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Mr. James Rajotte

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• (0900)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order the 25th meeting of the Standing Committee on Finance. Our agenda today is to discuss the Canada Revenue Agency's main estimates for 2009-10.

We have with us here today three officials from the Canada Revenue Agency, and we should have four officials from the Department of Finance. We'll have a two-hour meeting on the estimates.

I believe, Mr. Baker, you'll be presenting for the CRA. Then, Ms. Harrison, are you presenting for the department?

So we'll start with you, Mr. Baker, for your opening statement please.

Mr. William Baker (Commissioner and Chief Executive Officer, Canada Revenue Agency): Thank you, Mr. Chairman. *Merci beaucoup.* I'm pleased to have an opportunity to be here today to present the CRA's 2009-10 main estimates. We're certainly prepared to answer any questions you may have.

Joining me today are two officials from the CRA. To my immediate right is Jim Ralston, the chief financial officer; and to his right is Filipe Dinis, the acting deputy assistant commissioner of our finance and administration branch.

Our mandate at the CRA is, of course, to administer federal and certain provincial and territorial tax programs, as well as delivering a number of economic and social programs on behalf of the government. To fulfill this mandate, we are seeking a total of approximately \$4.4 billion in resources through the 2009-10 estimates. This represents a \$650.6 million increase over the amount displayed the previous year, largely because of the timing of one large transfer payment. There are two transfer payments overall, totalling \$431 million, and they account for two-thirds of the overall increase in the authorities requested compared with last year's main estimates.

The first transfer payment is \$429 million and represents the forecast 2009-10 statutory disbursements to provinces under the Softwood Lumber Products Export Charge Act. In 2008-09, \$419 million was expended, and this was represented in supplementary estimates (B), rather than the main estimates.

The remaining transfer payment is just \$2 million, and this is an increase in the children's special allowance, a payment made for

children who are under the care of institutions in lieu of their parents getting the child tax benefit.

The remaining 34.8% of the increase pertains to changes in program expenditures, of which \$78.2 million is with respect to the corporate tax administration for Ontario. Members may recall that we assumed responsibility for corporate tax administration in Ontario.

I'm pleased to tell you, Mr. Chair, that is now fully functioning as of April of this year and has come off extremely well. We're very pleased with how it's progressing.

[Translation]

The increase in CRA's main estimates also includes resources of total \$38.7 million in response to the 2007 and 2008 federal budget announcements. The initiatives to be implemented and administered by the CRA will address these tax policy and legislative measures. Some of the key measures are the following: administering the tax free savings account, \$19.8 million; administering improvements to the scientific research and experimental development program, \$9.1 million; expanding capacity to combat terrorist financing through charities, \$4.7 million; and implementing a provision to allow multinational corporations to file income tax returns in currencies other than the Canadian dollar, such as the Euro and the American dollar, \$4.4 million.

[English]

Finally, there's an additional \$78.3 million in the main estimates to fund the salary increases attributable to new collective agreements, particularly with respect to an agreement signed with the Public Service Alliance of Canada in December 2007.

Finally, Mr. Chair, there are a number of minor adjustments totalling an amount of \$24.4 million. This is a net amount; it includes some increases and some decreases.

That, Mr. Chair, is a quick overview of what these main estimates represent in terms of year-over-year changes, and certainly I and my colleagues are available to answer any questions you may have.

• (0905)

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

We'll now go to Ms. Harrison for her opening statement.

[Translation]

Ms. Sherry Harrison (Executive Director, Corporate Services Branch, Department of Finance): Good morning. My name is Sherry Harrison. I am the Executive Director responsible for the Financial Management Directorate at the Department of Finance. With me today are departmental officials, who are here to assist me in responding to your questions. I would ask them to briefly introduce themselves and their roles.

[English]

Mr. Paul Rochon (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance): I'm Paul Rochon, senior assistant deputy minister, economic and fiscal policy.

[Translation]

Mr. Alfred LeBlanc (Director, Federal - Provincial Relations and Social Policy Branch, Department of Finance): I am Alfred LeBlanc, from the Federal-Provincial Relations and Social Policy Branch.

[English]

Mr. Jeremy Rudin (Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): I'm Jeremy Rudin, assistant deputy minister, financial sector policy.

[Translation]

Ms. Sherry Harrison: We are here today to answer your questions on the 2009-2010 main estimates for the Department of Finance.

As you are aware, the department's responsibilities include preparing the federal budget, developing tax and tariff policy and legislation, managing federal borrowing on financial markets, administering major transfers of funds to provinces and territories, developing regulatory policy for the country's financial sector, and representing Canada in international financial institutions and fora.

[English]

As you would expect, during the current fiscal year, the Department of Finance will focus on continuing to manage economic and fiscal policy issues in response to the economic outlook.

The estimates that have been tabled in the House identify total budgetary requirements for the Department of Finance of \$82.9 billion. It is important to note that \$82.4 billion, or over 99% of this amount, relates to statutory votes for items that have already been approved by Parliament through enabling legislation. These include items like the payment of public debt charges, Canada health and social transfers, and equalization payments. These statutory votes are displayed in the estimates document for information purposes and will not be included in the appropriation bill. Within the statutory votes, there is a net increase of \$2.9 billion over last year, with the major contributing factors being a \$4.7 billion increase in transfer payments to the provinces and territories and a \$1.8 billion decrease in public debt costs.

The non-statutory votes of the Department of Finance show a decrease over last year. This consists of a reduction of \$43 million in grants and contributions, mainly due to reprofiled amounts from 2007-08 to 2008-09 of certain grants, updated estimates of debt relief

in 2009-10, and the completion of contribution payments in 2008-09. The decrease is partly offset by contribution funding related to the transfer of the Toronto waterfront revitalization initiative and Harbourfront Centre from Environment Canada.

Additionally, there is an increase of \$3.8 million in the operating vote. This is mainly due to the transfer to the department of responsibility for the Toronto waterfront revitalization initiative and Harbourfront Centre, increases for advertising campaigns, which are time limited, and security regulations. These increases were offset by reductions resulting from the strategic review reallocation, amongst others.

[Translation]

We will be pleased to answer any questions that the committee may have on these main estimates.

[English]

The Chair: Thank you very much, Ms. Harrison.

We'll go to Mr. McKay for seven minutes.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

I thank the witnesses.

My first question is to Mr. Baker, and it was my last question to Mr. Baker the last time he was here.

I've written to you subsequently and you did respond, but I'm still not clear. The government, with great fanfare, introduced the tax-free savings account. I was trying to get a handle on what this is actually costing in terms of reduced revenues, actual out-of-pocket expenses, and things of that nature.

On the actual out-of-pocket expenditures, it appears that's around \$19 million, declining over the years to around \$15 million on an annual basis. It starts out with about 100 people and then it ramps itself up to about 180 people just to run this plan. But what's not clear to me is how much revenue is actually forgone in order to do this plan. That's my first question. Is it fair to say that in the first year you're going to be down \$20 million if there's not a dime put into this plan?

• (0910)

Mr. William Baker: Certainly that's approximately the amount that's been set aside to cover the costs to the Canada Revenue Agency to set up the systems and other information, such as web sources and publications, to support the administration, regardless of the actual flow-through on that measure.

Hon. John McKay: Are there any other associated costs, out-of-pocket expenses, on the part of the government needed to start this program?

Mr. William Baker: At this point in time, that estimate would be all in. It would be everything we think we are going to spend.

Hon. John McKay: Okay. Again, if there's zero uptake, the government's revenues are down \$20 million, or the expenses are increased by \$20 million, however you want to put it.

The second question is this. In that first year, or second, as the case may be, what are the forgone revenues of the Government of Canada to fund this? Just give me the forgone revenues, not to fund anything, really. What are the forgone revenues?

Mr. William Baker: Sir, I think my response is not going to be unlike my response when I was here before.

First of all, it's a new program. We do not have any experience with the administration of this. We do not know yet what the uptake will be in terms of the number of taxpayers who choose to benefit from this program or the amount of money that will go into it. It's also, as we observed last time we met in the context of the supplementaries, an interesting year, so it's probably a bit more difficult than normal to predict the uptake. Certainly our colleagues in the Department of Finance may have some estimates based on the year. That is certainly their responsibility.

Hon. John McKay: It's an extraordinary response, when you think about it, Mr. Baker, to say that we know it's going to cost us \$20 million, but we're not quite sure what the benefit to Canadians might be. I'm not trying to be awkward with you, Mr. Baker, but it is an extraordinary response.

Maybe I could turn to our folks at Finance and ask what your forgone revenues are going to be. Mr. Rochon, you're looking as if you have that answer on the tip of your tongue.

Mr. Paul Rochon: I don't have it immediately on the tip of my tongue. It was reported in the 2007 budget. The cost of this program will rise over time as uptake increases. My recollection is that it's in the neighbourhood of \$2 billion a year at maturity. Brian, I'll let you comment more specifically on that.

The Chair: Just introduce yourself, sir, to the committee.

Mr. Brian Ernewein (General Director, Tax Policy Branch, Department of Finance): I am Brian Ernewein.

Very quickly, I don't have the numbers with me, or those in the 2008 budget, but we will get those and return to the table with them.

Hon. John McKay: I guess we'll have to live with that response. We'll move on then.

Is Mr. LeBlanc returning with the response, or are we going to have a reply formally to that?

The Chair: Will we have a formal response, or can someone reply?

Mr. Paul Rochon: We'll get back to you by the end of the meeting on that.

Hon. John McKay: Okay, so I'll come back to that.

The Chair: Yes. You have two minutes.

Hon. John McKay: Thank you, Chair.

I direct this question to Ms. Harrison. Am I reading this correctly, that the interest costs of the government have been reduced from \$33.6 billion to \$31.8 billion. Is that correct? There's a saving of \$1.8 billion.

Ms. Sherry Harrison: That's correct. The decrease of \$1.815 billion, or 5.4%, is due to a revision of forecasted interest rates on the public debt.

● (0915)

Hon. John McKay: Okay. What seems difficult for me to understand is that this could reasonably have been anticipated when the main estimates were presented. Why is it that we're now receiving a note that your interest costs are down roughly \$2 billion?

Mr. Paul Rochon: This is a comparison between the 2008-09 and 2009-10 main estimates, right? They were the main estimates presented in February 2008. This represents changes between February 2008 and February 2009.

Hon. John McKay: So the swing is \$2 billion.

Mr. Paul Rochon: Yes, it's \$2 billion, because market interest rates over that period declined.

Hon. John McKay: Okay, thank you.

