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Chair

Mr. James Rajotte

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•(0845)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order, the 59th meeting of the Standing Committee on Finance. Pursuant to Standing Order 108(2), we are continuing our study of tax evasion and offshore bank accounts.

We're very pleased to have two guests with us here this morning. First of all, we have Mr. Lawrence S. Rosen, Accountability Research Corporation. Thank you for being with us here, Mr. Rosen. And we have Mr. Arthur Cockfield, associate professor, Faculty of Law at Queen's University.

Gentlemen, you will each have up to 10 minutes for an opening statement, and then we'll have questions from all the members.

Mr. Rosen, we'll begin with you when you're ready.

Mr. Lawrence S. Rosen (Accountability Research Corporation, As an Individual): I won't take 10 minutes.

The main point that I've noticed in testifying before standing committees is that usually I'm off topic, because some of what I'm doing, of course, overlaps into other areas, and I keep getting the comment back, "You're not sort of in our compartment right now." Again, at the risk of being off topic, there are a couple of points I want to make.

First, I have a handout. It's translated, and on the second or third page I start to list all of the reasons why there can be these offshore bank accounts. Given that we've done quite a few of the major sorts of securities scams—I guess that's a polite word—and quite a few of the failures of the major Canadian companies, we of course run into the offshore bank accounts all the time.

I just don't want to somehow leave the impression that people just take money offshore and leave it in an account in Switzerland, or whatever it happens to be, and earn pitiful interest rates. In the cases we've had over the years, for the most part somebody works some sort of securities problem. For example, they sell short; they do all sorts of other trades. There are restrictions on securities, but they ignore that and sell them anyway.

So the money then gets sent to a particular location, and within hours it gets flipped out of there into other locations. On that particular basis, trying to track these things is not at all easy. Mostly we've had to bring in other specialists with the problem. So this is not a situation where you just look at it and say somebody has something in a bank account. Where did it come from, to me, is the problem.

If you look at just the CRA attacking "particular accounts", they could be gone days or even hours later. And this is not going to stop, because the root causes of most of these are, for example, people getting ready for a divorce and they send offshore. But the ones that trouble me immensely are the ones that arise from securities situations where trades that are barely legal, if at all, then end up offshore and the money gets transferred.

So if you look at this logically, eventually that money has to end up in territories where someone is going to get a decent return on investment. When you look at it that way, these plans are set up long in advance. I'm going to send it into A, then to B, then to C, then to D, and then finally it's going to be placed somewhere else.

Quite often you're going to find that lawyers' trust accounts are used to launder the money. Quite often you're going to find that these plans were put together by professionals, and as long as they are left exempt, that's not going to solve any problems.

We have, at this point, a major problem in Canada that is not being addressed at all, which has to do with where we're going to have these offshore accounts, etc., in a few years. This is a subject called international financial reporting standards. This was brought into Canada with virtually no debate. This affects the provinces as well as the federal government, and this is such a totally different concept we've had in my lifetime of how one counts income.

Many of these offshore accounts and so on are the result of Ponzi schemes, where you represent to people that you are giving them a return on investment, but all you're really doing is giving them back their own money. So if that's the basis for what is happening, then we have to look at how you minimize these Ponzi schemes, because that's where you cut off the money going offshore.

•(0850)

So these international financial reporting standards...it's not being monitored in Canada. It's being pushed by the audit community. It is based on European ethics and standards. We are sending out information to our clients about all of the frauds that can be worked through this IFRS. I have given up, quite frankly, but I've tried, along with my son, to alert most of the cabinet ministers and so on across Canada that this is a problem.

So what is the problem? The problem is, how did IFRS get brought into Canada with virtually no debate? Despite what's been said, it's been misrepresented as principles based and everything else. So we left control in self-regulating organizations for mutual funds, for investment dealers, auditors, and so forth, and there is the problem that then leads to the offshore.

There's no doubt in my mind. If you check my track record, we called the Nortel failure years in advance. We called the business income trusts years in advance. We had involvement with the asset-backed commercial paper to point out that the accounting and reporting didn't work. For leveraged ETFs, the same thing. If you look at Loewen Group, Cott, and so on, we called these in advance, so we're not stupid people. On that basis, somebody should be paying attention, and we've tried to do it through Finance, repeatedly, to say that this is a major problem.

So just trying to sum up where I am, I'm saying that many of the real serious problems start long before the bank account is set up offshore. If that is not looked at, in conjunction with whoever has to look at it, then you're picking the low-hanging fruit, so to speak, instead of dealing with the most serious problems.

Thank you.

The Chair: Thank you for your presentation, Mr. Rosen.

We'll go to Mr. Cockfield.

Mr. Cockfield, I just want to make you aware...you did give me your presentation, but we have had it translated for all the members. So they already have your presentation in both French and English, just for your information.

• (0855)

Mr. Arthur Cockfield (Associate Professor, Faculty of Law, Queen's University, As an Individual): Thank you.

And thank you also for this invitation to provide comment on this important issue. I'll also make very brief opening remarks. I'll touch on three areas. I'll discuss what is international tax evasion, try to gauge the extent of the problem for Canadians, and then discuss possible reform initiatives.

Of course, this is quite a complex and tricky area of tax law. Tax evasion generally requires a purposeful non-disclosure of income. This is to be contrasted with tax avoidance, which really involves attempts to engage in tax planning while complying with all relevant Canadian and foreign tax laws.

I just thought I'd note up front that our Income Tax Act encourages international tax planning, encourages the use of offshore tax havens for devices like double-dip financing, where you place a financing affiliate in your tax haven.

So my comments will only focus on tax evasion and not avoidance.

What is encouraging the enhanced international tax evasion? Tax academics have focused on two particular factors: globalization and technology change. Of course, globalization is shrinking the world, bringing us closer together, encouraging a greater provision of cross-border financial services, but also, importantly, there is the technology change. We have this information technology revolution. It's making it cheaper and easier to shift funds offshore. It's leading to the development of certain financial products, like offshore credit cards. These became more prevalent around 15 years ago. If a Canadian shifts his or her moneys offshore, she can now have a Bank of Nova Scotia branch in Barbados and have a credit card issued to that bank. The credit card is used to make purchases here in

Canada, but there's no paper trail because all of the invoices get sent directly to Barbados.

In terms of gauging the extent of the problem, nobody really has their head around what sorts of revenue losses we're looking at. I'm not aware of any empirical studies that try to measure this problem. That would in any event be problematic due to the fact that this is illegal and secret. These offshore havens have bank secrecy laws that make it a criminal offence to divulge financial personal information to any third parties.

For comparison purposes, a U.S. Senate permanent subcommittee, back in 2006, estimated that U.S. residents are evading between \$40 billion and \$70 billion each year as a result of tax evasion. So they spent a lot of time half a decade ago looking at this problem, but they also acknowledged that this estimate is quite tentative.

How much is really in these havens, not just from Canadians but from folks all around the world? Again we don't know. Estimates range from \$5 trillion to \$38 trillion. The latter figure is from a Boston consulting report.

I think there is some good news, and that is that when tax academics measure tax compliance and they prepare these comparative international surveys, the surveys show that the vast majority of Canadians are honest. Our tax compliance rates are among the highest in the world.

