course of history for the committee—some members may be much more aware of this bill than others—we're dealing with provisions flowing out of the Canada/U.S. Tax Treaty and its treatment under the Income Tax Act. There are three protocols I want to address.

As a brief moment of history, the second protocol under the Canada/U.S. Tax Treaty, in which U.S. social security benefits were taxed in the country of residence—that is, in Canada—and 50% of the amount was included for taxable income, existed up until January 1, 1996, when a third protocol was entered into with the U.S. whereby the benefit was then taxed in the country of source, rather than residence, and 25.5% was withheld.

That existed until 1997, when the fourth and current protocol entered into use, that is, it reverted back to residence taxation, and the inclusion rate moved back not to 50% but to 85%. This is a profound change that occurred to the income of seniors who were already retired at the time. I think some of my colleagues who are

here, witnesses who are here with us, can get into some of the detail of that probably a little bit better than I can.

I know this is a committee about details. That is part of your task. I would simply ask the committee that in the consideration of this we don't miss the forest for the trees here. There are some big principles that are important in this.

For the benefit of the committee's understanding, I have a possible amendment that's being worked on by the clerk of private members' business, but I don't have it here yet for the committee's consideration. We're trying to work on that.

There may be some issues. I know one of the big issues that have been raised before is the issue of equity in how people are taxed. I will address those issues. I don't know if I have enough time in my opening statement to address them, but I may do so in the questioning round.

There's been a question of comparisons of equity between how one collecting a U.S. social security benefit but living in the United States is taxed versus someone who lives in the United States and collects a CPP or QPP benefit.

There's also been a question raised in the debate about the question of equity among neighbours living in Canada—one who collects a CPP benefit and has 100% of their benefit included for taxable income, and that constituting a benefit for a similar Canadian who lives next door and collects a U.S. social security benefit taxed at only the 85% level. I believe that argument is a bit of a red herring. I'll address that, probably in the questioning round.

The third issue around the equity question is that the Government of Canada at the time, in 1997, had never advanced the argument about the equitable treatment of neighbour A versus neighbour B in Canada. That was an argument that came later on, I think, to justify the tax increase.

So I'm pleased that we're addressing this today. I'd much rather you hear a little bit more from some of the witnesses who are here with me. I'm going to turn the microphone over to them to let them talk about some of the impacts of the bill, what it's meant to seniors, Canadian seniors particularly. We'll look forward to some discussion around the possible solutions to this.

Thank you very much, Mr. Chair.

**The Chair:** Thank you very much, Mr. Watson.

We'll continue with the representative for the Canadian Association of Retired Persons. Welcome back, Mr. Gleberzon. It's over to you for five minutes.

● (1230)

**Mr. William Gleberzon (Associate Executive Director, Canadian Association of Retired Persons):** Okay, thank you very much for this opportunity. Thank you, Mr. Watson, for sponsoring the bill.

You all have copies of my presentation. I have to apologize that I did not have time to get it translated, so please accept my apologies on that. I'm going to just skip some of the paragraphs in the interest of time, and begin with the—

**The Chair:** Mr. Pacetti.

**Mr. Massimo Pacetti:** I have a point of order, Mr. Chairman. No, we don't have a copy.

**The Chair:** No. As Mr. Gleberzon has accurately pointed out, it is not in both official languages and so it will not be distributed unless there's unanimous consent of the committee.

I'll ask the committee if there's unanimous consent now.

**Mr. Massimo Pacetti:** No.

**The Chair:** No? Okay.

Mr. Gleberzon, continue, please.

**Mr. Massimo Pacetti:** On a point of order, Mr. Gleberzon has been here before. I don't understand why he wouldn't have provided the brief so that the clerk could translate the documents.

**The Chair:** That's fine. Okay, Mr. Pacetti, you can reprimand Mr. Gleberzon after the committee has finished its hearings, but Mr. Gleberzon has five minutes to make his presentation, and we'll do that now.