The final question has to do with that almost \$43 million. You said something about the Toronto waterfront, and I didn't quite pick it up.

Ms. Sherry Harrison: The Toronto waterfront revitalization initiative at Harbourfront Centre is a transfer of contribution programming from Environment Canada.

Hon. John McKay: I'm sorry, I still don't understand that. What do you mean by "a transfer of contribution programming"?

Ms. Sherry Harrison: In the 2008-09 main estimates, the funding for those initiatives was reported under the Department of the Environment, and in 2009-10 the responsibility for that programming has been transferred to the Department of Finance.

Hon. John McKay: What was the rationale behind that?

Mr. Paul Rochon: Our understanding is that the specific transfer is a change related to responsibilities and issues related to machinery of government.

Hon. John McKay: Is this because the finance minister is the minister responsible for the GTA and so it comes under his purview?

Mr. Paul Rochon: I can't speak to the specific initiative in this case.

The Chair: Thank you, Mr. McKay.

Can we get a more formal answer either within the two hours or to the committee?

Mr. Paul Rochon: We can get a more formal response to the committee, absolutely.

The Chair: Thank you.

Monsieur Laforest s'il vous plaît.

[Translation]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Good morning to our witnesses.

My first question is for Mr. Baker. You are the Commissioner and Chief Executive Officer of the Canada Revenue Agency. Two years ago, in 2007, the Canada Revenue Agency decided to centralize its payroll centres for CRA employees, among others the Shawinigan and Jonquière centres. I assume there was a rationale behind this decision.

Could you tell us, citing figures, if indeed, there was a rationale? Financially speaking, is there a reason underpinning the relevance of such a move?

You are undoubtedly aware that there were significant problems, inadmissible problems that occurred concerning employees' payroll services, ever since the decision came into effect. Part-time workers especially, and seasonal workers, are receiving late payments. Some have been working for the last 10 weeks and have not yet drawn any salary following a maximum delay of 1 month—and this already occurred this past winter and the problem is reoccurring. They are forced to wait up to 10 weeks. This is unacceptable, and we raised this in the House of Commons. We spoke to the minister. I'm far from certain that this problem has been resolved.

Are you able to tell us that this won't happen again? Can you provide me with a plan, if you have one, proving that this incident will not recur?

Mr. William Baker: Thank you. I will begin by answering your second question. Indeed, since these compensation centres were established, there have been a few operational problems. I am pleased to tell you that today, we have resolved these problems. Yesterday, or the day before yesterday, there was even an article published in the Public Service Alliance of Canada newsletter on the resolution of this problem. Therefore, I hope that we have found ways to meet these requirements.

• (0920)

Mr. Jean-Yves Laforest: Mr. Baker, there are never any problems during the month of May. These problems always happen in November, December, and January, when people return to work because they are seasonal workers. It seems as though the Canada Revenue Agency is unable to manage the situation. There didn't seem to be any problem for regular employees, but the problems affect those who work during tax season, starting from December. They are the ones bearing the brunt of the problem.

Therefore, if you tell me that the problems have been resolved, they probably are now; however, peak season has come and gone. The same situation occurred last year, and the problems started up again in the fall.

Mr. William Baker: Mr. Chair, we are tracking the situation closely and right now, there is no serious problem. We have found ways to resolve these problems. I am convinced that they have been resolved. When somebody doesn't receive his or her salary, it is very serious. We have adopted measures to resolve the problems. We are monitoring the issue very closely because these are our employees.

Your second question deals with the rationale behind the creation of two payroll centres. In the past, each office within the Canada Revenue Agency was responsible for compensating its own employees. Quite frankly, this model was totally inefficient. Therefore, before my return to the agency three years ago, the decision was made to create two compensation centres: one in Shawinigan, and another in Winnipeg. We had decided on two centres, to make sure that there could always be a "support" centre. This way, if one of the two centres had a problem, it would still be possible to run smoothly. To date, everything has been working fine. This has generated savings, but I do not have the figures justifying this change with me. They are, however, available.

Mr. Jean-Yves Laforest: Thank you.

Ms. Harrison, you work at the Department of Finance. You are most certainly aware of what is happening, the financial situation,

and the current recession. The government tabled a budget, a so-called financial plan, to face the recession. Yet, since the budget was tabled in January, the situation has deteriorated enormously. The recession is three times worse than what was originally forecast by the Department of Finance.

Don't you believe that it would be time for the government to launch a new financial plan to make up for the difference between the January forecast and current data, given the difficult financial conditions Canada and Quebec are weathering?

[English]

Ms. Sherry Harrison: Yes, I'll let Paul respond to that.

[Translation]

Mr. Paul Rochon: One must remember that in January, when the budget was tabled, the government decided to rely on forecasts that were far and way lower than the average of private sector forecasts. It is clear that despite this adjustment, economic risks were worsening. In that context, one can say that the government's economic stimulus plan was still rather considerable, and the most ambitious among OECD and G7 countries. One must also keep in mind that in Canada, the federal government occupies about 50% of the government landscape. Since the budget, provincial governments have tabled similar budgets. If we look at all of the economic programs that tie into Canada's stimulus plan, ours is among the largest in the world.

Mr. Jean-Yves Laforest: You say it is one of the largest, but if you compare it to the budgets of other OECD countries, it remains below the average.

Mr. Paul Rochon: I do not think so. In fact, the OECD has published its own figures, based on data different from ours, that indicate that Canada has one of the most significant economic plans in the world.

• (0925)

Mr. Jean-Yves Laforest: Thank you.

[English]

The Chair: *Merci.*

Mr. Wallace, please.

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

Thank you for coming this morning. I have a variety of questions and I may actually get more than one slot to ask them.

I'm going to start with Finance first. Some of the questions are a little bit broad in nature. I have my estimates from the three years now that I've been on the committee and I have all three books. There have been some changes. I just want to give you an example. In the main estimates for fiscal equalization payments, since the first time we had it, it has gone from \$11 billion or so, in that range, to a little over \$16 billion, which is a 42% increase.

Here's my question to you. It's great that I get these estimates, and they are called estimates. It's basically the budget. It's the planned spending, if I understand it correctly. How come I never see any actuals? Where would a member of Parliament actually see the actuals? I'm assuming what we say we're going to pay the provinces we're paying them, so that 42% over the last three years has gone out. There may be line items we might not have, so where do I find those actuals, and why are they not presented in the budget documents?

Ms. Sherry Harrison: In the fall, the departmental performance report is tabled, which would have information on the actual cost of the prior fiscal year. As well, the Public Accounts of Canada are similarly tabled in the fall and relate to the prior fiscal year expenditures.

Mr. Paul Rochon: The public accounts will provide you with a reconciliation of amounts that have been requested in the main estimates versus what was actually spent.

Mr. Mike Wallace: That goes through Treasury Board. Does it come to these committees directly?

Mr. Paul Rochon: No, it is tabled in the House of Commons by the President of the Treasury Board .

Mr. Mike Wallace: For us to make a change, because I'm just looking for improvements.... You'd be willing to come back to talk about what we actually said we were going to spend and what we are actually spending, and that would happen late in the fall. Is that correct?

Mr. Paul Rochon: That's correct. It would be once we actually know what we've spent and once the amounts have been audited by the Auditor General.

Mr. Mike Wallace: One thing we are always nervous about around here, which is something I hadn't experienced before, is that you get three other chances to come back and ask for more money. The finance department doesn't do it as extensively as some other departments, in my view.

What are we expecting, based on the economic action plan that's been passed, which is not in these documents since these documents were prepared last fall? What are we expecting from the Department of Finance that was in the economic action plan and is not in the main estimates but should be in the supplementary estimates?

Mr. Paul Rochon: Within the department, we don't think there's anything significant. There may be an odd adjustment related to the extraordinary financing framework to the extent that we need operating expenses.

Mr. Mike Wallace: Okay. I have another question for you.

Mr. Paul Rochon: Government-wide, though, this fiscal year will be somewhat exceptional. First, within the main estimates, there are about 35, as you all know. Treasury Board Secretariat is planning to table an early supplementary estimate to obtain appropriation authority for the full range of budget items that have not already been appropriated or legislated under separate legislation.

Ms. Sherry Harrison: If I may add, we'll also use the supplementary estimates process, as required, to update the statutory forecast information. Those are the items that have been approved through enabling legislation. So where there's material forecast

change from the previous main estimates, we'll update that in supplementary estimates, as well.

Mr. Mike Wallace: Okay. I had an opportunity when I first got here to be on the Standing Committee on Government Operations and Estimates, and there was an over and under report. I think the number was \$25 million over and under. Then you had to report it. Is that only reported to government operations, or is there a reason we don't see at each committee how each department is doing, plus or minus, on their estimates?

● (0930)

Ms. Sherry Harrison: The departmental performance report that I referred to, which is tabled in the fall, will provide the estimates funding, which is the mains, plus the various supplementary estimates, or received funding, against the actuals, with a narrative explanation of the changes. As I said, that's tabled for all departments by the President of the Treasury Board late in the fall.

Mr. Mike Wallace: From an accountability point of view, I like the estimates meetings. Some aren't as keen on them as I am, but I think we should have you back to talk about the report that comes out and about how much we actually spent.

You were giving an answer on the waterfront revitalization issue.

Just out of interest, if I look at the grants under "Compensation to Canadian agencies or entities established by an Act of Parliament for reduction of debts of debtor countries", that has varied considerably over the last three years in terms of the amount of money. Can you explain to me why that is?

M. Paul Rochon: I'll let my colleague Jim Haley provide more details. Effectively, these are payments we make intermittently to international organizations. They aren't annual payments.

Jim, I'll leave you to expand on that.

Mr. Jim Haley (General Director, International Trade and Finance Branch, Department of Finance): That's correct, Paul. These debt forgivenesses are granted under various international agreements, including the HIPC Initiative. Under the HIPC Initiative, a debtor country will enter into an agreement with the IMF to undertake a series of economic reforms. The reforms are essentially policy measures that ensure that when we provide debt relief, the benefit of that debt relief goes to the people. It will essentially create the conditions for strong growth. Depending on where any particular country is in its HIPC program, it may or may not be getting debt relief.

Mr. Mike Wallace: How far in advance can you budget for this?

The Chair: This is your last question on this.

Mr. Mike Wallace: In terms of budgeting, since it varies considerably from year to year, how far in advance do you know how much we are going to be paying?