But—and I think this is in part why this committee's work is so important—there are a lot of stories, anecdotes, that suggest international tax evasion is on the rise. Page 2 highlights some of these things. I won't get into them in any detail, but our Auditor General, Sheila Fraser, in 2001 and 2002, in those reports highlighted really aggressive international tax planning, not evasion. Nevertheless it brought some attention to the issue, and subsequently there were more resources devoted to fighting the problem, resources given to the CRA and elsewhere.

Then the other stories, which I think you've heard from other witnesses, about the Liechtenstein bank, the UBS Swiss Bank, and most recently the HSBC Swiss bank, all suggest that certain Canadians are engaged in this illegal international tax evasion. We've seen a rise in audits and moneys recovered from these audits. A previous witness here from the CRA indicated that in 2009 alone, \$1 billion was recovered from international activities. It wasn't clear whether that's attributable to evasion. In fact I think for the most part it's audits of aggressive international tax avoidance.

● (0900)

So we suspect that the problem is on the rise, and what can we do about it? Well, again, page 2 of the memo sets out a number of possible reform initiatives. I've listed them in order of what I consider to be the cheapest, most realistic options to the more difficult options. I won't touch on all of them. I'm happy to answer any questions.

The first issue is that Canada needs to ratify the Council of Europe and OECD Convention on Mutual Administrative Assistance in Tax Matters agreement. We signed it in 2004. I've been told in the past by people at Finance that legislation has been introduced on several occasions to ratify this agreement, but for reasons that of course have nothing to do with this particular agreement, that legislation wasn't passed. In any event, the agreement is not in force in Canada, and it ought to be ratified.

Another possible reform effort could involve a public education campaign that would emphasize the criminal sanctions. Possibly, we need enhanced audits and even greater resources to the CRA. The Auditor General wrote about this in her 2007 report, but then she appeared later on that year before this committee, the standing committee, and indicated that the progress was satisfactory. So there is a view that maybe there are sufficient resources. But since 2007, again, we've heard all of these stories that suggest the problem may be greater than we previously realized.

I would advocate reforming the voluntary disclosure program. I think it's generally working, but it could be tweaked. The one recommendation I'll mention up front is to have a temporary reduction in the interest penalties, and this could be done by removing a subsection in the Income Tax Act, subsection 220(3.1), I think, that indicates there can be no interest relief beyond a 10-year period. But when I talked to lawyers in Toronto and elsewhere, their clients have had these accounts, some of them at least, since, say, the 1980s and they're not getting any interest relief. So the penalty, in their view, is so large that they're not coming forward and entering into the program. Again, the purpose of the program is to rehabilitate these tax cheats, and I think there could be certain steps to reform the program.

TIEAs are one thing that has been on the policy horizon in Canada since the 2007 budget, tax information exchange agreements. It's an open question whether they'll actually work. We've been signing them. The OECD currently is in the review stage of looking at them. Many tax scholars who have written in this area suspect that they won't work, there won't be meaningful cooperation by the tax haven countries. Perhaps we ought to offer incentives to certain countries to engage in this meaningful cooperation.

The bottom of page 2: the problem could be fixed, although it may require a level of global cooperation that's currently unrealistic. In a 2001 article that I wrote—it came out in the *Minnesota Law Review*—I set out a potential regime using the Internet to share taxpayer information, a secure extranet among all participating tax authorities. If we got all of the fairly wealthy countries, the OECD countries, to agree to it, then if they had absolute information sharing, we could impose a withholding tax on any payments outside of these participant countries. I'm not sure, again, whether that is politically feasible.

Then, finally I thought I would highlight taxpayer privacy. I'm a tax researcher, but I've also been a member of the Queen's Surveillance Study Centre since 2001. We conducted in 2005 an international survey of 7,000 respondents in eight different countries, and the Canadian respondents indicated that they were quite worried about their privacy; in particular, they're worried about foreign governments and foreign businesses misusing or mishandling their personal information.

So this is the tricky part: we want to be aggressive and go after the tax cheats, but the other side of the equation is we need to do it in such a way that it continues to preserve their taxpayer rights, including privacy.

Elsewhere, I've suggested that a multilateral taxpayer bill of rights might actually encourage heightened information sharing among different nations, because sometimes the Canadian authorities, other tax authorities elsewhere, are reluctant to share information because they don't know how that information is going to be treated. They don't know whether that information is going to be treated in the same way that would be required by their domestic law. But if we all got together and agreed on the threshold of legal protection for taxpayer rights, it actually, in my view at least, would enhance information sharing and would help to fight international tax evasion.

● (0905)

Thank you.

The Chair: Thank you very much for your presentation.

We'll begin members' questions with Mr. Szabo, for seven minutes.

Mr. Paul Szabo (Mississauga South, Lib.): Thank you, gentlemen.

There's no question that there are many elements to the problem, and the committee understands that there's no simple solution. But there is probably a preferred direction in terms of dealing with it. Some things are very long term.

Let's deal with Mr. Cockfield's suggestion of basically having a multilateral treaty among countries who are concerned about this, and let's all get together and come up with these strategies. I want to ask both of you whether or not a complex arrangement like that is even possible, given how difficult it is even to enter simple trade agreements with countries and how long that takes. I'm concerned about using that approach of let's get everybody together. That may be able to improve it. Should we, in lieu, establish a Canadian approach to the elements of a Canadian problem?

Mr. Arthur Cockfield: I agree that a multilateral treaty would be particularly problematic, and I think, in the first instance, Canada should try its own approach. We've been doing a pretty good job. We may be able to improve it. There are certain unilateral measures that we can take. Again, I've listed them on page 2.

With respect to this multilateral treaty, you're correct in pointing out the difficulties. In fact, the Convention on Mutual Administrative Assistance—the one I'm trying to get Canada to sign.... There are only, currently, 16 signatories. I think Germany and Canada have yet to ratify the agreement. It's only enforced for 14 people, and it's been a number of years since that convention was first created.

International taxes is particularly an interesting area to study from a public international law perspective, because in all other areas we've seen over the last half century the rise of multilateral agreements, world trade organization agreements, but now we only have bilateral agreements in Canada and elsewhere to preserve tax sovereignty.

Mr. Paul Szabo: Mr. Rosen, do you have any thoughts?

Mr. Lawrence S. Rosen: I'm coming from the bias that for years and years we've been doing these major director-officer-auditor-corporate failures. We also do some of the matrimonial, and so on. But when I look at the dollars that I have personally seen over the years go offshore, the vast majority is as a result of some sort of securities trickery.

If Canada wants to go it alone, then it has to do something about the securities picture in Canada. This is not a national securities regulator issue. This is more a prosecutor-type issue. It's clamping down on the trading and on the people who are getting the tax advice to do certain things.

The one that annoys me the most is when there's a prohibition on trading shares—it's a private placement or a corporate buyout. In these situations, you can't trade those shares for six months or a year, or whatever it happens to be. Yet these people are able to sell to these intermediaries and get the cash upfront, which ends up offshore.

If we can't get serious about better securities prosecution and investigation, I think we're missing most of the big money.

Mr. Paul Szabo: That's an excellent point.

In terms of the approaches, the United States decided they were going to have a good, big look at this, and they did a lot of work on it. Canada hasn't. That tells me something, and it concerns me.

When we look at approaches to problems just in a generic sense—there's the carrot and the stick and combinations thereof—one of the suggestions in the papers is about, effectively, some sort of an amnesty approach, where people are encouraged to clean up their stuff, come out even more than the voluntary disclosure program, but for a limited time. It probably would then have to be followed up with more severe penalties for those who decided not to come out.