**Mr. William Gleberzon:** We'll step outside afterwards.

**Some hon. members:** Oh, oh!

**Mr. William Gleberzon:** No, he's a much taller fellow than I am.

CARP is pleased to support Bill C-305 to exempt from taxation 50% of United States social security payments to Canadian residents because of the number of calls, emails, and faxes we have had from those adversely impacted by the current policy. Nevertheless, I want to propose an amendment to the bill, which I'll get to in a few minutes.

As Mr. Watson pointed out, the history of this particular change of policy between 1995 and 1997 is quite convoluted, and again you can read what I've written there. But I'll just move on, because the main point of those two years was that the taxable amount on U.S. social security received by Canadians was raised by a whopping 35% in one fell swoop. The two years of experimentation in determining the amount to be taxed caused shock, uncertainty, and consternation among the estimated 100,000 Canadian recipients of U.S. social security living in Canada.

Those affected had no time or way to prepare for the high increase in the taxation amount that was imposed on them other than to reduce their quality of life. CARP heard terrible stories of how their well-being was thrown for a loop, and spoke out on their behalf to the government at the time and to Parliament about the change in policy.

Today some of the same U.S. social security Canadian recipients who were impacted by the change in 1997 are getting older and frailer. Some are beginning to move into nursing homes or are receiving home care, both types of services being quite expensive for them, regardless of which province they live in, as more costs are off-loaded onto seniors. By restoring the pre-1995 50% tax exemption, their quality of life during their twilight years can be greatly enhanced.

Of course, today the post-1997 older Canadians who worked and contributed to social security and were taxed by the American government when they did so and came home when they retired face

the 85% taxable amount of their retirement income. Some welcome for our returning citizens or those Americans who choose Canada as their home and become citizens.

The tax regime for social security is quite different in the United States compared with that imposed on Canadian social security recipients. As noted, in the United States income tax is paid when contributions are first made to social security. However, a few years ago additional taxation of social security benefits was introduced, consisting of a sliding scale, depending on income, that ranges from 50% to 85%. It is our understanding that only about 20% of seniors in the United States actually pay any tax on social security, based on income and how the taxable amount is assessed.

I ask you to turn to the appendix, which is the way in which the system works in the United States, from an expert in these matters, for expatriate Americans. By the way, I spoke to the author, and she confirmed to me that this is the way the system works today. Most telling, taxing 85% of social security is the maximum in the United States based on income, whereas in Canada 85% is the only percentage for taxing social security, regardless of income.

I'd like to remind the committee that the change in the taxable amount was introduced as part of a bundle of pension income changes at a time when the Canadian government faced high deficits. That period is long past. Indeed, on the 10th anniversary of the rise by 35% of the taxable amount of U.S. social security received by Canadians, the opposite is true. As you all know, today the Canadian government enjoys very high surpluses—in fact, a continuum of high surpluses.

Can I just say that was recognized in yesterday's budget, when the age at which RRSPs have to be converted to RIFs was raised to 71 years, which is what it was prior to 1997. Moreover, the government's coffers should not be stuffed on the backs of the retirement income of older Canadians who have already paid tax in the United States on this retirement income.

At this point I'd like to introduce an amendment to Bill C-305 regarding the taxable amount of U.S. social security received by Canadians for this committee to consider.

● (1235)

**The Chair:** I'm sorry, Mr. Gleberzon, if you'd like to take a copy of that amendment that you're thinking of proposing—Your time has just elapsed.

**Mr. William Gleberzon:** Okay. People can read it. It's in the presentation. Therefore, I'd like them to seriously consider it.

**The Chair:** I'm sorry, they can't read it because we didn't get unanimous consent on distributing your report. But if you can somehow get a copy of it to one of the committee members, or if any of the committee members—

**Mr. William Gleberzon:** I think everyone has a copy.

You don't have copies?