Mr. Jim Haley: We essentially take a fairly optimistic approach to this in the sense that we assume that the country will meet all of the HIPC critical points in terms of its performance. If a county doesn't meet that key condition or that key criterion, then it doesn't get the debt relief and so our numbers will change. I should also note that the numbers fluctuate as some countries complete their HIPC process and the debt is written off. For example, last year Iraq completed its HIPC process, so we had a large debt forgiveness last year, but we don't have anything for Iraq this year.

Mr. Mike Wallace: I appreciate that. Thank you very much.

The Chair: Thank you.

Monsieur Mulcair, s'il vous plaît.

[Translation]

Mr. Thomas Mulcair (Outremont, NDP): Mr. Chair, my question is for Mr. Baker. And moreover, I wish to thank him for a most clear and straightforward presentation. As a prefatory remark, allow me to indicate that I do not seek to draw him onto political terrain. I have too much respect for his position. We can deal with the political matters.

From a technical and administrative perspective, I would like you to help us understand something. I had the opportunity to meet with several former employees of companies like Nortel and JDS Uniphase. These employees are now being taxed for the first time on phantom income. A while back, they purchased shares from their employer, at the cost of, let's say, \$15. These are stock options. The value of these options rose to \$115 a share, but they never saw the return. They were taxed for the first time and forced to pay hundreds of thousands of dollars, in some cases, although the stocks were worth nothing. Were it not for the fact that these shares were being offered by the employer, they would have been able to deduct capital losses. Yet, they do not have this right.

In fact, the imminent bankruptcy of Nortel means that it will be in deemed disposition. Employees will be taxed a second time. Similar cases in the United States have led to suicides. The United States resolved this problem. Here in Canada, a few dozen or so employees of JDS Uniphase in British Columbia are protected through an agreement with your department. These employees have been spared these problems, and never had to pay these taxes. Meanwhile, many other people living in the Ottawa region are grappling with this very problem.

I do not seek to draw you into the political arena, but I am trying to understand how an agreement was reached with some employees living in Minister Lunn's riding, whereas other employees in the identical—and I emphasize identical—situation in the Ottawa region are not receiving the same treatment.

At an administrative level, how was such an outcome possible?

● (0935)

Mr. William Baker: Firstly, this is a matter of tax policy. Our responsibility within the agency is to administer the act. As concerns certain employees located in British Columbia, the government chose to deal with that case differently. It is a decision that must be made by government. It is, otherwise, incumbent upon us to enforce the act as it is worded.

Mr. Thomas Mulcair: I am not sure that I understand all of the nuances of your explanation. You state that this is a government decision, but you are the government. You embody the state. By definition, you are the top civil servants.

You are appearing before us today and I am asking you a question on how you administer the act. You are right to point to the nuance. We are the ones responsible for lawmaking. I'm not asking you what you would do, if you were in our position, to amend the act.

You are responsible for enforcing legislation once it is enacted; therefore, how is it possible that employees of JDS Uniphase, in British Columbia, are subject to a diametrically opposite decision? Nortel employees based in Ottawa and JDS employees based in British Columbia had exactly the same problem, but did not receive exactly the same treatment by public administration. That, Mr. Baker, is my question.

[English]

Mr. William Baker: Again, I'll just repeat. The tax treatment of stock options and stock purchase plans is clear under the act, and we administer it in accordance to that. Any change in light of economic developments or economic distress would have to be considered by the Minister of Finance, if they wish to change the act. Now, the government has the provision, through the remission order process, to make specific decisions in cases where it deems that some type of relief is required. That is available through a statutory process, the remission process. That would be the mechanism. That is not a decision I or officials in the Canada Revenue Agency would make.

Mr. Thomas Mulcair: We understand each other in that one of the foundations of our society that is based on the rule of law is that the law applies equally to everyone. Now, governments can decide that a remission order will apply in a certain case, but it is the fundamental nature of our society that the same rules apply to everyone in exactly the same situation.

For the third time, I'm trying to understand how it is that with employees of JDS Uniphase in British Columbia we have remission orders and one treatment with regard to their stock option process, and we have other people, notably with Nortel here in the Ottawa region in particular, where they've already been banged out, many of them for several hundred thousand dollars up here; and now that Nortel is about to go bankrupt, they're going to get hit again for several hundred thousand dollars because of the deemed disposition.

How is it possible, in a society based on the rule of law, to have different treatment for identical situations based on the same statute? That's my question for you, Mr. Baker.

Mr. William Baker: The Canada Revenue Agency has in certain areas some discretion. I'll give you a different example completely. For instance, we've used the authority we have to extend the filing season for victims of the Manitoba flood. They have until the end of May to file their tax returns, and that's something we have as a discretionary authority. When it comes to a different interpretation or a different application of the law, that's a decision of the government, and our job is to administer that decision.

The Chair: One minute, Mr. Mulcair.

Mr. Thomas Mulcair: I'll ask it another way, and again, I'm mindful of not drawing you onto my turf of the politics of it. But I will ask you this: can you name me one other case that you know of where people who are in different parts of Canada, who have an identical revenue situation, have totally different treatment from their government? Do you know of any other case?

Mr. William Baker: Certainly I'm not equipped to respond to that. I'd have to look at it. We've had tax administration now for 90 years, and I'd have to see if there are examples—

Mr. Thomas Mulcair: Would you get back to us if you find any?

Mr. William Baker: —but I'm certainly not aware of any as we speak.

Mr. Thomas Mulcair: Neither am I.

Thank you.

The Chair: Thank you.

We'll go to Ms. Hall Findlay, please.

Ms. Martha Hall Findlay (Willowdale, Lib.): Thank you very much, Mr. Chair, and thank you very much, everybody, for being here this morning.

I want to follow on some of the questions from my colleague John McKay on TFSA. This follows a number of questions that I had actually been pursuing in the government operations committee as well. It has to do with the cost of the program, the \$19 million to \$20 million. We asked quite a long time ago, when the forecasting was done, how many taxpayers did it involve? In establishing the estimates that this program would cost \$20 million, if I remember correctly, a significant portion of that was implementation, then some portion of it was advertising.

I have another question, because my understanding is that there was an additional advertising component, in addition to the \$20 million, but I remember it was in Finance. So that's another question. But we never really got an answer as to how many taxpayers were expected to take up this program in order to establish a forecast of \$20 million to implement it.

● (0940)

Mr. William Baker: Mr. Chair, I do believe we actually did reply to the committee, and the figure was eight million. The estimate was based on eight million Canadians opting to open up tax-free savings accounts. That information was a follow-up, so we would have provided that in the weeks following our appearance on supplementaries (B) in February. So eight million was the figure that went into the design calculation to set up the administration of the tax free-savings account.

Ms. Martha Hall Findlay: Thank you very much. That confirms the response.

Now that we're into the tax filing season—and I know it's too early to confirm—do you have a sense, given the economic situation, of whether that's in line with what happened?

Mr. William Baker: Frankly, it's way too soon to tell, because people can operate up to the end of the year to do this. I suspect many will. They'll see what their overall economic situation is, as often people do when they make contributions to RRSPs. It's often done at the last minute, when they decide whether they can afford it or not, or what's in their best interest. So that question will have to wait, I think, until we get through the current year to have a reasonable answer for you.

Ms. Martha Hall Findlay: Okay.

To another part of this, earlier the response was that the estimate of forgone revenue was about \$2 billion a year. In those forecasts, because we don't know yet, someone will have to have done an analysis to determine that as an estimate. To determine that, I'm assuming one would need to have some idea of the average income of the people who would be taking advantage of it and to what extent. So zero to 5,000: can you give me some idea of that number? What's the average income, or perhaps not even the average but the median? What are the numbers that you used in the forecast in terms of the nature of the taxpayer who would be most likely to take advantage of this program? Obviously you can't answer the fact, but in the forecast...?

Mr. William Baker: Certainly, as indicated earlier, the forecast would have been developed by our colleagues in the Department of Finance. With your permission, perhaps they would be better able to respond to that.

Ms. Martha Hall Findlay: Sure. We'll open that up.

Mr. Brian Ernewein: Thank you.

To answer the revenue estimate question first, and to fulfill the undertaking to come back to the table on that point in response to Mr. McKay's question, budget 2008 did include the revenue estimates for TFSA.

Very quickly, in 2008-09, there's a relatively small amount of \$5 million, growing, as tax-free savings grow of course, to \$50 million for 2009-10, \$190 million for 2010-11, \$290 million for 2011-12, and \$385 million for 2012-13. In the budget, it says that the cost expressed "relative to the size of today's economy" is expected to "grow to over \$3 billion annually". So it is a program, of course, where, as the savings grow on a tax-free basis, the costs would grow.

You asked about the methodology used to determine that. We do have profiles as to the various sorts of income levels, and of course consequent tax payable at various income levels, but again, this relates to the 2008 budget, and I'm afraid I don't have any of that material with me today to share.

● (0945)

The Chair: You have 20 seconds.

Ms. Martha Hall Findlay: The reason for the question, if it's not politically obvious, is that there is a concern that this program will have cost a great deal of money, both in terms of implementation—and I'll have to wait for the next round to hopefully ask more questions about some real concerns about the very high costs of implementation—and in terms of the significant proportion allocated to advertising when the private sector is doing it. But specifically—

The Chair: Thank you, Ms. Hall Findlay.

Ms. Martha Hall Findlay: —it's the high-income people who will take the most advantage of this.

The Chair: Ms. Hall Findlay, we'll come back to this in another round. Thank you.

Ms. Martha Hall Findlay: Thank you, Mr. Chair.

The Chair: *Monsieur Carrier s'il vous plaît.*

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): Thank you, Mr. Chair.

Good morning, ladies and gentlemen. I am addressing Mr. Baker, who represents the Canada Revenue Agency.

All taxpayers have their eyes on your agency because its role consists in taking money from them in order to produce revenue for the government. As you carry out your mission, people often take a very dim view of your work.

Several cases have been brought to my attention where people challenge the policies that you are enforcing. Let me quote three of them which are already being studied and which have to do with post-doctoral scholarships. We have already raised this issue with people from your agency.

In the case of one specific university, you are no longer considering scholarships as students scholarships. You want to tax the bursaries that these people receive in order to do their very important research work.

Another case has to do with independent workers in information technology. You no longer want to consider them as independent workers, but rather as companies that provide services and that pay higher tax rates.

The third case that was recently submitted to us has to do with truckers. These people do not earn much money and they get meal allowances because they are continually on the road all day. Now you do not want to deduct these allowances from their income and you want to tax them.