Do you have any evidence or information about how an approach of a temporary amnesty and possible changing of the penalties under legislation might have a success rate worth looking at?

• (0910)

Mr. Lawrence S. Rosen: My feeling is that you'd clean up some of the act's past sins, so to speak. But I don't see that this helps at all as long as you can keep on working Ponzi frauds and things of that nature. Yes, amnesty is okay. Bring in the low-hanging fruit. But I've never really liked that concept, because it doesn't solve the major problem.

Mr. Paul Szabo: Do you have some comment? My time is up.

Mr. Arthur Cockfield: I would support a temporary amnesty on just the interest penalties, not the back payment of taxes.

There is a view by lawyers—and I haven't seen a study on this—that the interest penalty is supposed to help us get at the present value of the tax debt. If people haven't been paying taxes for several decades, the interest penalty will bring it up to the present. But because the interest is applied on an accrued basis, then the tax debt or the ultimate penalty far exceeds both the original tax debt and any kind of return the person may have earned on this investment.

There is a view that this would help clean up a number of dishonest secret accounts. I'm basing this on discussions with international tax lawyers working out of Toronto, whose clients are not entering into the voluntary disclosure program because first they ask, "Will I get caught" and then they ask, "How much is this going to cost me?"

If you compare our program with the American one, in some respects the American program is more lenient. Maybe they've seen a great uptick in people stepping forward with voluntary disclosures.

The Chair: Monsieur Paillé.

[*Translation*]

Mr. Daniel Paillé (Hochelaga, BQ): Thank you, Mr. Chair. Thank you, gentlemen, for being here with us.

Since I was myself a university professor at the École des hautes études commerciales, HEC Montreal, I can confirm that university professors habitually go off on tangents. However, this was not the case with you and you have defined the issue very well.

First, I must say I agree with you. Indeed, we cannot determine the income tax-related shortfall because if we knew that, we would know where to go and get the money. That's obvious. Tax evasion is like a prisoner's evasion. When a prisoner has gotten away and you know where he is, you can go and get him. It is the same thing in this case.

As you both mentioned but in different ways, the problem concerns very large businesses. SMEs are not trying to set up fiscal evasion mechanisms. They might try and do a little tax avoidance to pay as little tax as possible since the objective of private companies' chief financial officers is not only to maximize profits, but to pay as little income tax as possible. So we are talking about big business acting this way, and not ordinary individuals.

So it is not every Tom, Dick and Harry, as certain political parties say. Nor does this concern the average taxpayer; but the very wealthy and large taxpayer attempts tax evasion. So the impact is quite considerable.

I would like to attempt to make a link between your two presentations. Mr. Cockfield, one can see on the second page of your brief that there has been an increase in the number of audits, but one also senses that there has been an increase in tax evasion. More and more, we get that impression.

Mr. Rosen, one sees on page 5 of your brief that we are losing ground because of the IFRS, the International Financial Reporting Standards, and the blind use of generally misunderstood accounting standards that no one understands, even in a business that has good accounting practices. These accounting practices are like large clouds within which only the corporation's accountant or a tax specialist can navigate. So we are looking at a sort of de facto deregulation.

Mr. Cockfield or Mr. Rosen, is that not one of the reasons that explains the "open bar" in Canada?

● (0915)

Mr. Arthur Cockfield: I apologize for not being able to reply to you in French.

[English]

This is my hometown, and I studied in the French immersion system here, but

[Translation]

the technical language is too difficult for me.

[English]

I think I understood most of what you said. You were asking me about the level of tax evasion. We don't know what the problem is, but we see an increase in the audits and the amounts recovered. That doesn't necessarily mean that in fact the problem is greater. We're devoting more resources to the problem, and we're recovering more revenues, and that might be simply as a result of the more effective approach by the CRA.

I'm not sure if I got the rest of your question. I apologize.

Mr. Daniel Paillé: Okay. Maybe Mr. Rosen could comment.

Mr. Lawrence S. Rosen: I'm not too sure I got your final point either.

[Translation]

Mr. Daniel Paillé: On page 5, you are denouncing the change in these standards, saying that we are going back 50 years in time and opening the door to several fraudulent machinations. Is that why in Canada there is more tax fraud?

[English]

Mr. Lawrence S. Rosen: No. Just to come back to the point, this IFRS came into Canada just January 1 of this year, so we haven't even seen the first-quarter results.

[Translation]

Mr. Daniel Paillé: So, things will get worse.

[English]

Mr. Lawrence S. Rosen: Absolutely they have to get worse, because we have thrown away closures we've made over the years. I've probably done a dozen of the big financial failures in Canada involving financial institutions, and one of the tricks they use there is

to not collect the cash but to keep on increasing the assets of the loan company and increasing their profits.

Mr. Daniel Paillé: Indeed.

Mr. Lawrence S. Rosen: And this has gone through the Alberta bank failures, to Castor Holdings in Montreal, to Confederation Trust. I've done all of these things. So on that particular basis, this IFRS has abolished all the prohibitions.

[Translation]

Mr. Daniel Paillé: I have a lot of reservations as to the voluntary disclosure program that is used in Canada. This puts me in mind of the voluntary opting-in of provinces in other areas. Isn't there a problematic permissiveness in the fact of not having any sanctions? You said earlier that the real value of cumulative interest would be so enormous that people won't want to disclose anything.

Is there a lack of leadership on the part of tax authorities in Canada, plain and simple?

● (0920)

[English]

Mr. Arthur Cockfield: No, I would disagree. I think the CRA is doing a good job. For last year, 2009, they have indicated that they have dealt with 3,000 disclosures. I don't think they've been lax. I think there may be some structural problems with the disclosure program itself. Sometimes taxpayers complain that there's a lack of certainty. They don't want to come forward because the rules aren't sufficiently certain for them to clear up their debt.

I think on one hand you're right that we need to worry about the reaction of other Canadian taxpayers, honest taxpayers, who might wonder why these tax cheats are being dealt with in a lenient fashion, but on the other side, I think the voluntary disclosure program should be looked at as a rehabilitation program. It's a way to encourage these dishonest taxpayers to become honest, to bring them into our program of paying taxes on an annual basis.

There's always going to be a problem with giving a break to tax cheats, but I suppose it's like having a bird in one hand versus two in the bush. We'd rather have some money.

The Chair: Thank you.

Mr. Rosen, be very brief, please.

Mr. Lawrence S. Rosen: The other reason you don't get this compliance is that the original deed in the first place was probably criminal. So unless the tax people say they're not going to investigate what happened in the first place to get the cash that then went offshore....

The Chair: Thank you. *Merci.*

We'll go to Ms. Glover, please.

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you, Mr. Chair.

Once again, welcome to the witnesses.

I'm hearing over and over again that the original reason for people doing this tax evasion is typically criminal, or they're hiding money from a spouse because they're about to go into divorce. It's all bad from what I've heard. They were talking about needing to protect their interest to make them come forward. It goes against my philosophy, which is that you do the crime, you pay the time, so to speak. But at the same time, I appreciate your advice on this.