**The Chair:** No.

**Mr. William Gleberzon:** I had asked the clerk to distribute copies.

**The Chair:** He can't, Mr. Gleberzon, because—



**Mr. William Gleberzon:** It's not in French.

**The Chair:** That's correct.

**Mr. William Gleberzon:** Well, then I suppose we'll get it translated and we will have it sent to you.

**The Chair:** Yes. That would be very good, sir, because depending on what the committee wishes, I'm fearful we're going to run out of time to deal with clause-by-clause. So that would work effectively, if you'd like to do that.

**Mr. William Gleberzon:** Okay. Thank you.

**The Chair:** Members, the clerk will endeavour to make sure that as soon as it's translated it will be sent around immediately in both languages.

**Mr. William Gleberzon:** Thank you very much.

**The Chair:** Thank you, sir, for your presentation.

By the way, thank you to you all for your patience while we were dealing with the previous bill. We appreciate the fact that you were here on time and that we made you wait. It's not something we like to do at this committee.

We'll continue now with Canadians Asking for Social Security Equality.

Mr. Thrasher, we'll turn the floor over to you for up to five minutes.

**Mr. Bill Trasher (Spokesperson, Canadians Asking for Social Security Equality):** Thank you very much for this opportunity to tell you our story. I collect U.S. social security so I'm well involved with the facts.

During the Christmas season of 1995, residents who spent part or all of their working careers in the United States received a letter that shattered their lives. The letter was from the U.S. social security administration stating that beginning January 1, 1996, there would be a 25.5% non-refundable withholding tax applied to their benefits. Why? Because Canada and the United States agreed to a new treaty that was amended to allow the country that issues the benefits to collect the tax. For decades prior to this amendment, the country of residence collected the taxes.

Pain and anguish cut through the hearts of retired citizens like a knife. Many of these seniors never had to pay any income tax before because their income was so low. Now they had just lost 25.5% of their social security benefits. How would they pay for food, and rent, when they already lived a meagre lifestyle?

The Honourable Herb Gray, M.P., Windsor West, told the *Windsor Star* on December 27, 1995, that he was assured that Canadians will not pay more in tax and could pay less. There was never any hint that the government felt recipients were not paying their fair share. In fact, it was said that we just fell through the cracks and that they were really after those few who didn't report their U.S. income on the Canadian returns. CASSE, Canadians Asking for Social Security Equality, a grassroots organization, sprung to life out of desperation and anger to fight this tax agreement. Expecting 25 people to show up at our first meeting, we were overwhelmed when more than 200 people crowded into the Viscount Estates clubhouse in Essex, a little town close to Windsor.

Two more meetings were held that year, each attended by 1,500 seniors, many of them handicapped by physical impairments. CASSE is made up of ordinary people who, in spite of their ages, were prepared to do battle with big government. They passed the hat for donations to support their cause. This was not some big business that could afford to pay millions of dollars to hire lobbyists to wine and dine powerful lawmakers. This was a group of ordinary people fighting for their pensions and the right to stay in their homes, and some in their nursing homes. Only when it became evident that these seniors were ready to fight for their rights did things start to happen.

Talks between Canada and the United States treasury finally resulted in a tentative agreement agreed to April 9, 1997. That agreement came full circle to what existed prior to 1996, with one major exception. Whereas 50% of social security benefits were taxable prior to 1996, Canada now taxes 85% of those benefits. This represented a 70% increase in tax on those social security benefits.

In Canada, premiums for CPP are deducted from wages before taxes are applied. In the U.S., wages are taxed before premiums for U.S. social security are deducted. Since 1962 the premiums for U.S. social security could be used as tax credits on Canadian taxes. In the United States, less than 20% of social security recipients pay any tax on their benefits, and less than 6% pay tax on 85% of their benefits. In Canada, every person is required to include 85% of their U.S. benefits for tax purposes, regardless of income.