I am not questioning the quality of your work, but you are challenging some policies that have already been established. Why do you not consult the public before revising your policies? At least, you could warn them that you are about to change your way of collecting taxes, instead of having to come back to get money from people who no longer have it because they were told that it was tax-deductible.

People are complaining about your interventions. Let me contrast these interventions with your tolerance of cigarette smuggling that makes you lose billions in revenue. I would like you to compare the billions of dollars that you are losing while you go after every penny that you can get from certain citizens.

I would like to hear your point of view.

Mr. William Baker: You have raised many issues, sir.

First, the objective of our agency consists in providing the highest quality service to the public, and every Canadian citizen is a client of ours. We provide a lot of services in order to answer their questions and solve their problems. As we have 25 million taxpayers, nearly 2 million companies and many other people working in the field of taxation, problems can crop up at times.

We must look at each case according to the facts and according to law before making a decision. If the taxpayer disagrees with a decision, he can have it reviewed by the Appeals Branch where nearly a thousand people are accountable for reviewing each decision individually. And it is working well. If the taxpayer is still not satisfied with the decision, he can appeal to the Tax Court of Canada. This system is working fairly well. Mainly, our objective is to give them a very high-quality service.

● (0950)

Mr. Robert Carrier: For the citizens, your machine has overwhelming power. You take money from citizens and then you tell them that they can resort to certain mechanisms to get that money back. However, you have taken away their income in the meantime and you are transferring the burden of proof to them. This is regrettable.

[*English*]

Mr. William Baker: I would just add, Mr. Chair, that these are difficult economic times. We have certain flexibilities in the act and in policy. For instance, if someone is in arrears, we attempt to work out a payment schedule. It's not our interest to see anybody go bankrupt. Personal bankruptcies see businesses go out of business, and we make our best efforts to try to work out an arrangement that makes sense.

At the end of the day, we have to administer the act, and we try to do that as fairly as possible.

The Chair: Thank you.

Mr. Wallace, please.

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

I want to quickly finish with Finance and then move on to CRA. In our estimate books we have main estimates for this year, main estimates for last year, the budget for last year for what we planned on spending, and there is a difference between what we planned to spend and what we did. Based on timing, would it not be possible for us to have a column that gives actuals for, in this case, 2008-09, so we could compare what we said we were going to do and what happened? Is there an issue with timing so that could not appear in these books?

Mr. Paul Rochon: For the 2008-09 fiscal year, which just ended this past March, we would have audited financial statements sometime in September or October. We could go back one more year to 2007-08 and show you the information you are looking for.

That is in the public accounts, however. In fact, it might be simpler just to reproduce the page in the public accounts for the department that would provide that reconciliation you are looking for.

Mr. Mike Wallace: I'm spending time, which is fine, but to make it easier for the political side to read these things, having an understanding of where we're coming from.... In actual fact, in 2006-07, for example, on the payments to the international development association we're up 20.7% if we spent all the money that's allocated in these budgets, and I'd like to know whether we did or not. I'm assuming we did.

That is the kind of information I think is helpful, so I'd appreciate the answer, and I'll follow up with that.

I have another question that I'll deal with. I'd like questions for CRA now, and I have a few.

First of all, I appreciate the work, obviously, with the finance department. In your overall review, I see the FTEs planned for this year being slightly less than last year. Is that an accurate statement, where you go from 39,795 to 39,481? I think those numbers are in thousands. What is causing the number of employees to go down?

Mr. William Baker: The first point, Mr. Chair, is that it's difficult to do a point-in-time, year-over-year comparison. Based on a point in time, that's our forecast number of full-time equivalents, but for instance, we had the budget of January, and none of that is reflected yet in this—

Mr. Mike Wallace: None of that was reflected. At the time when you were thinking about this, what was causing the reduction? Was it just retirements and not filling those positions?

Mr. William Baker: More often than not, we were not actually anticipating any reduction. It's just at that point because we're not looking at the full-year expenditure picture. In the case of the CRA, we are always reliant on supplementary estimates (A), often (B) and (C), to get the funding for budget measures announced after the formulation of the main estimates.

Mr. Mike Wallace: So for me reading this, I could say CRA is doing a good job—if that's your view—and they're reducing numbers of staff.

I don't know if you know this—I'm sure you do—but if you look at the main estimates, there's you at \$2.8 billion in personnel; Treasury Board at about \$3 billion, about the same; HRDC at about half, at \$1.6 billion; Defence higher, but you're one of the highest spending in the personnel area. I see this going out. So should I not take solace that this number is somewhat accurate? I don't want to hear that.

Mr. William Baker: At a point in time, based on approved authorities and the FTEs that we can afford with those approved authorities, that's accurate. I'm just saying that when it comes time to look back on 2009-10, there will probably be adjustments throughout the year that will also be reflected in the full-time equivalents.

Having said that, Mr. Chair, we have a constant program of transforming our business to try to become more efficient, particularly with the use of technology. In any given program area, we can show that year over year we achieve efficiencies.

• (0955)

Mr. Mike Wallace: Can I ask you another question from this chart on page 12? You've got appeals going up relatively significantly compared to everything else in terms of planned

spending for 2009-10. The forecast goes from 117,000 to 126,000. Is there a reason for that increase in appeals that you're expecting?

Mr. William Baker: Yes. First of all, we've had an increase in the volume of activity in our appeals generally overall. I'll give you one example. There have been well-known cases around charitable gifting shelters. We got thousands and thousands of cases in the appeal system. So we've had a workload increase.

We've also augmented our ability to reply to service-related complaints and provide service to the office of the taxpayers' ombudsman. So that accounts for the increases right there.

The Chair: Thank you.

Thank you, Mr. Wallace. You'll have another round, I'm sure.

Mr. McKay, please.

Hon. John McKay: I wanted to go back to this bouncing ball issue of Nortel, JDS Uniphase, etc. I'll direct my questions to Finance rather than Revenue, since Revenue seems to be unable or unwilling to exercise the discretion.

It is absolutely true that equality of treatment under the law is the hallmark of our society. If we have situations where one part of the country receives one tax treatment and another part of the country receives another tax treatment, it's pretty hard to reconcile those two thoughts.

I wanted to ask again, since the bankruptcy of Nortel is imminent and a lot of employees both in Nortel and in other high-tech companies who have received compensation in the form of stock options are going to get clobbered. They're going to absolutely get clobbered, and you're going to be looking at some pretty tragic situations. In fact, you already are looking at tragic situations.

I want to know, flat out, what the Government of Canada is prepared to do about these situations. Is it reasonable to anticipate that these folks will receive the same treatment as the JDS Uniphase folks received?

Mr. Brian Ernewein: Thank you.

I think your question is at least a mix of policy and administration, but I will speak to what I draw from it in terms of the policy question.

In relation to stock options, the Income Tax Act taxes employee stock options as an employee benefit. Depending on the type of stock option, the full amount of the benefit may be taxable, or for certain qualifying options issued at market price at the time the option is granted, there may be reduced taxation of the benefit. But that benefit, whether full or partial, is taxed as employment income just as I am taxable on my employment income.

If the employee chooses to keep their stock, what the Income Tax Act does is treat that employee as it would anybody else who has used their income to make an investment in the market—that is, they're taxable on the employment benefit, and the gain or loss following that point in time is taxable at capital gains rates or is allowed as a capital loss.

Without speaking of particular taxpayers or particular corporations, I believe that's the treatment that arises in these cases. The employment income is taxable, and the consequent loss is treated as you or I would be treated if we had a loss.

Hon. John McKay: But you've got a huge policy hole here. In fact, it's such a huge policy hole that it actually puts us at a competitive disadvantage with other countries. There doesn't seem to be any appetite on the part of the government to address this hole. It's not only a personal tragedy, which seems to be acknowledged, but it also is a policy gap. The U.S. seems to have responded to it. Other countries, to my knowledge, don't have this problem. It's not as if we haven't seen this train coming down the tracks.

What are you doing to address this inconsistency?

• (1000)

Mr. Brian Ernewein: Again, as a policy matter, I can only speak to what the law does today. I'm not in a position to table any or announce any changes to them.

Hon. John McKay: But with greatest respect, sir, if I ask Mr. Baker, all we get is the answer, that is it. That's a ministerial discretion. The ministerial discretion sometimes gets exercised and sometimes doesn't. I talk to you, and you say the policy is this.

I know what the policy is. The policy has a huge hole in it. The minister, for whatever reason, is not prepared to exercise the discretion. Those two thoughts don't live in the same universe. We have an injustice here. We have an inequality of treatment of taxpayers. What is the government going to do?

Mr. Brian Ernewein: Again, I can't offer any announcement of the change today; I can only observe that the treatment today is the same as we would have in other circumstances. Whether it's employment income, business income, or other sources of income, if you take that and invest it and lose money on your investment, you remain taxable on your income.

Hon. John McKay: I understand that.

So following this bouncing ball, we essentially have to call your ministers in and say, both to the Minister of Finance and to the Minister of Revenue, what are you going to do, because you, as officials from the policy department, aren't prepared to announce any changes in policy, and you, as officials from Revenue, are not prepared to recommend an exercise in discretion? Is that where we're at?

Mr. Ted Menzies (MacLeod, CPC): I have a point of order, Mr. Chair.

The Chair: A point of order, Mr. Menzies.

Mr. Ted Menzies: With all due respect, Mr. McKay, I think these are questions for question period. We set the policy, these people carry it out. Let's keep to why we've asked these individuals here, and that's to deal with the main estimates. Ask us the questions about policy decisions, but these people shouldn't have to answer that.

The Chair: All right, thank you.

Hon. John McKay: Has he used up my time?

The Chair: Your time is already over.

Mr. McKay has posed a question, and if the officials wish to, they can answer. But if they feel it's outside the parameters in terms of their responsibility....

Mr. Ernewein.

Mr. Brian Ernewein: I'm sorry, I'll be very quick.

No, we're not in a position to offer anything more than we already have.

The Chair: Thank you.

Mr. Kramp, please.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Actually, I'd like to address a concern from a number of people, not just in my riding but across this country, to our CRA folks. It's with regard to the aboriginal situation with reserve capacities and exceptions that are made and not made with collection.

Do you have any estimate of the amount of tax that is not collected from the sale of products sold through off-reserve purchases by reserve sources, for example, cigarettes, fuel oil, furnace, gasoline, or lumber? When people buy product like this on reserve but sell it to off-reserve sources who obviously would not be ordinarily eligible to purchase them, do you have any estimates for the amount of tax loss on this?

Mr. William Baker: No, I don't have any estimates on that.