Monsieur Paillé was trying to get to the tax gap and the ability to determine how much is actually missing, how much is actually sitting in offshore accounts. And although it would be nice to know exactly how much is out there, that poses a significant challenge. I think Mr. Cockfield estimated that it's between \$5 trillion and \$38 trillion, which is really a big spread. It's a huge spread.

Can you just explain to me what the challenges are in actually getting to determine how much is being held in offshore accounts that is tax evasion?

Mr. Arthur Cockfield: I think the main challenge is the fact that all of these tax havens, at least to my knowledge, maintain bank secrecy laws. As a researcher, if I went to Switzerland, say, if I hopped on a plane and started to talk to either tax authorities or folks in banks, their answer would be, "If I reveal any information to you, I will go to jail. It's a criminal offence in my country to divulge personal financial information to any third parties."

For that reason, we really have no idea how much is sitting in these tax havens around the world. Some studies have suggested that half is in one country, Switzerland. Sometimes in Canada we tend to focus on the Caribbean tax havens, but in fact they're relatively small players compared to some of the European havens.

Then, of course, Switzerland is a developed country with a very sophisticated financial sector. They did agree, for the first time in history, to share bank account information with U.S. authorities because of the UBS scandal. My understanding is that Canadian regulators also went and asked for information. They told us to go away. This was in part because the U.S. had conducted their Senate investigation that revealed this particular bank was sending people to the U.S. and they were pitching illegal tax evasion. Well, it turned out they had a Canada desk and they were doing the same thing here in Canada. Nevertheless, they refused to cooperate with us.

I should also highlight the fact that unlike Canadian banks, the Swiss government actually maintained, I believe, a 25% ownership in UBS at the time of all these scandals. So the government was a partner, in effect, with the banks. They subsequently divested their ownership interest in UBS. I'm not sure if they maintained interest in other banks. But because of the secret nature, because of these bank secrecy laws, nobody really has been able to estimate in any concrete fashion how much money is out there.

• (0925)

Mrs. Shelly Glover: I'm really glad you brought up Switzerland, because there was an article on February 16 from the Associated Press that talks about the Swiss government wanting to relax its demands on foreign countries that are seeking help to look into tax evasion situations. In fact, the country is looking at easing the rules because they're afraid, and it says right in the article:

The country has gradually eased its banking secrecy rules in recent years to avoid being blacklisted as an "uncooperative tax haven".

I encourage you to continue to push. It sounds like they are willing to share because they know we're all talking about it and we're all looking at them as a potential tax haven that is doing damage to our countries.

In any event, Mr. Cockfield, you did an interview, and the *Toronto Sun* wrote about the interview and you're quoted as saying that:

...wealthy Canadians evading the taxman here by burying undisclosed assets and income in offshore accounts should be "quaking in their boots,"....

What did you mean by that?

Mr. Arthur Cockfield: I think that was in reference to the WikiLeaks potential disclosure. There's another possible scandal that hasn't really hit yet. A Swiss bank clerk has given information he stole from a Swiss bank, I think a Cayman bank, to WikiLeaks.

I may have said "quaking in their boots" to the reporter, but the truth of the matter is that there have been greater disclosures of these secret accounts, and if I was a dishonest taxpayer who had used one of the banks this fellow had been working at, I probably would be quaking in my boots.

As I think I also noted in that article, the problem with the WikiLeaks disclosure is that it would also disclose potentially honest taxpayer activity. Canadians with global business operations use bank accounts in Switzerland and elsewhere for completely honest purposes. They have full disclosure to the CRA. In contrast to other scandals such as the one where the Germans gave us the information from a Liechtenstein bank, this is going to show up on the web. It hasn't occurred yet. It will probably get some folks quaking in their boots, but it will also reveal honest taxpayers, which could pose a security risk for them and create privacy problems.

Mrs. Shelly Glover: I think they may actually take advantage of the voluntary disclosure program. Since 2005, the number of people who have come forward under the voluntary disclosure program has doubled. I firmly believe that the more the media report our getting access to the information, the more people will be encouraged to use our program so that they can try to get out of this without being charged, not that they don't deserve to be charged.

Go ahead, Mr. Rosen.

Mr. Lawrence S. Rosen: When you try to trace these accounts, how many people are going to actually do something in Canada that's iffy and then have the account in their personal name? When we trace these, they're in joint ventures, they're in lawyers' trust accounts, they're in corporations. They're multi-layered; they're in all sorts of other trust arrangements. So the tracing sounds easy, but it's extremely complex, especially when you have them moving from territory to territory.

Mrs. Shelly Glover: You said you use specialists. Which ones do you use? You said that in the beginning of your—

The Chair: That's the last question.

Mr. Lawrence S. Rosen: They are not in Canada. They're for the most part American and English. When they get to a certain point and say they need money to bribe somebody, we say goodbye.

• (0930)

The Chair: We'll go to Mr. Allen.

Mr. Malcolm Allen (Welland, NDP): Thank you, Chair.

Thank you, gentlemen.

I find myself in agreement with Ms. Glover. We don't always agree, but....

Mr. Cockfield, when you talk about a voluntary compliance program...my understanding is that CRA has a voluntary compliance program for Canadians here who may not have filed a tax report four or five years ago, for instance, and nine times out of ten they just pay the interest, unless you have somebody represent you.

I guess there are two questions, and this kind of goes to both of you, I think.

It seems to me that folks who are actually bringing their money back, who are actually voluntarily complying...it must be because they want to actually repatriate the money they've actually put over there, because otherwise, if you want to leave it over there, what do you care? If you're bringing it back, you're bringing it back for a reason. Maybe it's an inheritance issue. You might be elderly. Maybe it's going to a family. Maybe you're trying to move it into a different business that might be legitimate. So we're allowing that to happen as a voluntary compliance piece and we're saying to them that it's okay to bring it back: we want you to bring it back; you can cut a deal with us and we'll reduce the penalties outstanding for you—never mind the moral piece about how we're actually rewarding you for doing something that was illegal.

It seems to me in the criminal justice system it's the only time we actually reward folks for doing something illegal in the first place. If I break into a Mac's Milk store and nobody catches me but one day I say I did it, the authorities don't say to me, well, let's cut a deal because you voluntarily told us that you've broken into the Mac's Milk store when you were 14. It doesn't work that way.

The other side is—Mr. Rosen, I will let Mr. Cockfield start, and then if you could help me with this....

Maybe I heard it wrong, but it seems to me that you are suggesting that this money being voluntarily repatriated—and looking, through advisors or whomever, for some sort of a deal, if you will, that's less punitive than what's established at the moment—seems to have

started out as perhaps even illegal in some cases. I think you actually said it's now the majority of cases.

If that is true, we're now saying bring back the money that went offshore illegally—that was actually generated by illegal activity—and somehow we give someone a break for that. I hate to tell you, but I would have a tough time going back to workers at John Deere, whose plant disappeared, and saying to them that it's okay for folks to get that kind of deal when we couldn't save their jobs.

I wonder if both of you could talk about that issue. How do we make that salient with Canadians?

Mr. Arthur Cockfield: It is a very tricky balance. In terms of what the profile is of these Canadian taxpayers engaged in international tax evasion, I think you'd see a lot of different types. You'd see the contractor who doesn't have withholding obligations imposed on him and he makes a million dollars, discloses \$500,000, and puts the other half offshore.