There are some who use the argument that they made a choice to retire in Canada and therefore should accept Canadian tax rules. They made that choice based on the rules that were in effect at the time of their retirement. Most chose Canada because of their attachment to family and country. Many wanted to be near their children and grandchildren during their twilight years.

I'm going to get right down to the end page because I want to say that in 1999 all three Windsor MPs, Susan Whelan, Rick Limoges, and the Honourable Herb Gray, all representing the Windsor area, publicly stated they favoured grandfathering the tax rules.

● (1240)

Prosperity in border communities is due in part to the huge workforce that crosses the border every day and retires in those communities, where they spend their salaries and pension benefits on cars, on homes, in local shops, and on charities. The economy benefits from those U.S. cheques, as do the federal, provincial, and municipal governments by way of GST, PST, and other taxes. That is another reason we support the passage of Bill C-305.

The present rules seem to be telling those who work in the U.S. to retire there, and those who now live over there to stay over there. Will the cities, provinces, and country be better off by telling these people we don't want their American money? Can we afford to say we don't need the \$0.5 billion U.S. that they spend on goods, services, and taxes every year in Canada?

Dividend income is treated differently from interest income because it is not the same kind of income. Social security income should not have to be taxed the same as CPP income, for the same reason. They differ in country of source, in rules, premiums, amount of earnings taxable, eligibility for benefits, and so forth.

**The Chair:** Thank you very much, Mr. Thrasher. I am sorry to cut you off, sir, but as you know, we have to have time for questions from the committee members.

We appreciate all of your presentations, and thank you.

Of course the committee is master of its own destiny, which is sometimes a good thing, committee members, but what I propose to do is allow for five-minute questioning periods, which will take us past the time we've allocated. That's how I'll proceed.

I'll begin with Mr. McKay, for five minutes.

**Hon. John McKay:** Thank you, Chair. It's really quite fortunate that we don't have to bring you onside every once in awhile.

I want to thank you for your testimony.

First of all, I want to establish the pool of people we're talking about here, in numbers. What would be the number of people who would be affected by this particular bill?

**Mr. Bill Trasher:** In 1996 there were approximately 100,000 people in Canada collecting U.S. social security.

**Hon. John McKay:** What would it be now? That was ten years ago.

**Mr. Bill Trasher:** These people were 65 years and older, or probably 65 to 99 in that year. That was eleven years ago, so probably 60,000 or 70,000 are still alive, but I don't know.

• (1245)

**Hon. John McKay:** So that would be the outside limit of the number of people.

**The Chair:** But let's be clear here. This bill proposes to change the rules for all in receipt of such income.

**Hon. John McKay:** That's my next point.

What are the other implications? Is it simply a group of retirees living in and around Windsor, or does this have other implications beyond what is arguably a significant hardship on those folks living in Windsor?

**Mr. Jeff Watson:** I'll speak briefly about this. We've had some real difficulty in securing numbers from the Department of Finance about what the current status is in terms of the numbers of people affected by this change today.

Just to correct Mr. Thrasher, the original number was roughly 85,000. The number of those originally affected would be significantly lower now. Mr. Thrasher is 74 years old, and he was one of the last to retire under the old rules. You can begin to figure out, in terms of the original pool, that the number is going to be significantly lower.

In terms of the new ones who have come in over the last decade, I don't have a firm number. I wish the department could have provided that for us.

**Hon. John McKay:** Yes, because you're asking for a significant legislative change, when there might in fact be a realistic possibility that there could be some administrative fix to this.

Okay, so we can't deal with facts here.

My second question here is—

**The Chair:** I'm going to intervene here. I believe we have departmental officials somewhere back there who can assist us with some information. At the very least, if they can't answer questions today, they will be able to assist us in obtaining some answers to those questions.

Welcome. Come forward.

If you have a question—

**Hon. John McKay:** Just don't take this off my time.

**The Chair:** No, I won't.

Could you identify yourself? Would you like to respond to that question?