In the case of contraband cigarettes, for instance, there have been some estimates used, but they have not differentiated contraband that may have emanated from reserves versus non-reserves.

Mr. Daryl Kramp: Yes, but what about legitimate product? Gasoline? Fuel oil? Diesel? Propane? Lumber? Computers?

Mr. William Baker: Our compliance activities are designed to address any non-compliance around those laws. We could look and see what results we may have with respect to audits and so on that have been carried out in that area, but I'm not equipped to have that answer today.

Mr. Daryl Kramp: It would be interesting to pay some attention to that. It is estimated to be not in the millions, but in the billions and billions of dollars. I can tell you anecdotally, from personal experience, that in many of these situations it is absolutely over the top. This is not a question of trying to deal with a particular individual or a group or a circumstance. Even as Mr. McKay and others around the table have stated, what we're looking at is similar and same treatments for tax laws to be administered. There appears to be a very wide variance.

I'm just bringing that to your attention, and I would certainly hope that at some particular point you could have some investigation done to see if this is a problem to the extent that it is believed to be a problem by many sources in the House.

• (1005)

Mr. William Baker: May I make just a couple of points on that, Mr. Chair?

We do have an active compliance program of audits investigations. Whoever the taxpayer is or whatever the entity is, it looks at cases in which we have reason to believe there's non-compliance. We take the necessary measures in that case, particularly with respect to sales.

You may be aware as well that for many years now the government has had an initiative to encourage first nations groups to implement a first nations sales tax. That is an opportunity to address that issue, because effectively they collect their own tax. The revenue remains on-reserve, but it does allow the opportunity for a level playing field. That's certainly something both our colleagues in Finance and the CRA encourage first nations to consider.

Mr. Daryl Kramp: Thank you.

Slipping over to another question on the status of your delinquency accounts, do you have a breakdown in a couple of areas of the amount of arrears in terms of corporate versus personal? Basically, do you have a 30-60-90, or an uncollectible amount? Do you have breakdowns that you could either present or anecdotally tell us about?

Mr. William Baker: We have more detail on that than you would ever want to know. I'm not carrying it with me today, sir, but I'd be happy to provide the committee with a breakdown of it.

Mr. Daryl Kramp: I think it would be helpful to committee if you could provide us with it at some point.

On the same subject, where are you going with your projections on delinquency? Obviously we're into a changing economic time. Have you revised upward your projections of what your arrears will be? If you haven't, why not?

Mr. William Baker: Well, it's certainly a situation we're looking at, particularly for the individual taxpayers. What's happening in the economy tends to lag a little bit in terms of how it's reflected in the tax debt. We're watching it closely.

It's also important to know that our tax collection program is not static. We've invested, and are continuing to invest, a considerable amount of money in what we call our integrated revenue collections project, which is designed to improve our capacity. It's going to make the whole collections function smarter in terms of identifying risk earlier and taking appropriate action.

We're going to have two factors at play. We'll probably have an economic situation that may create more accounts receivable; at the same time, we're attempting to transform our business to be more responsive.

Mr. Daryl Kramp: As a quick comparison, how do we rate with other countries around the world from the point of arrears and collection?

Mr. William Baker: We're all about the same. I can say that because there is a forum with the Organisation for Economic Co-operation and Development that looks at debt collection, and we're a member of it. We all live the same life.

The Chair: Thank you.

We'll go to Ms. Hall Findlay again.

Ms. Martha Hall Findlay: Thanks, Mr. Chair.

I have a couple of questions on the public-private partnership program.

This was announced with not inconsiderable fanfare in 2007. Not much happened; in fact, there was nothing in 2008-09. I understood that a little while ago, a corporate shell was incorporated to be the office. Now, we have a significant amount of money, and I would like to ask about the details of it.

We have a little over \$10 million for payments to the corporate entity, PPP Canada Inc., for operations and program delivery, and almost \$73 million for payments to the company for fund investments themselves.

I don't know who I can address this question to specifically. Could whoever is best positioned elaborate on what the \$10.1 million will go to? It strikes me as being a fairly significant amount of money for the operation of an office. Also, could you provide details on what seems to be a very specific number—\$72.8 million—for fund investments, and what that money has been allocated for?

Mr. Paul Rochon: I'll let my colleague Richard Botham, who's the general director of our economic development and corporate finance branch, answer the question.

Mr. Richard Botham (Director, Microeconomic Policy Analysis, Economic Development and Corporate Finance, Department of Finance): I don't have a specific breakdown of the \$10 million and all the expenses it would be used against. If that's something you'd like particular detail on, I can follow up.

In general, the expenditures are being undertaken to establish, as you say, a new corporation. The expenses will involve hiring staff and creating office space. The corporation is being established this year. This will be the first year of operations, so some new expenditures are being undertaken for that purpose. If you want details on how that money is being spent, I'll have to provide them at a later date.

• (1010)

Ms. Martha Hall Findlay: I would appreciate that. I'm reiterating that it costs \$10 million to set up an office, while setting up a corporate entity doesn't cost us that much. Knowing what the office expenditures are for would be helpful.

On the second part, there's a specific number of \$72.8 million at a time when we have expressed significant concern in opposition that infrastructure funding has been announced repeatedly since 2007—and in a number of cases there has been the same announcement multiple times on infrastructure spending. Can you elaborate on what that \$72.8 million is supposed to be for?

Mr. Richard Botham: Again I'll have to get back to you on that. I know that the corporation plans to launch its first call for proposals in the coming weeks. I expect the \$72 million is connected to that. I can provide you with additional details based on the corporate plan that the corporation filed.

Ms. Martha Hall Findlay: There hasn't been a call for proposals yet, and that's expected to be launched at some time. Most of the infrastructure programs announced almost three years ago have not nearly come through with the money originally promised. So I'm concerned about the timeframe and what this money would be even considered for, absent an idea of what the proposals might be. It strikes me as a bit odd that I have no answer for that.

I would like to have the details on that, but how would those numbers have been arrived at, especially the \$72.8 million?

Mr. Richard Botham: It is not unusual for there to be a request to Parliament to seek funds for something for a general purpose—a call for proposals—in advance of knowing what those proposals are. I don't think that's extraordinary.

Ms. Martha Hall Findlay: But how was that number arrived at? There has to be something behind it. Maybe you could tie that in with a bit of an explanation on what kinds of proportions that \$72 million or \$73 million would play in the world of P3 infrastructure investment.

Mr. Richard Botham: I will come back to you with the details on how those estimates were derived and how that fits into the corporate plan for the coming year.

Ms. Martha Hall Findlay: That information would be very helpful.

Thank you very much.

The Chair: I'm going to follow up on Ms. Hall Findlay's question, because as parliamentarians we are going to be asked to vote on that. If we can get that here within the next week or so, it would be very helpful. All committee members are going to be asked to allocate that funding.

I have a couple of questions here, and the main one relates to the Canada health transfer. I note there is a substantial increase in the Canada health transfer to the provinces in the main estimates for 2009-10. A concern has been raised in my home province of Alberta by the finance minister that Alberta will be receiving \$700 million less through the Canada health transfer than it ought to receive. I would like to get a formal response on that.

Mr. Alfred LeBlanc: Provinces receive equal support from the Canada health transfer through a mix of tax points that were transferred in 1977 and the cash transfer. The cash transfer is increasing at 6% a year. The government announced in budget 2007 that the Canada health transfer would move to an equal per capita cash allocation, so the tax points would no longer be considered in the calculation after 2013-14. Until then, they are still part of the calculation.

Provinces receive equal support through this mix of tax points and cash. Alberta's tax points are worth significantly more than tax points in some other provinces, so its cash is correspondingly lower.

The Chair: So the \$700 million figure is arrived at only if you look at the cash transfer and exclude the tax points.

Mr. Alfred LeBlanc: The total support is the same for all provinces, but the share that comes from cash for Alberta is lower because the value of its tax points is higher.

•(1015)

The Chair: So if you add in both, Alberta is receiving equal per capita amounts for both tax points and cash.

Mr. Alfred LeBlanc: Yes.

The Chair: Thank you.

The second point I want to raise is on the CRA. I think in general you hear from colleagues around the table that there's a lot of respect for the CRA from both citizens and parliamentarians. But I want to raise one concern from both individual taxpayers and businesses—they have raised it anecdotally with my office, and I presume with other offices—about how they are treated by auditors from CRA at certain points.

The concern is about continuity in dealing with someone at CRA. A citizen, family, or business will often deal with one, two, three, or four tax auditors, and that increases difficulties for the taxpayer because they almost have to start over again to explain the situation to the person from CRA. In their view, it prolongs the case and makes it more difficult.

Is this the case in many instances? If so, is CRA doing anything to address that?

Mr. William Baker: It is the situation, in some cases anyway. The issue we're managing as a large institution is that, like everybody in the world today, we're experiencing quite a demographic change. There's quite a turnover in staff right now, and a number of people are taking their retirement. The CRA is essentially a career organization, and as someone leaves on retirement, it creates a domino effect inside the organization. People get an opportunity to compete for a more senior position.

One of the consequences is that we are experiencing some challenges with continuity on certain of our audit files. There are two things in response to that. This problem will mitigate over time as the bulge works its way through the system. But secondly, we're investing a sizeable amount of money in what we call the compliance system's redesign project, which is designed to automate and create information technology tools to support auditors. So even if the auditor changes, we don't miss a beat moving forward. That is just starting to unroll this year and is a multi-year project. As that takes hold, we're expecting taxpayers will feel a higher level of service.

The Chair: I appreciate that. Any information you have on the length of time a case typically takes from start to completion would be much appreciated.

Ms. Hughes is next, please, for five minutes.

[*Translation*]

Mrs. Carol Hughes (Algoma—Manitoulin—Kapusking, NDP): Thank you.

Mr. Baker, you said that the Single Administration of Ontario Corporate Tax is one of the main elements. In fact, \$78.2 million will be used to finish implementing this initiative. Have you done any model-based studies of the harmonization of the sales tax, and how much it would cost?

Mr. William Baker: In fact, we have carried out many studies to determine current and future costs. I do not have the projections in front of me, but a part of the costs have to do with the implementation that was done last year and this year, because it came into force on April 1. Afterward, we will of course monitor our expenses, but we think that we will be able to make some savings as we carry on.

Mrs. Carol Hughes: Very well.

Let me go on to another part. You also mentioned an amount of \$429 million for softwood lumber. Does this amount include management fees?

I do not know if you can answer the following question. Once the funds have been paid to the provinces, will it be a part of the general fund or will a certain percentage be returned to the forest industry?