There may also be, I've speculated in the past, a kind of unique taxpayer to Canada and certain other countries with lots of immigrants. Let's say a hypothetical taxpayer moved to Canada from Hong Kong and had \$100 million in savings in 1990. They come to Canada, knowing that once they're a Canadian resident they're taxed on their worldwide income. That total \$100 million earned outside of Canada will then be subject to Canadian tax, so before they move here they put it into an account offshore. That's another person who didn't initially generate illegal moneys to be put offshore. Then you've got the drug traffickers, etc. There's also a concern that tax havens are being used to finance international terrorism. We've got FINTRAC and other measures to address that.

As a concluding comment, I think fear is the main motivation for entering into these voluntary disclosures—not trying to repatriate the money. They can probably get it back here in some fashion, through offshore credit cards or some other device. They're worried that they're going to be prosecuted criminally, and therefore they're entering into these disclosures. It's kind of like a plea bargain the crown enters into with counsel for the accused. I mean, some Canadians probably aren't happy that we engage in this plea bargaining process in our justice system to move people more efficiently through the system and for other objectives—to encourage rehabilitation, etc.

That's how I look at the voluntary disclosure program. It's not going to make a lot of Canadians happy to see that folks get a break; nevertheless, we want to bring them into our paying system, to rehabilitate them, and to get their tax revenues to pay for roads, schools, etc.

• (0935)

Mr. Lawrence S. Rosen: I sympathize with your point about the average person trying to save and hoping to keep their money and having a pension and so on. In fact, we wrote a book on this a few months ago.

I know a bunch of you probably don't agree with this, but I see the ugly side of it every week. The prosecutions do not occur. There are very, very few situations that actually end up in court, where there's a sentence and so on. If that side of Canada is not dealing at all with these various situations, then the CRA decides not to go after penalties and so on. What do you care, as somebody who has been working these types of activities? You don't.

The pressure isn't there right across Canada. We have had so many court situations, and I've seen these people laugh. The contempt for Canadian securities regulation is extremely high, and to pretend otherwise is not being realistic.

The Chair: You have time for a very brief question, Mr. Allen.

Mr. Malcolm Allen: Thank you.

Following up on that, Mr. Rosen, the “white-collar crime”, as they call this moving of money, used to be called the victimless crime. I would suggest that my friends from Quebec, some of the victims who have lost their pensions and their livelihoods at the age of 75, are indeed victims.

Mr. Lawrence S. Rosen: I would agree a hundred percent with you.

The Chair: Thank you.

We'll go to Mr. Brison, for a five-minute round.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you very much for your insight today. It has been very instructive. It is one of the most productive witness sessions we've had on this topic.

Mr. Rosen, you've spoken of the inefficacy, if not of securities regulations, then of the capacity to prosecute successfully. Do you agree with many who say that the OSC is not as effective in concluding successful prosecutions as the SEC, as an example?

Mr. Lawrence S. Rosen: It's not just the OSC. I've testified in many other courts across Canada. I cannot honestly point out any of them that are strong in pursuing these.

We've had pathetic situations. Because of contacts with these particular law firms and so on, we have agreed to help on a case, and we find the securities commissions drop the case; they just do not put in the effort.

Hon. Scott Brison: Is it a question of resources?

Mr. Lawrence S. Rosen: No, it is a multiple-level issue. It's a question of whether the Canadian public cares enough and the lawmakers see this as a priority. On the leadership—I've been on the prosecution side for the OSC, but it was some years ago—you need that courage to proceed.

Hon. Scott Brison: Do you believe the SEC is more effective?

Mr. Lawrence S. Rosen: The SEC, as far as I can see, probably cuts off 70% of what we see in Canada being successful. With regard to the other 30% or 25%, whatever that is, I have doubts, but some of that was because of the administrations at the time.

The point is that the stock market crash in 1929 was followed up in the U.S. by SEC legislation in 1933-34. Canada stuck with self-regulating organizations. They collapsed in effectiveness 20 years ago. I find it exasperating that we keep clinging to these groups as being successful. They're the ones that got us into this IFRS mess.

● (0940)

Hon. Scott Brison: Have you considered what the potential impact of the merger of the LSE and the TSX could be on prosecuting securities fraud and tax evasion?

Mr. Lawrence S. Rosen: I've done probably 15 interviews on TV and radio since this came up. Yes, I've thought about it quite a bit. What bothers me is that we have the bottom of both of these. You have AIM in London; you have the TSX Venture Exchange. Most of those are iffy companies; maybe 10% or 15% are okay. There's another group that is suspect; there's another group that should not be invested in. It bothers me that suddenly Canada is going to have a whole batch out of England, and who's going to know what about it?

Hon. Scott Brison: You believe that the merger of the London and Toronto stock exchanges could actually exacerbate the challenges we face in tax evasion?

Mr. Lawrence S. Rosen: Partly. The other side of the coin is, don't forget the volumes of both of these exchanges are dropping. I don't think there's a good business argument for not letting them merge. It's a lesser-of-evils situation. As long as we have weak prosecutions in Canada—and I'm being kind by using the word “weak”—it is a problem that needs monitoring.

The Chair: Keep it short.

Hon. Scott Brison: Mr. Cockfield, you mentioned having a multilateral extranet to share this kind of information. You also cited WikiLeaks and other challenges. If we were to share more information using technology in an extranet type of format multilaterally, would that not create huge risk by making this kind of private information vulnerable to hackers?

Mr. Arthur Cockfield: That would be a concern. There may be technological mechanisms, encryption and so on, that would help to inhibit the risk of leaks. Currently, the only country that Canada engages in so-called automatic information sharing is the United States. We exchange bulk taxpayer information, mainly with respect to U.S. or Canadian residents engaged in cross-border portfolio investments. So if you open a bank account at the Bank of America in New York City, and it generates portfolio interest payments, the financial intermediary is mandated to collect it. It's shipped back and the CRA reviews it. That process has been going on for at least a couple of decades. To my knowledge, there haven't been any leaks. I think it may be possible to create this extranet and secure it from outside access.

The Chair: Monsieur Carrier.

[Translation]

Mr. Robert Carrier (Alfred-Pellan, BQ): Thank you, good morning, gentlemen.

Mr. Rosen, a document prepared by the Library of Parliament researchers says that Canada recently signed information-sharing agreements for tax purposes in certain countries and territories such as Anguilla, the Bahamas, Bermuda, the Caymans, etc. You are certainly aware of this. I think that in order to be able to be apprised of certain facts, this exchange of information is essential.

What do you think of these agreements? Is this an effective tool to solve the tax evasion issue? What results have there been? How much money do you think this has allowed us to recover?

[*English*]

Mr. Lawrence S. Rosen: I do not know the answer to the question about how much money was recovered. For the Barbados, I'd have to refresh my memory. But with the Cayman Islands, you would first of all have to prove that there was some criminal activity before you could get the access. This is the agreement the U.S. has with them. I don't think Canada's agreement goes beyond that, but I may be wrong. Given the circumstances of having to go into a Cayman court and wait your time before there is a trial and everything else, I would like to see the results. My gut feel is that it's not going to be terribly successful.

● (0945)

[*Translation*]

Mr. Robert Carrier: You think that it won't be all that useful. Is that what you are saying?

[*English*]

Mr. Lawrence S. Rosen: I think they can be partially useful. Again, you're talking about the low-hanging fruit concept, as opposed to seriously curing the problem. The point still is, why does that money go offshore? Many times it goes offshore because of other suspect or worse activity. I don't see that this is even being addressed, perhaps because it's not part of Finance.