**Mr. Andrew Auerbach (Tax Policy Officer, Corporate and International Tax, Tax Legislation Division, Tax Policy Branch, Department of Finance):** I'm Andrew Auerbach, from the Department of Finance.

I don't have a detailed breakdown of the number of people this bill would affect, but in terms of the number of Canadian residents receiving U.S. social security, our estimate is approximately 95,000 filers. I don't have a breakdown of how many are new, from the last ten years.

**Hon. John McKay:** So we would only be dealing with those who are adversely affected, and presuming that pool is shrinking.

I'm running out of time here, so I'm a bit concerned. Mr. Thrasher or Mr. Gleberzon, if I'm a Canadian living in the U.S. and receiving CPP, versus an American living in the U.S. and receiving U.S. social security, what's the differential in the treatment of those moneys?

**Mr. Bill Trasher:** In the United States you're taxed with all the social programs you receive from Canada as if you were receiving U.S. social security. It's taxed the same over there, if you're a resident.

**Hon. John McKay:** So then moving up north of the border, what is the argument that you wouldn't be treated in the same manner as a Canadian if you're a U.S. citizen moving up or receiving U.S. social security, other than that you had an expectation when you originally were earning the pension?

**Mr. Bill Trasher:** That's it?

**Hon. John McKay:** That's it. I just want to be clear, because it really is a treaty change that drives this bill.

**Mr. Bill Trasher:** Correct.

**Hon. John McKay:** So you can see that there is an inequity between pensioner A and pensioner B, Canadian to U.S., living in Windsor or living wherever. Okay, that's helpful.

My final question has to do with this. If in fact the budget goes through, I take it you would also be entitled to the pension split.

**Mr. Bill Trasher:** That's correct.

**Hon. John McKay:** So we would have a differential treatment, Canadian versus U.S., and we would have a split.

**Mr. Jeff Watson:** Presumably Canadian A collecting CPP in Canada and Canadian B collecting U.S. social security would both get the pension income split.

**Hon. John McKay:** They'd both get the split. Fair enough.

**Mr. Jeff Watson:** It's not an advantage suddenly. It's additional to Canadians collecting a U.S. social security cheque.

**The Chair:** But you could split social benefits before.

**Hon. John McKay:** No, but the budget proposal is that pension moneys be split, and I'm assuming that includes U.S. pension moneys.

• (1250)

**Mr. Jeff Watson:** That's private pension—

**Mr. William Gleberzon:** It's only private pension moneys that can be split. We're talking about social benefits.

**Hon. John McKay:** Okay, fair comment.

Thank you.

**The Chair:** Thank you, Mr. McKay.

We'll continue.

[Translation]

Next up will be Mr. St-Cyr.

**Mr. Thierry St-Cyr:** Thank you, Mr. Chairman.

I have a few brief questions about the bill, one of which is somewhat technical. Is the proposed amendment to provide for an additional 35% exemption retroactive to the date of the coming into force of the treaty, or would it only apply to future years?

[English]

**Mr. Jeff Watson:** As the bill is dealt with today, no, that would not be retroactive. I'll probably speak later in terms of whether we want to simply get at reversing the tax implications for those originally affected versus those today. We do have an amendment proposed, and I think it's been translated. It may be circulated to the clerk, where, on that particular issue, if they simply want to deal with those originally affected under the rules of grandfathering, that could be addressed. But no, we're not looking at retroactivity here with respect to the bill.

[Translation]

**Mr. Thierry St-Cyr:** That's the nature of Mr. Gleberzon's amendment. The aim was to make the amendment retroactive to address the situation of those who have already had to pay additional taxes further to the tax treaty.

[English]

**Mr. Jeff Watson:** I'm not familiar with what Mr. Gleberzon is proposing. What I'm simply suggesting is that the bill, as it comes forward, would be on a go-forward basis. So there would be no retroactivity for any harm done, there would be no going back and refile tax returns for previous years. That would simply be on a go-forward basis.