• (1020)

Mr. William Baker: Mr. Chair, I would like to ask my colleague Mr. Ralston to answer this question. I also have other information regarding the cost of the project in Ontario, if you agree.

[English]

Mrs. Carol Hughes: Okay.

Mr. James Ralston (Chief Financial Officer and Assistant Commissioner, Finance and Administration Branch, Canada Revenue Agency): I'll deal with the softwood lumber first. The amount shown, \$429 million, is the net amount. The law provides that we administer an export charge, deduct the costs of the administration, and then distribute the net amount to the provinces in which the exporters live. That's the general scheme of financing for that program.

Mrs. Carol Hughes: Do you have an estimate of the administration cost?

Mr. James Ralston: It would be about \$8 million a year.

And now perhaps I can go back to the question about the corporate tax administration for Ontario. As Mr. Baker mentioned, we did expend a large sum in the early years to get it up and running. But our current estimates show that in the long run we should level out at about \$43 million, roughly speaking, as the ongoing cost of administering that effort.

Mrs. Carol Hughes: I find the bulk of our work in the constituency offices deals with the child tax benefit. There are a lot of issues pertaining to the administration, especially when a couple separate and one of them doesn't indicate there is a change of address. I'm just wondering if you are revisiting that, because it's causing a lot of hardships for these families. We find there certainly is a demand out there to have that revisited.

I'm just curious about that.

Mr. William Baker: It is difficult because of what families do and the information they provide us. We're always trying to catch up with what the reality is to ensure we're making the correct decisions. We certainly have beefed up our information products around the child tax benefit so people understand the rules with respect to split families and so on and how that is administered. But in terms of any changes, again, I can't speak of any specific changes to the overall determination criteria for the benefit.

One of the things we're doing related to that, which we started in the last year, is building direct links with the provincial birth registries. We've started that in a number of provinces to help us get real-time information so we can activate the child tax benefit as soon as possible. That should help.

The Chair: Thank you.

We'll go to Mr. Pacetti, please.

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

Thank you to the witnesses. It's always fun to have department officials here.

I have two quick questions, Mr. Baker. One is mainly from an administrative point of view. You just said your ultimate goal is to provide the best service you can to taxpayers. My understanding is that in Montreal, if you present yourself to CRA downtown and you want to pull your file or ask a question, they refer you to the phone and then you get an operator somewhere else other than a live person. Is that correct? Is that the gist of the—

Mr. William Baker: What you would be referring to is if someone walks into any tax services office—

Mr. Massimo Pacetti: I'm talking about the one in Montreal, and I haven't verified it, so I'm asking you first.

Mr. William Baker: It could be in Montreal. You walk into a Montreal tax services office and you want information. First, that information may not be in that tax office. For instance, the tax file is probably at the Shawinigan tax centre or somewhere like that. If we don't have the information, the counter staff there will try to help them, of course. But if it's not there, we try to teach people how to access it through the computer or through the 1-800 number and we make that available.

The number of people walking into our offices in the last number of years is down considerably because more people are taking advantage of the website. And second, this year we've significantly increased our capacity to deal with telephone calls. We've made about a \$30 million investment, so people are getting service that way.

Mr. Massimo Pacetti: I understand that. We have the same problem with our constituents. I'd prefer my constituents call and make an appointment so we can address their problems, but the constituents who come to our office aren't turned away. We give them service. I'm just asking you if that is not the rationale at CRA? My understanding is that you don't have an agent who will sit down with them and take them through the process. My understanding is that's what happens with Revenu Québec, but that's not what happens with CRA.

• (1025)

Mr. William Baker: No, that's not completely correct. If we don't have anybody who has the information to serve the person, first we'll see if there's an alternative channel to serve them, as I identified. If not, we'll make an appointment with that individual and make sure we've got the information and the right agent in place to answer their queries.

Mr. Massimo Pacetti: But nobody will sit down with them and perhaps even help them to make the phone call, or perhaps look at the screen with them.

Mr. William Baker: We do that all the time.

Mr. Massimo Pacetti: That will happen?

Mr. William Baker: That will happen.

Mr. Massimo Pacetti: Okay.

Mr. William Baker: Now, it's a very small percentage of our taxpayers who actually come into our offices these days

Mr. Massimo Pacetti: No, no, I understand that, but I'm just wondering if the small percentage of people who do present themselves will be helped by an agent, even if they have to wait.

Mr. William Baker: What we are organized to do, whenever possible, is try to take care of that taxpayer. Now, of course, depending on the time of year, there could be a wait associated with that, but we try to help them one way or another. If all else fails, we'll set up an appointment and make sure that—

Mr. Massimo Pacetti: I'm going to go down to that Montreal office, and if that doesn't happen, I'll be back and ask you the same questions. You know that.

Mr. William Baker: Do that, and tell me when you're going to be there, and I'll make sure that....

Some hon. members: Oh, oh!

Mr. Massimo Pacetti: I have a quick question on the estimates. I think you mentioned the contributions in support of charities' regulatory reform in your opening remarks. No, actually, it's not the same thing.

To expand your capacity to combat terrorist financing through charities, you have \$4.7 million. How do we know that you're getting your money's worth? What are the conditions imposed on that amount of money? What is the ultimate goal—to catch how many terrorists? Or how do we know the money's being utilized?

Mr. William Baker: Mr. Chair, I'll give you a general response, and I believe Jim Ralston can add some specifics.

What this is designed to do, of course, is to be able to conduct the right analysis of the money flowing through charities, to look at the connections between charities in order to ascertain at the end of the day whether the money being collected through the charitable tax regime is ultimately being used to finance terrorist organizations. It's a heavy analytical investment, as you can imagine, because it's not as simple as one charity being involved; it usually involves many, many charities and the flow of funds between them. We try to track that. At the end of the day, we want to be able to provide some assurance—

Mr. Massimo Pacetti: So you have a specific department for that?

Mr. William Baker: Yes, we have a dedicated unit in the charities directorate that holds—

Mr. Massimo Pacetti: And is that funded separately from the rest of the CRA?

Mr. William Baker: No, the \$4.7 million I referred to earlier was an increase in the funding to improve our capacity to do that.

Mr. Massimo Pacetti: Would it be for personnel or technology?

Mr. William Baker: It would be for both.

James, I'm not sure if you have more to add.

Mr. James Ralston: I think you've pretty much covered it.

Mr. William Baker: Okay, I think I've covered that.

The Chair: Last question.

Mr. Massimo Pacetti: So you wouldn't necessarily refer that to FINTRAC, but it would be within the CRA?

Mr. William Baker: This is all part of the government's anti-terrorism initiative. Of course, we have relationships.... We receive referrals from FINTRAC, and of course, we also work closely with the Department of Public Safety.

Mr. Massimo Pacetti: My time is almost up, so I just have to ask this last question.

The Chair: It's your last, last question.

Mr. Massimo Pacetti: We didn't have a budget last year for the taxpayers' ombudsman. It's a newly created department. It's going to be under CRA. You're responsible for the funding, but it's supposed to be independent. Are you comfortable with that? And who came up with the \$3.3 million?

Mr. William Baker: Well, when the government decided to create a taxpayers' ombudsman, work was done on defining the mandate through the order in council. Of course, from that we developed an estimate of what the annual operating costs would be for the taxpayers' ombudsman. Mr. Dubé, the ombudsman, has been in office now for a little over a year. He's getting through one tax season as we speak, and we'll be in a position shortly to assess whether we set the right amount.

Mr. Massimo Pacetti: So you're working with him?

Mr. William Baker: On the budget side, yes.

[*Translation*]

The Chair: Mr. Carrier, you have five minutes.

Mr. Robert Carrier: Mr. Baker, in reference to the questions I put earlier, I do not feel that the thousands of people who are concerned by the three cases I mentioned will be satisfied with the answers that you gave. I know that we have time constraints: five minutes go by very quickly.

I would like to hear your comments on one basic element. Certainly, you must observe the legislation adopted by the House of Commons. However, when you have to send out a notice of assessment in the course of your audits, there must certainly be a distinction between someone who forgot some factors in his calculations or who made errors or who did not fill out the declaration correctly and someone who is at the mercy of the enforcement of new policies, as in the cases I mentioned to you where certain sums had previously been deductible. These are not people who tried to defraud the system.

The agency unilaterally states that things have changed and it asks for money that it should have asked for during the previous years. Rather than send out a notice of assessment, could you not send these people a letter that says that the agency now considers that the policy is not correct, and give them 60 or 90 days to state their arguments, or else the measure will be enforced? This would give people the time to react. Currently, some people go into a panic, they feel distressed and they say that they cannot afford to pay this notice of assessment that goes back a few years. Does the legislation oblige you to act so harshly, in my opinion, or is this the customary behaviour of the Canada Revenue Agency?

• (1030)

[English]

Mr. William Baker: The Canadian tax system is based on the principle of responsibility of the individual taxpayers to make the proper declaration of taxes payable. We do whatever we need to do to assist them. If you've been on our website, we have publications and we work with tax professional groups to make sure the information is out there.

Certainly if there is a change in tax policy, both the Department of Finance and the CRA make efforts to communicate that change so that people are not caught by surprise. In our determination of any penalties or adjustments, we obviously look at timing issues around that to try to be aware of that.

You were also referring, in the latter part of your comment, to challenges today of people paying taxes owed. I mentioned earlier that we have some flexibility under the act to work out payment arrangements to help people. But at the end of the day, a tax debt is a tax debt. Taxpayers expect other taxpayers to pay their taxes, and that's what we have to accomplish.

[Translation]

Mr. Robert Carrier: Thank you.

I will let my colleague use the remaining time.

Mr. Jean-Yves Laforest: Mr. Baker, in 2007, the Minister of Finance had proposed a measure to get rid of the double tax deduction granted to companies with head offices outside Canada. This year, in 2009, he withdrew this measure to allow for a form of tax avoidance for some companies.

Can you tell us the amount that the government will lose by applying this measure? If you cannot tell us that today, could you send us the figures?

[English]

Mr. William Baker: I don't have the figures, but with your permission, Mr. Chair, I am asking Wayne Adams, who is our senior technical officer in the CRA, to reply to that question.

Mr. Wayne Adams (Director General, Income Tax Rulings Directorate, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency): Thank you very much for the question.

The provision you are referring to is a measure that was tabled by our colleagues in the Department of Finance—section 18.2—to deal with certain interest deductibility. It had a nickname: double dips. We appeared before this committee two years ago, I believe.