[*Translation*]

Mr. Robert Carrier: In your presentation you mentioned several reasons why certain investors turn to tax havens to evade tax. That is useful, but I think that this is the way of the world and that we are not going to change human nature. The objective is to avoid abuse of our regulation and to ensure that taxation is fair for everyone.

Mr. Cockfield, what do you think of the information-sharing agreements that our country signs with certain other countries considered to be tax havens? Do you, like Mr. Rosen, think that this is not all that useful?

[*English*]

Mr. Arthur Cockfield: I actually had the chance to advise the government, the advisory panel on Canada's system of international taxation, two years ago on this issue. The interesting thing about TIEAs, tax information exchange agreements—and none of them are in force yet. We've negotiated them, but to my knowledge none of them are currently working. The jury is still out. Our government, in 2007, decided to negotiate these not to fight international tax evasion but because at that time they had passed a tax rule to inhibit something called double-dip financing. We needed to trace interest payments to tax haven countries. It wasn't to attack the tax evasion problem. Nevertheless I think it is a helpful reform.

I am somewhat cynical. I don't think it will help too much. There are a number of reasons why tax scholars are suspicious that it won't help. Those TIEAs are to be distinguished from our Barbadian treaty. Since the 1970s, we have had a full-blown tax treaty with Barbados that includes an exchange of information provision in it. So it's not a TIEA.

Previously governments, such as that of Switzerland or the Cayman Islands, would share information with us only if there was an allegation of criminality or fraud. The TIEAs don't require that. That's no defence. They have to share the information even if it's just regular old tax avoidance or there's no allegation of fraud.

These are positive developments, but I still don't think we'll see meaningful sharing.

[*Translation*]

Mr. Robert Carrier: Some of the clients of our Canadian chartered banks invest in branches of those banks that are established in recognized tax havens. What do you think of the role of those banks?

[*English*]

The Chair: Could we have just a very brief response, please?

Mr. Lawrence S. Rosen: The ones I run into are fairly careful if they are Canadian banks. This goes back to the Bank of Nova Scotia situation many years ago, in which they had to go through a thorough investigation. I know of certain people and so on who will stay away from the Canadian banks as a place to put their money. In Cayman, there are 500 other choices. Why would anyone go to the three or four that are Canadian owned?

In that sense, that's been effective.

The Chair: We'll go to Ms. Block, please.

Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC): Thank you, Mr. Chair.

I'd like to echo my colleagues' welcome and thank you for being with us today.

My questions and comments will be directed to Mr. Cockfield.

In your opening remarks, you mentioned that Canada is participating in a number of international organizations when it comes to dealing with the avoidance of taxes and tax evasion. You mentioned the OECD, the Joint International Tax Shelter Information Centre, the Seven Country Working Group on Tax Havens, as well as the Pacific Association of Tax Administrators.

Right after that, you stated that any significant reforms will require greater levels of global cooperation. I'm just wondering whether you would agree that it's important for Canada to participate in these international partnerships. If you do, could you elaborate on why it's important?

● (0950)

Mr. Arthur Cockfield: I absolutely think it is important that we continue to participate. In fact, Canada typically plays an important role within the OECD, the Organisation for Economic Co-operation and Development, which is the main international body that drives international tax reform efforts. They're the ones that in 1996 began, through their harmful tax competition project, attacking aggressive international tax avoidance by multinationals, but it also has led to attention focused on international tax evasion.

It's important to continue our participation, but the OECD is only 30 countries. It's sometimes referred to as the rich countries' club. It's highly criticized by the Bahamas, Barbados, and elsewhere for ignoring their interests. All non-OECD countries, of course, don't play a formal role. Increasingly, the OECD is giving them observer status so they can at least watch and maybe deliberate some of these international reform efforts.

Yes, we have to keep pushing internationally, but just given the political economy of what's out there, countries have always been very reluctant to bind their tax systems together. We all want to preserve the political right to make whatever taxes we wish, unlike in trade laws and other areas that I mentioned. So that's the main barrier. On the one hand, we realize we need enhanced global cooperation, and on the other hand, the U.S. and certain other countries, at times, prefer a go-it-alone approach that maybe inhibits our addressing this problem in a multilateral fashion.

Mrs. Kelly Block: Canada is one of 95 jurisdictions that have agreed to the international standard for exchange of information, including providing access to bank information. We also have an extensive network of tax treaties. I think we're one of the largest, with 87 treaties in force.

I heard you respond to my colleague's question, talking about the Barbadian tax treaty, in response to his question about how effective tax information exchange agreements are. Can you highlight what is the difference between a tax treaty and a TIEA?

Mr. Arthur Cockfield: A tax treaty is a full-blown bilateral agreement that governs all cross-border income tax flows. It doesn't typically concern itself with consumption taxes, like our GST. It gives tax relief for certain things. Traditionally, if you're a Canadian multinational and you open a corporation in Barbados, then because of the fact that it was a tax treaty, you could bring all the profits from that Barbadian entity back to Canada on a tax-free basis. So we give reciprocal benefits, a whole host of tax benefits.

TIEAs are much shorter agreements that only focus on one issue, namely, the exchange of taxpayer information. As mentioned, we have 87 bilateral tax treaties. We've had them in place, I guess, since they started, since the First World War. But the TIEAs are a new thing. None of them are in force currently. Again, they just focus on this narrow area of taxpayer information exchange.

That's another reason that certain observers are cynical as to their ultimate feasibility, because if you don't give benefits to a country, a tax break, why should they cooperate? They can sign the agreement. We force them to—the OECD, the G-20. We've put them on potential blacklists if they don't sign. So they've all agreed to sign, but it's an open question whether they'll actually enforce the agreement. They have really no incentive to enforce it. We're not giving them anything, unlike in the Barbadian tax treaty, in which we give them certain tax breaks, certain rights. It encourages actual investment via multinational firms, typically. So the TIEAs, again, are very narrow in their focus.

• (0955)

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 an interesting panel.

Mr. Cockfield, I think in your opening remarks you said that you're in favour of Canada signing agreements with OECD countries, if I'm not mistaken.

Mr. Arthur Cockfield: Well, we already have agreements with all the OECD countries.

Mr. Massimo Pacetti: And you think it's a good thing. Is that right?

Mr. Arthur Cockfield: Absolutely.

Mr. Massimo Pacetti: I'm not saying it's a bad thing, but I'm just saying it's irrelevant in terms of catching tax cheats, because if I'm trying to hide money offshore, I'm not going to go to an OECD country. I'm not going to put my money in Germany or the U.S.

Mr. Arthur Cockfield: Right. I think the point I was trying to make is that if these countries—that's where all the tax cheats are located—could agree to a multilateral treaty, they could create a system. Reuven Avi-Yonah, an American academic, has written extensively about this: you would impose a withholding tax on any payments outside of this group, and that might shut it down.

All the money is coming from the OECD countries, and you're exactly right, it's leaving these developed—

Mr. Massimo Pacetti: So how would you tax the money when it leaves? Why couldn't you do that now, even if you didn't have all the OECD countries on board? Why couldn't you do it unilaterally?

Mr. Arthur Cockfield: We try to. Our laws mandate the taxation of these funds. The problem is that nobody discloses it.