**Mr. William Gleberzon:** We're not suggesting retroactivity.

[Translation]

**Mr. Thierry St-Cyr:** In that case, what is the nature of your amendment?

[English]

**Mr. William Gleberzon:** Can I read it now?

**The Chair:** Okay, sure.

**Mr. William Gleberzon:** It reads:

that the committee consider adopting a sliding progressive scale, ranging from 50% to 85%, based on income, including grandfathering the 50% exemption rate for all those who have retired or were about to retire in 1997.

And that's not to make it retroactive, but to begin at this point in time.

[Translation]

**Mr. Thierry St-Cyr:** There are two parts to the amendment. The first part provides for a range of between 15% and 50%, rather than for a set amount of 50%. I would imagine that calculations would be done on the basis of income. Is that correct?

[English]

**Mr. William Gleberzon:** Correct. That's what we're saying.

[Translation]

**Mr. Thierry St-Cyr:** As for the second part and the “grandfathering clause”, what exactly are the implications of that provision?

[English]

**Mr. William Gleberzon:** What we're trying to say is that those people who were affected by the bill when the change came in 1997 are now, as Mr. Watson suggested, older and frailer and they need more support, so henceforth they should be allowed to pay tax on only 50% of the social security they receive.

[Translation]

**Mr. Thierry St-Cyr:** I see.

[English]

**Mr. Jeff Watson:** The nature of the amendment I'm proposing is different from that of Mr. Gleberzon. If we wanted to address it, the amendment I would propose would address the grandfathering issue only, not make any further progression about how retirees after January 1, 1996, would have been treated, or would be treated in future tax filings.

[Translation]

**Mr. Thierry St-Cyr:** I'm trying to get a good grasp of the issue. Would I be wrong in saying that if the bill passes as it is now worded, everyone would be taxed at a rate of 50%, that is new retirees as well as long-standing ones?

[English]

**Mr. Jeff Watson:** That's correct.

[Translation]

**Mr. Thierry St-Cyr:** I'm still having a problem with the “grandfathering clause”. What implications does it have?

[English]

**Mr. Jeff Watson:** It depends on what the committee itself sees in this argument. Let me take into account some of the debate that's occurred over this bill. Some would suggest this creates a further inequity among taxpayers, so the bill itself as a whole shot should be defeated. The idea of raising the grandfathering issue would simply be to address the initial injustice that was created for people who have already retired. I guess that's a separate track to be talking about.

• (1255)

[Translation]

**Mr. Thierry St-Cyr:** The purpose of this clause is to remit taxes paid between the time the tax treaty came into effect and the eventual adoption of this act?

[English]

**Mr. Jeff Watson:** No, it would only correct on a go-forward basis. It would return them to the way it was taxed.

**The Chair:** *Merci beaucoup, monsieur St-Cyr.*

For the information of committee members, our researcher has prepared a paper. Unfortunately it's only in French, so it'll have to be translated and distributed in both official languages, unless we can get the unanimous consent of the committee. No.

In any case, it is helpful, and I've asked him to have it translated and distributed to you. It shows tables that compare the treatment of taxpayers. For example, if you are a U.S. resident receiving Canadian social security benefits and make \$30,000, your rate of inclusion for tax calculation in the U.S. is zero, but the rate of inclusion would be 85% for that same taxpayer in Canada. If you're making \$35,000 and you're in the U.S., 25% of your Canadian social security would be included in your tax calculation. In Canada, of course, it would be 85%. Once you get to \$39,000, the rate of inclusion is 50% and remains at 85% in Canada.

I'll have this paper translated and distributed to you because I think it's an excellent summary, perhaps even a little better than the other summary we have. It adds some meat to it.

We'll continue now with Mr. Dykstra, five minutes.

**Mr. Rick Dykstra:** Thank you, Mr. Chair.

I want to commend Mr. Watson for his continued efforts to move this forward. You are certainly to be complimented on the work you're doing on behalf of the folks in this country, but specifically in your riding.