That measure was repealed. It means that if companies are now entitled to certain deductions for moneys they laid out, that wouldn't be a field in the corporate tax return that we'd be able to capture and report back to you. It was determined by the panel to review international taxation that this measure was harmful to Canada, and the decision was made to repeal it.

[Translation]

Mr. Jean-Yves Laforest: I understand the system quite well, but how much money will the government forego in the future, each year, by withdrawing the exclusion?

If you don't have that information with you today, I would appreciate it if you could forward it to us.

[English]

The Chair: Just give a very brief response, if possible.

Mr. Wayne Adams: When the measure was first proposed, there was an estimate in the budget documents of how much was thought to be recovered, and those estimates would largely be...our colleagues at the Department of Finance.

The Chair: Okay, do we have a brief answer?

Mr. Brian Ernewein: A very brief answer. The measure was projected to come into effect in 2011 or 2012, I believe, and the revenue estimates for the repeal of section 18.2 are \$80 million for 2012-13 and \$105 million for 2013-14.

• (1035)

The Chair: Thank you.

We'll go to Mr. Wallace, please.

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

We're going to move on now with CRA a little bit.

Recently the Auditor General did an audit on your auditing of small and medium-sized business enterprises. In a previous report in 2004 and in 2009, they audited the same thing. It comes down to there being 13 recommendations. She said, "...we considered 6 to be the most important and progress was unsatisfactory on 4 of those 6...". Often you don't get a chance to rebut, other than you say here that you disagree with their emphasis on the recommendations, so I'm giving you a chance to talk about what she found and why you disagree.

I can go through them one by one, or you can just give us an overview.

Mr. William Baker: I'll try to be brief.

This was a follow-up report on two previous audits that had been undertaken. In those two previous audits there were actually 21 total recommendations. This follow-up audit focused on 13 recommendations, and they assessed our progress against those 13 recommendations.

At the end of the day, we were judged to have succeeded on seven of the 13 recommendations, but the Auditor General felt that certain ones were more important, which led to the final conclusion.

We did not agree with the final conclusion of the Auditor General for a number of reasons. First of all, the methodology to have seven of 13 be successful, to make progress, but not to be totally successful on the other six, I did not feel yielded that overall conclusion. Also, the Auditor General's scope of the audit in looking at our efforts to combat the underground economy was overly limited in terms of certain of our audit activities. For instance, it did not pick up on all the work we do every year on non-filers, non-registrants, and on the hundreds of millions of dollars of additional taxes recovered because of that.

I simply wanted to point that out to the Auditor General. She was very comfortable with the comment I put in the report, because ultimately we wanted to be able to discuss openly that I felt overall the bottom-line conclusion was not a fair conclusion.

Mr. Mike Wallace: So based on her analysis, are you going to do additional things to try to resolve those, or were you on a program to resolve those anyway and just hadn't completed it?

Mr. William Baker: No, Mr. Chair, we are in the process of providing a detailed response on every one of those recommendations. We're making good progress across the board in all of those, and we'll ultimately be reporting those to the public accounts committee.

Mr. Mike Wallace: On another topic, our government has indicated that you went through a strategic review, and among other things, you decided to take back in-house the collections of things such as long-term student debts and so on that had been sent out to the private sector. In the estimates you have a significant reduction in the costs paid out to those third party collection agencies. Can you tell me what the plan is? Are you hiring more people to do that collection, and are you going to collect the same amount of money? We don't see the revenue side on these things; we only see the expense side, and in this case there's an expense reduction.

So what is the balance, and how long before you're up and running on that?

Mr. William Baker: I have a quick comment, and then I'll ask Mr. Ralston to give you the details.

Clearly, the proposition was there because we were comfortable that we were able to deliver the program results at less cost to government. So the short answer is yes, but with your permission, Mr. Chair, I'll ask Mr. Ralston to give you a few more details.

Mr. James Ralston: There is an amount offsetting the reduction in the statutory vote for the private collection agencies. There is an increase in our operating vote of around \$8.2 million, and that will go to fund increased—

Mr. Mike Wallace: How many bodies is that?

Mr. James Ralston: I can't tell you that off the top of my head. I'm sorry.

Mr. Mike Wallace: So if we're reducing our costs to the private sector and we're not just adding workload to people who are already there, we're actually adding numbers of people and their work stations, so there are those overhead costs. Are we working under the assumption that we're going to be able to collect the same amount of money or less? Could you provide us with the number of people that would be? I would appreciate that.

Mr. James Ralston: Yes.

Mr. Mike Wallace: And finally, just very quickly, you talked about enhancing the effectiveness of the SR and ED program. I'm on the industry committee, which is why I'm asking. What do you mean by the effectiveness? What is this additional money going to do to enhance this program?

• (1040)

Mr. William Baker: We've been doing a number of things to try to continue to enhance the delivery of the scientific research and experimental development tax credit. In the last while, new money has gone into the hiring, for instance, of more scientists, because as you know, in determining whether an expenditure is eligible for the scientific research and experimental development tax credit, there's an element of science necessary to determine if it's eligible science, eligible research, and then of course there's the accounting side of it to determine the proper amount. We've beefed up our scientific capacity.

We've also done a number of things in the last year with additional money to improve the services to small businesses. There are 18,000 businesses that benefit from SR and ED in any given year, for a total tax expenditure of around \$4 billion, but there has been a long-standing issue of making sure that in particular new businesses that are not necessarily thinking about taxes are aware of the availability of the program and receive the services they need.

The Chair: Thank you, Mr. Wallace.

We'll go to Mr. McKay.

Hon. John McKay: By anyone's standards, the percentage amount of increase that you're asking for in transfer payments is enormous. You're wanting to go from \$46 billion to \$50.7 billion, which is a lot of money—almost \$5 billion, a 10% increase year over year. That's way beyond real GDP, way beyond nominal GDP, and it is, as I say, by anybody's standards, an enormous amount of money in transfers, and it counts for a significant component of the government's budget.

So can you tell me why these amounts, particularly with respect to the fiscal equalization and the Canada health transfer, are such huge jumps year over year? They're enormous given the general rule of thumb, which is that government revenues usually grow at nominal GDP. So somehow or other, this is going to have to be paid for, and either it comes out of other program spending or it comes out of tax revenue. Can you give me the explanation as to why your jump in transfers is bordering on 10%?

Mr. Alfred LeBlanc: Yes.

The main components include the CST, for which an escalator of 3% was set in budget 2007, and the largest transfer, which is the Canada health transfer. As part of the 10-year 2004-05 agreement to strengthen health care, the cash component of that transfer is growing by 6% a year, legislated out to 2013-14.

Equalization in the main estimates is showing a significant increase. This reflects the formula in place prior to measures announced in November, and passed in the budget implementation bill, to put equalization on a sustainable growth path. The number in the main estimates is higher than the actual amount that will be provided for equalization by roughly \$1.8 billion or \$1.9 billion.

Hon. John McKay: Yes, you look like on your equalization you're jumping by \$2.4 billion. What component of the \$2.4 billion is legislatively driven and what component is simply a built-in escalator?

Mr. Alfred LeBlanc: The measures that were put on place in the budget implementation bill have set the equalization program on a sustainable growth path. Basically, it's the three-year average of nominal GDP growth. In 2009-10, I think it's roughly 4.1% or 4.2% growth. It will move in line with that three-year average of GDP growth.

Hon. John McKay: But if I'm going 2008-09 to 2009-10, that's way more than 3% or 4%.

Mr. Alfred LeBlanc: Yes. The actual amount will be about \$14 billion once the measures in the budget implementation bill are reflected in the amounts. The amount in the budget itself reflects the measures that were in the budget implementation bill.

•(1045)

Hon. John McKay: I'm not sure where you're getting your \$14 billion. You're going from \$13.6 billion to \$16 billion.

Mr. Alfred LeBlanc: The \$16 billion is based on the formula that was in place prior to measures that were announced last November and implemented in the budget—

Hon. John McKay: Just so I understand it, if nothing had happened, you would be at \$14 billion, but because of the legislative measures, you're at \$16 billion.

Mr. Alfred LeBlanc: No. It's actually the reverse.

Hon. John McKay: The reverse. Okay.

Mr. Alfred LeBlanc: If nothing had happened, we would have been at \$16 billion. Because of the measures put in place in the budget implementation bill, we are at just over \$14 billion for 2009-10. That amount will grow in line with the three-year average of nominal GDP.

Hon. John McKay: I have just a quick question, then. On the relationship between the incentives for the provinces to eliminate capital taxes, good idea, and with the payment to the Ontario budget of \$123 million to \$150 million, is there a relationship between those two lines?

Mr. Paul Rochon: What relationship are you referring to?

Hon. John McKay: I'm looking at the payment to Ontario of \$150 million. Was that simply a one-off in 2008-09?

Mr. Paul Rochon: I'll let Brian Ernewein, who's the general director of tax policy, answer that.

Mr. Brian Ernewein: The \$150 million is part of the transitional payment for participation by Ontario in the corporate tax collection agreement; it's for Ontario to join in the federal administration of the provincial Ontario corporate income tax. It's not related to the capital tax.

The Chair: Thank you.

Hon. John McKay: There won't be another round, we know that, and I just wanted to see whether there was a connection between the two of them.

A voice: No. Well—

Hon. John McKay: No? Okay.

The Chair: Thank you.

Hon. John McKay: There. See? We don't need another round.

The Chair: Good. Mr. Wallace will probably take it, then.

Voices: Oh, oh!

The Chair: Mr. Wallace, please.

Mr. Mike Wallace: Thank you, Chair.

I'm going to finish up a little in this area with one question for the finance department. The reason I come back to it is that on the numbers in what's happening with the private sector comparison and the numbers that are in here, I expected to see the numbers go up at least a little in terms of employees, and that's not here. It's not reflected here.

That program was announced last year and we're just getting around to it now, so it should have been reflected in the estimates, as far as I'm concerned. I thought it was interesting that the numbers went down in terms of employees, but there's a new program that you're assuming may have caused some changes. For us to have the proper information to be making decent decisions, it's great to have that information.

My question is a quick one. There has been a lot of discussion in the House about the HST in a number of provinces, including Quebec. Do we pay Quebec to collect our GST? What would that amount be every year?

Mr. William Baker: Yes, we've had an arrangement with Quebec from the outset for the administration of the tax. This year, the payment is roughly \$135 million.

Mr. Mike Wallace: How long have we been paying that \$135 million?

Mr. William Baker: Virtually from the beginning. It goes back to shortly after the launch of the GST in the early 1990s.