Mr. Massimo Pacetti: Even if you were to have an agreement, whether it be with five extra countries or 37 other legitimate countries that actually tax transactions properly, I don't see how you would monitor that.

I understand your point, but I'm just not sure how that would—

Mr. Arthur Cockfield: I agree. The larger point I think you're making is that there's always going to be leakage in the system. I'm saying there could be more comprehensive multilateral cooperation, but there's always going to be leakage.

In similar problems that are occurring, we're cracking down on tax havens, and some of them are cooperating and some of them aren't. The OECD has reviewed certain countries and it said they're not meaningfully implementing the TIEAs. As long as you have one country that's not playing ball—and this is your point, I think—then you're going to have leakage out of our system.

Maybe there are ways to reduce the problem, but I don't think it will ever go away.

Mr. Massimo Pacetti: We have a little bit of time. Perhaps you could expand on this amnesty, and I could get both your comments, Mr. Cockfield and Mr. Rosen.

There are two problems. It's a short-term problem, in terms of getting the money that's out there now, and then there's the long-term problem of how you stop it from happening again.

The short-term problem is the question of amnesty. I've been hearing conflicting remarks from both of you. You're not in favour, but you say maybe it's the best thing to do because our authorities are not necessarily going after tax cheats. You say there's no energy, no money, no resources.

In the short term, would amnesty be the preferable solution? Nobody, I think, is questioning the fact that these people should be getting away with it, but in other jurisdictions it has worked.

The penalties are maybe a bit too extreme, and it's not encouraging people to come back, but in the short term, don't you want some of that capital to come back?

Perhaps you could try to keep your feelings aside in saying we're not going after them or they don't necessarily need to get a free pass. There has to be a way we can get some of that money in the short term, and then find another mechanism to avoid it from happening in the future.

Mr. Lawrence S. Rosen: Yes, but this is a cost-benefit issue. It's a long-term issue, as you mentioned.

Again, I see the amnesty as the low-hanging fruit, which one gets tired of hearing about in politics across the country because it means you don't deal with the issue.

If we want to take whatever money is available and, let's say, put it into—

Mr. Massimo Pacetti: It's not "if". My question is, do we want to? You're the expert.

Mr. Lawrence S. Rosen: I'm saying we absolutely have to. On the side of what is motivating the people in the first place to collect this money—mostly beyond the Criminal Code—I would rather see the effort go into that side, rather than going into a temporary collection.

The money is not freely available, as everybody in the room knows. Let's put it where it's going to have the most motivating effect in discouraging the people with these security scandals.

• (1000)

Mr. Massimo Pacetti: You're saying the money to enforce is not readily available.

Mr. Lawrence S. Rosen: Absolutely.

Mr. Massimo Pacetti: Then wouldn't you be in favour of an amnesty right away, and then eventually more—

Mr. Lawrence S. Rosen: Financing your longer-term by the low-hanging fruit? I can't disagree with that, but how much are you going to get?

Mr. Massimo Pacetti: That's what I'm asking you.

Mr. Lawrence S. Rosen: Look, I see nasty security scams virtually every day in this country that go uninvestigated. What is wrong with us that we—

Mr. Massimo Pacetti: As a taxpayer, doesn't that bother you? As an accountant, I see that as well, and it bothers me. But I feel that with some of them who are doing this it would just take a bit of encouragement and they would come back into the system. That's what I see.

The Chair: Make your final point, Mr. Rosen.

Mr. Lawrence S. Rosen: I've been on the side of getting prosecutions that have been effective. I know how much effort is required to do that. I see some of these other ones reported that, gee, we didn't get a conviction here, there, and everywhere. Just look at IMET, for heaven's sakes, and how much money has gone into that. I would rather see us put in a solid effort on a couple of the high-profile cases and get the message across to the rest of the world that Canada means business.

The Chair: Thank you.

We'll go to Mr. Hiebert.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you.

There are lots of questions here. I ask you to try to keep your answers brief, if possible.

Mr. Rosen, in your submitted document you make the statement that after 9/11 the U.S. pushed to limit finances paid to terrorists and tightened up certain transactions. Then you say, "If the so-called "clean-up" goes too far, however, implications can be extensive. Certain islands that have multiple merits could be forced into bankruptcy and poverty. How far reform should/can logically proceed are vital matters."

Could you explain that? You're saying that if Canada, the U.S., or some other country goes too far to tighten these transactions, certain island tax havens are going to lose such a large portion of their revenue that they'll go bankrupt.

Mr. Lawrence S. Rosen: Let me make myself very unpopular. The situation I see from time to time is that governments want money to go to other countries, and they have causes and agendas and everything else. If you go so far as to cut off a government having a slush fund that most of us would agree should be spent, then you've gone too far, in my opinion.

Why do we pretend that the offshore is being used by everybody but various governments, various charitable organizations, and various philanthropists? It is being used for those purposes, and if it's a protection of democracy, I personally agree with it. There is a fine line in there, and trying to pretend that this is not happening in the world is just being extremely naive, in my opinion.

Mr. Russ Hiebert: So that goes to your list of legitimate and illegitimate uses of offshore tax havens?

Mr. Lawrence S. Rosen: Yes.

Mr. Russ Hiebert: It includes support for democracy using special funds, among other examples. Is that what you're referring to?

Mr. Lawrence S. Rosen: That's unfortunately the way the world operates, and I don't know of another way of doing it. If I did, I would suggest it, but we can't pretend it doesn't exist.

Mr. Russ Hiebert: So you're basically saying there's a limit to how far this tracking should go; otherwise we undercut legitimate purposes but illegitimate methods.

Mr. Lawrence S. Rosen: It's up to the parliamentarians to try to trace the funds that are coming out. How far they go is a personal and party choice.

•(1005)

Mr. Russ Hiebert: You made some strong comments in your opening remarks and also in your document here about the international financial reporting standards, the IFRS. You stated that it will open up many "previously-closed nasty schemes that are worse than tax evasion".

Can you elaborate on that?

Mr. Lawrence S. Rosen: I don't see the point of us talking across Canada—and I'm not talking just federally—about protecting seniors. We had this report that just came out recently calling for more public education, and so on.

If we seriously want to protect pensions, and everybody agrees it's important, why don't we knuckle down and take the steps that are necessary to prevent these deregulations?

IFRS involves massive deregulations. It puts all the power in the hands of corporate management. I've tried to run courses for directors and so on with not much luck. The auditors are protected by a Supreme Court of Canada decision. There's nobody monitoring this IFRS and management control.

We are turning out lists for our clients saying, "Here's how the books can be cooked under IFRS where they couldn't be cooked before under Canadian GAAP." I sent letters across Canada.

Mr. Russ Hiebert: So you're saying that you're more concerned about pensioners and holders of investments and mutual funds and what have you, because the corporate managers will use this new-found freedom to swindle their shareholders, and that would be far worse than the tax havens we're talking about?

Mr. Lawrence S. Rosen: Yes, because the dollars are monstrous. I'm not guessing. We called Nortel years in advance. This was billions of dollars. It was the same thing for the business income trusts. You can go through a long list of situations that we've called as problems. I have given files to IMET and other people and said, look, these are ridiculous, they have to be investigated. The talent is not there, the money isn't there, and so on.

I see this as a growing problem. There's no sense telling people we're going to protect their pensions when we're doing essentially nothing to ensure the protection exists.