One of the questions I have comes out of the grandfathering portion of it, and I don't mean to bring that in to confuse folks, but I'm looking for a bit of clarification as to exactly how the grandfathering would work. I'm assuming it works under the amendment more than it does anything else.

**Mr. Jeff Watson:** Maybe the discussion of grandfathering was a bit premature—

**Mr. Rick Dykstra:** An oxymoron....

**Mr. Jeff Watson:** —because it has clouded the discussion here around the bill.

Again, for any of the folks still alive who were originally affected, this would simply change the rate as they file a tax return from now, on a go-forward basis. It would mean a change for them, a positive change, but we're not asking in this bill for retroactivity. To go back and correct all the tax forms for all of these people over the years would be quite costly, I imagine, and quite significant. We're simply looking to redress, on a go-forward basis, the wrong that was done at that time.

When you think about it, these people who were already retired got three weeks' notice that things were being changed. If you want to draw a comparison with the income trust situation, for example, there's some transitional period, moving forward, for people who are going to be affected by a significant tax change. These guys got three weeks. Things changed instantly for them in a very detrimental way.

Take the example of somebody who makes just over \$20,000, their gross U.S. social security benefit at about half of that. Their taxes in 1995 were just over \$1,000. In 1996 that jumped to \$2,600. In 1997, with the tax change down to the 85% inclusion rate, it was still at just over \$2,000—a far cry from the \$1,000 in taxes they paid two years before.

So this really hurts people even at low-income levels. That change on a go-forward basis would restore some of that \$1,000 income back to people at low-income levels, and of course at other levels of income as well.

**Mr. Rick Dykstra:** As a follow-up to that, have we actually calculated what the average tax savings might be? That might come through in the chart, though, as suggested.

**Mr. Jeff Watson:** No, the numbers I've raised in my example compare the years 1995 through 1997. I mean, any number of tax changes since then may have affected that total, but I do that simply to show the difference between—

The argument by the Government of Canada at the time was that, as they were changing from U.S.-source taxation under the third protocol back to the fourth protocol, they would be returning to the way things were before January 1, 1996. I think many seniors were led to believe that, but that in fact was not the case; their taxes were still left, or the taxes they paid wound up still being significantly more, double in some cases, at the lowest income levels than what they were paying prior to January 1, 1996.

So we need to bring that back into line for them, I would suggest.

• (1300)

**Mr. Rick Dykstra:** Through you, Chair, to our contributor from the finance department, have we actually been able to calculate a cost around where this would put us?

**Mr. Jeff Watson:** Yes, tell me.

**Mr. Andrew Auerbach:** We haven't done a cost on a per-taxpayer basis, but we estimate that the cost overall would be approximately \$37 million. That does not include an additional \$29 million in entitlement to the guaranteed income supplement that would stem from Bill C-305. And there's an additional \$20 million cost to the provinces, assuming Quebec follows suit.

**Mr. Rick Dykstra:** I don't think I have much time left, so I'll be quick with my last question.

To Mr. Thrasher or Mr. Watson, what about discussions with our U.S. counterparts? Have you had a chance to find out what our U.S. counterparts think of this, or how they would react?

**Mr. Bill Trasher:** They have nothing to do with it. The 85%, while it was in the fourth protocol, was the maximum they could tax in Canada for Canadian recipients of U.S. social security. But we could reduce that back to zero if we wanted to.

**Mr. Rick Dykstra:** Thank you very much.

**The Chair:** Thank you, Mr. Dykstra.

Mr. Masse, welcome to the committee. Over to you now.