Mr. Mike Wallace: Around 20 years, whatever it has been. About 15 years then, I guess.

We've been paying that amount to them, but the two taxes are completely separate. There's a GST and a QST, is that not correct? There's not a HST in Quebec.

Mr. William Baker: It's a single administration, but it collects two taxes.

Mr. Mike Wallace: And we pay them for that collection. I see. Thank you for that clarification. I only wanted to be sure of that.

I have one little question for my information. I noticed a change in the reporting, and I'll pick on FINTRAC because there has been no change to the actual amounts, except for its split-up. I think we now call it internal services. I couldn't find internal services prior, even though the number adds to be same.

What caused that change, and what does that mean, internal services?

Ms. Sherry Harrison: In prior years, the Treasury Board Secretariat had asked all departments to reflect internal corporate services. These are things like financial, communication, legal, HR support, as part of and incorporated in each program activity. Starting with these main estimates, they have asked departments to reflect those costs as a separate and intact program activity, so it's a change in reporting structure from prior fiscal years.

• (1050)

Mr. Mike Wallace: The reason for that was to expose more what those costs are, or do you have any sense of why they asked you to do that?

Ms. Sherry Harrison: My sense would be that it is for the transparency of those costs.

Mr. Mike Wallace: Okay, I appreciate that.

I have one more question for the CRA.

You're paying out to the provinces the softwood lumber agreement piece. I don't see anywhere else where you.... To me, you're the tax collector, not the payer. Are there any other programs under which you actually pay out, in a sense? Why is the softwood lumber agreement attached to you and not to, say, Natural Resources or another department altogether?

Mr. William Baker: Are there other programs where we pay out? Absolutely. There's a lot of tax credits.

Mr. Mike Wallace: Tax credits, I see that.

Mr. William Baker: It also includes childcare benefits and all that stuff.

The policy lead on the softwood lumber agreement is, of course, under the Department of Foreign Affairs and International Trade, but they do not have the domestic machinery in place to actually deal with the over 1,000 producers, dealing with the provinces, and the ability to do all of the financial work that is required. So we were tasked with the administration of the agreement.

Mr. Mike Wallace: When I look at the 17%, or whatever number it is off the top of my head, increase in your budget this year, a fair chunk of that is the implementation of the softwood lumber agreement payments. Is that part of that number?

Mr. William Baker: In terms of the overall year-over-year increase, it's the vast majority of the number. Part of that is because we've only been at this for a while. Last year's mains didn't have it. It was covered under the supplementaries. This is the first time you're actually seeing it in the mains.

As long as we have an agreement, this will be a recurring charge.

Mr. Mike Wallace: Am I done?

The Chair: We have three rounds, but the Liberals are not going to take their round. As a result, you can actually continue for a bit.

Mr. Mike Wallace: I have one question.

You did mention that the supplementaries are important to you guys. I am assuming it is because of the budget timing. What should we, as the finance committee, be expecting in terms of supplementaries from you guys this year that is not captured in the mains? If you have any idea what that would be, I'd appreciate it.

Mr. William Baker: I can't speculate on an amount. There's a process, of course, to do that and you'll hear about it in due course.

Certainly you have to go back to the 2009 budget and the measures in there that we are tasked with administering. Perhaps the single most noteworthy thing would be the home renovation tax credit, and that will certainly be featured in the supplementaries or whatever funding mechanism is available to us over the coming year.

The Chair: Thank you.

Do the Liberals want a quick round? We can get a quick question from the Liberals and the NDP to finish up this round.

Ms. Hall Findlay, please.

Ms. Martha Hall Findlay: Thanks very much.

Going back to the TFSA, I want to ask about the advertising expenses. It's something we're dealing with in the supplementaries, but I'd like some confirmation going forward of the amount that has been allocated or spent, or to be spent, in terms of advertising.

The concern was that in the CRA piece there were \$6 million allocated for advertising of TFSA, which seems an awfully big number, given that the banks seem to have been doing a lot of advertising for TFSA. Then we learned that a significant portion of the finance advertising budget—which is a big budget—was also allocated for TFSA.

As a quick question, maybe I can get some confirmation of the advertising budget from CRA that was allocated to TFSA. And if somebody from Finance can confirm it, what portion, how much money from the Finance advertising piece was dedicated to TFSA?

Mr. William Baker: We have a figure, and I will ask Mr. Ralston to give it to you.

Mr. James Ralston: There's an amount of \$6 million in our budget for an advertising campaign for the 2009 tax season, next year's. It's going to be similar to this year's. In other words, the focus this year was on taking advantage of the various tax measures available to individuals. I believe we're going to pretty much follow that same theme for next year. It's not in any way connected to tax-free savings accounts. It's more the general program of taking advantage of the credits available to individuals.

Ms. Martha Hall Findlay: Could somebody from Finance tell us about the portion of the advertising budget?

Ms. Sherry Harrison: In the 2008-09 supplementary estimates (B), an amount of \$5 million was provided to the department for advertising related to TFSA.

• (1055)

Ms. Martha Hall Findlay: So that's \$5 million. Actually it's \$11 million, acknowledging \$6 million not just for TFSA—Finance also had another \$5 million.

Ms. Sherry Harrison: In the last fiscal year.

Ms. Martha Hall Findlay: For the record, that's a lot of money, when the banks seem to have been spending an awful lot of time, effort, and money advertising TFSA themselves. One might question the value of the government's advertising the same thing.

Mr. Alan Freeman (Assistant Deputy Minister, Consultations and Communications Branch, Department of Finance): I'm Alan Freeman, assistant deputy minister for consultations and communications, Department of Finance. Just to make it clear, the \$5 million allocated to TFSA by the Department of Finance was spent in 2008-09. There's nothing in the estimates for the finance department to spend on tax-free savings account advertising in 2009-10.

The Chair: Thanks.

Ms. Hughes, you may ask a brief question, and then we'll deal with our travel budget request.

[Translation]

Mrs. Carol Hughes: My question is for Mr. Rochon. A little earlier you said that the economic forecasts found in the budget were rather conservative. I have three quick questions.

We are beginning the second month of the new fiscal year. Have things changed? At this moment, would you make any changes to your forecasts? Have corporate tax revenues dropped more quickly than what was expected in January?

Mr. Paul Rochon: In general, we are always analyzing and trying to understand what is going on within the economy, particularly these days. Indeed, there is a great deal of change going on, be it in terms of economic development or from a budgetary point of view. This is a very turbulent period.

With regard to corporate taxes, at the current time in the 2008-2009 fiscal year, corporate tax revenues are slightly lower than what we had forecast in the budget. On the other hand, if we take a more global look at all the financial forecasts, at the current time they seem to be pretty much in keeping with what we provided in the budget.

As for your more general question about a review of our forecast, we have not made any definitive decision in this regard. It will be up to the minister and the government to decide when to give another update.

[English]

The Chair: Thank you.

I want to thank you all for coming in today and for responding to our questions on the estimates. It's been a very informative session. If anything has to be followed up, please provide that information to the clerk as soon as possible and we will ensure that all members get it. We want to thank you for your attendance here today.

Colleagues, I have a couple of housekeeping items. First of all, next Tuesday from 9:30 to 10:30 we have a meeting in this room with a delegation from Pakistan. I believe it's members of their finance committee.

The second thing is the request that I hope to be making to the Liaison Committee today with respect to our proposed short trip to

Washington. You all have the travel budget request and the justification for travel in front of you.

Can I get someone to move these?

Mr. McKay.

Hon. John McKay: I have a point of clarification. Are we expected to use our travel points to get down there? That seems to be the presumption. Yes?

Well, that could be a problem if you're on Canada-U.S. You have four points, and I've already used one. This will be my second point, and it's only June. I suspect that's true for pretty well anybody who takes an active role in Canada-U.S. I don't mind, but I want to flag this for anybody who is interested in Canada-U.S. parliamentary affairs. We're using up our personal budgets to participate in committee work. That's not quite right.

The Chair: Well, it's true—I'm an executive member of Canada-U.S. as well, so it affects me too—but I think the rationale....

The first thing the Liaison Committee would ask me, I presume, would be, "Why are you not using the points allocated to fly from Ottawa to Washington?" If the committee so desires, I could put that forward, but....

• (1100)

Hon. John McKay: Perhaps when you're making your presentation, you could flag the issue. I would not like to be in a situation, nor would you, where in December or February we wanted to participate in something and we couldn't go because we'd used up our points.

The Chair: Yes, that's a fair point.

Mr. Pacetti.

Mr. Massimo Pacetti: Thank you.

I just noticed something. If we claim our points, are we going to be able to ask the committee for the per diem? Aren't we supposed to claim our per diem when we claim our points?

This is mainly administrative, but I'm not sure whether, when we claim our points, we shouldn't be claiming our per diem as well on our expense reports.

The Chair: You mean claiming it with your points rather than with the committee.

Mr. Massimo Pacetti: Yes. I don't think we have to. We can claim the per diem here. We're not doubling up, right?

I mean, we can leave it. The budget is fine. I just wanted to check this out administratively. I have no problem using my points, but if there are members who need to use their points for Canada-U.S., we could maybe allocate an extra one or two spots on the budget and increase it, if need be.

But I have no problem utilizing my points. I know that's been an issue in the past, even when we travelled on committee.

The Chair: Do members want to amend this request, then?

Mr. Massimo Pacetti: I'm fine.

The Chair: Does anyone want to move it?

Mr. Massimo Pacetti: I can move it.

The Chair: All in favour of this travel budget request?

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: Mr. Wallace.

Mr. Mike Wallace: For our purposes, and for the purposes of the people who fill our spots and stuff, when will you know if it's official that we can go? Is it official that it's happening?

The Chair: I have to go to the liaison subcommittee at one o'clock today. The House must approve it. So the whips have to approve it.

Mr. Mike Wallace: Right. So will that be in a short period of time? Have you any idea?

The Chair: It depends very much on the whips. As you know, I don't control our whip, so...

Monsieur Carrier.

[*Translation*]

Mr. Robert Carrier: I just wanted to check something. Will the committee be meeting next Thursday?

[*English*]

The Chair: This Thursday we have a meeting from 9 a.m. to 11 a.m., our normal slot. Next week we switch to 3:30 to 5:30 in the afternoon, Tuesday and Thursday. Tuesday morning we have the meeting with a delegation from Pakistan from 9:30 to 10:30.

[*Translation*]

Mr. Robert Carrier: Thank you.

[*English*]

The Chair: Thank you.

This meeting is adjourned.

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