**Mr. Brian Masse (Windsor West, NDP):** Thank you, Mr. Chair, and thank you to the committee for having me here.

I want to start by reading a quote from one of the debates on Bill C-265, a bill similar to this one proposed: If the government wanted to let justice happen, it could accept the passage of this bill at all three stages here tonight and send it over to the Senate for ratification. This does not need to be held up for any prospective election. This could be passed and, indeed, the finance minister could have done right by people like Olive Smith. Years ago he could have done right by them in the budget. In fact, and I do not think I am going out on a limb here, let me say that the Conservative Party would be quite happy to accept an amendment to the budget implementation act to give effect to Bill C-265.

Now, I don't know what the problem is with regard to this, but we have \$66 million basically holding up 100,000 people in terms of this particular effect that it would have.

Mr. Thrasher, I'd like you to give testimony to the committee on how this affected people in your circle, in your life, when the rules were changed from underneath their feet. What did it do to individuals? As we've discussed, some people aren't even here anymore. That's a significant problem. All that money—money that was once supposed to go to individuals, who planned their lives on it, because the rules were a certain way—has been taken from them.

What happened to the people in your circle, Mr. Thrasher? What did they experience?

**Mr. Bill Trasher:** One of the first phone calls I got when people found I was involved in this was from a lady in Quebec. She had worked all her life in the United States and for the U.S. consulate. She was 85 years old. She had just broken her \$1,000 pair of glasses; she was nearly blind. She received this notice that tax on her social security was going to be withheld, by 25.5%.

She was absolutely desperate. She was forced to move. She moved into an apartment that wasn't really up to par with her needs, so she had some renovations done. While this was going on, she tripped on something and broke a leg. She wound up in a hospital. She had a heart attack, and while she was recovering from the heart attack her sister came in and said, you know, your ceiling fell down.

This is an unusual case, but there are so many situations when people are of that age—They just can't handle that sort of stuff. To

change the rules when people are being affected like that is really immoral. It should never happen.

• (1305)

**Mr. Jeff Watson:** I'd like to add a comment to this discussion too, for the benefit of this committee. Hill and Knowlton aren't being employed to lobby members of Parliament: you've heard the type of people who have been involved in this particular issue. It does fall to the committee, though, to be the ones who hear their particular call for help right now. You have the power to do something about it. There are no high-priced campaigns being waged on their behalf. They don't have slick lawyers and lobbyists working for them. This is your chance to hear their voice and do something about it.

**Mr. Brian Masse:** Thank you.

Mr. Chair, the quote I read was from the minister of multiculturalism and Canadian identity; it was on April 14, 2005. What's troubling, though—and I think needs to be clarified—is that there seems to be the perception that it's Americans who are going to be receiving this. But the fact of the matter is that it affects many Canadians, and not just in Windsor, Ontario; they actually come from New Brunswick and other places across the country—

Can you describe the types of people they are? These are working-class Canadians who actually contributed to the country by receiving a wage and bringing it back into Canada. Can you tell us a little bit about those individuals?

**Mr. Bill Trasher:** They're basically ordinary people. In Windsor, of course, we're right next to Detroit, so you have a large workforce of maybe 6,000 people who run across the border every day. They're clerks, they work in lawyers' offices, they work at some of the big department stores—things like that. Sure, there are engineers and nurses and so on, but these are just ordinary people. They're really not people looking for social security when they retire. I mean, they are people who are looking for social security; they're not the kind of people who can do without social security. They're just ordinary people, just as I'm an ordinary person. They expect that when you retire, you'd never have the rules changed on you after you retire. In the United States, apparently, there was something Ronald Reagan had done where he gave 30 years' notice as to different changes that were going to be made to U.S. social security.

They're ordinary people, just like you and me and most people around here; they're just trying to get along in life and make things work for their families.

**Mr. Brian Masse:** Is there any more time, Mr. Chair?

**The Chair:** I'm sorry, Mr. Masse.

Thank you all for your presentations today. Unfortunately our time for discussion has elapsed, but we will continue this discussion. Thank you again for being here, Mr. Watson, Mr. Thrasher, and Mr. Gleberzon.

We are adjourned.





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