The Chair: Thank you.

We'll go to Mr. Szabo, please.

Mr. Paul Szabo: The underground economy is also a problem. It's much smaller, I guess, according to the anecdotal evidence out there, but we don't even seem to have a good strategy to address the problems of the underground economy. Maybe it's a little simpler to

deal with simply because it's a domestic thing, and we're not worried about all the creativity or the international intrigue.

What strategy are you aware of in terms of addressing the underground economy itself, and would it be reasonable for us to consider the principles underlying that strategy?

Mr. Arthur Cockfield: Boy, that's a tricky question. I think one thing that's helped in recent decades is the GST. One of the reasons a lot of tax scholars support VATs and GST and international consumption taxes is that they encourage compliance, because to get your rebate, you have to file your return with the government. So there is some empirical evidence that those have helped to reduce the amount of the underground economy. It's just very tough.

My understanding is that Canada's underground economy probably compares favourably with those elsewhere, certainly with those of countries outside of the OECD, for instance. We don't have a corrupt government here. Surveys indicate that we have high taxpayer morale, in part because most taxpayers trust the system. Most of us pay. Most of us trust. This is in part why this hearing is so important, because you're encouraging a greater trust within the system, and we don't want people to bail into the underground economy.

Mr. Paul Szabo: Mr. Rosen, do you have anything to add? You don't have to.

Mr. Lawrence S. Rosen: There are many relatively easy ways of doing this. You can just sit in a restaurant and observe the cash register and see how much cash actually gets into a pocket versus the cash register. There are dozens and dozens of these.

Mr. Paul Szabo: It's under the counter.

•(1010)

Mr. Lawrence S. Rosen: They are used from time to time by CRA, to what extent I don't know. But the point is we aren't cracking down on a lot of this.

Mr. Paul Szabo: It's nice to say we're good boy scouts, but relative to the size of the population, the numbers are not that much greater in terms of the percentage of the financial flows that are out there. I think this is a fallacy. I think we are as bad as any other jurisdiction because we have lawyers, accountants, and consultants—aggressive people—out there. They know ways. They'll all find ways. They'll get you. No matter what you do, they're always at least one step ahead of you.

The reality here is, do we need to start maybe a multifaceted approach? What is the accounting profession doing? What are its responsibilities? And the same goes for the lawyers and the tax professionals and the consultant groups. There are so many people involved. You can't do this as an individual and say, "I'm going to set up a tax haven." There are other people involved. There has to be a ripple effect. You have to be able to find links.

I think it's naive to think they're untouchable. Privacy issues and respecting that privacy are a problem for us, but you need to start somewhere, and the ripple effect and the domino effect have to be there. I just don't see any enthusiasm for really dealing with the problem.

Mr. Lawrence S. Rosen: I agree with you 100%. There are many ways these things can be attacked. I often get into court and say, "Gee, this is a novel trick that was used. I wonder who advised them how to do this." It certainly wasn't the client. So these things have to be pursued.

Mr. Paul Szabo: You are a noted authority on forensic analysis and accounting, and actually a former professor of mine.

Mr. Lawrence S. Rosen: I'm now being accused of having produced a manual for the crooks.

Mr. Paul Szabo: There you go.

And do you know what? The more people who know about it... All of a sudden, people will try, but they will never have the finesse to be able to pull it off and they'll get caught.

The Chair: You have 30 seconds.

Mr. Paul Szabo: Let's get back to generic approaches. What's the balance between deterrence and "I'd rather have you back in the system" or amnesty? It's the deterrence end. But where is the balance?

Mr. Arthur Cockfield: To my knowledge, there have been no criminal convictions for international tax evasion in Canada, at least within the last decade. This is to be contrasted with the Americans, where there hasn't been a whole bunch, but there have been select cases. They've highlighted them; they've publicized them. The U.S. Senate put all the names in the report. And that does act as an effective deterrent.

When you talk to crown attorneys in Canada or to people who work for the justice department and consider these potential prosecutions, they say they don't bring them forward. It's so difficult to get a conviction. It's this *mens rea* element. You have to prove beyond a reasonable doubt that the taxpayer had a guilty mind. They were not trying to avoid taxes in an aggressive fashion in the grey area of tax law, but they're actually trying to cheat the government out of taxes.

It would be a good idea for our crowns to identify a special case where it's quite obvious the person is engaged in tax evasion. They have evidence of this guilty mind and make an example out of that person. That, combined with a temporary amnesty, would be a nice combination.

The Chair: Thank you.

Mr. Rosen, I think you had a note you were writing down.

Mr. Lawrence S. Rosen: No. I essentially agree with what he was saying.

The Chair: Thank you.

A voice: Pick up milk on the way home.

Mr. Lawrence S. Rosen: No. It's to clue in the members right across Canada that they have to do something about IFRS.

The Chair: Thank you.

We go to Ms. McLeod, please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you, Mr. Chair.

Certainly it's been a fascinating conversation. We've headed down a very different track today.

I need to make a couple of comments first. I know Mr. Rosen lives in that dark world of fraud, but 95% of our taxpayers are honest and upfront. So in spite of—

Mr. Lawrence S. Rosen: You say 95%. Can you prove that?

Mrs. Cathy McLeod: The other thing that I actually found fascinating is this. Mr. Allen is talking about there being victims of white-collar crime. We heard about how people laugh at our system and our consequences. Yesterday we had a vote where, thankfully for the Bloc, we actually had some support for what we're doing and where we're going, in terms of repercussions for white-collar crime. I certainly hope some of the opposition have been listening to this; there are victims and we need to have consequences and repercussions. That's a really important take-away from this particular conversation.

I will head toward a question. Most of our focus has been on low-hanging fruit. And we've heard from previous witnesses that a number of things have come together. We're now in a position to actually go after that low-hanging fruit in a much more aggressive way. The structure is getting into place, so we'll be tackling that low-hanging fruit.

Mr. Rosen, I really appreciate your comments around upstream and how we really need to also be looking at the source.

Was I hearing that there are lawyers all over this country helping people set up systems to help them evade taxes? Is that what I heard?

• (1015)

Mr. Lawrence S. Rosen: You can go to certain lawyers who will be very helpful, yes. Is the word out on the street what lawyer to go to? To some degree. It's not something I have completely sampled. It's not just the lawyers; it's the accountants as well.

Mrs. Cathy McLeod: What do you think we need to do about that piece?

Mr. Lawrence S. Rosen: I've hammered two or three times at this: self-regulating organizations. This has not worked in Canada for years. We keep clinging to it. The evidence is overwhelming for self-serving.... As long as the discipline is occurring within the accounting organizations or within the mutual fund organizations, you can see the results of those. They're published. The fines are abysmal, and that type of thing. We have to lift out of that and have oversight groups.

The oversight groups that exist in Canada now were put together by the self-regulating organizations. I've said many times to them, "I'm not that stupid. I know why you picked A, B, and C for the oversight committee." So in that particular sense, although philosophically people don't like the idea of more government, more government is needed in certain cases, especially in the securities area and especially.... IFRS had no business getting into this country. And the only reason it did is because everybody sat silent and said "Let the self-regulating organization do what it wants." It's completely absurd. I don't know what else to say about it.

So the government has to step in, in certain cases. I'm not saying build a huge empire, but at least, if we're living next door to the U.S., let's have some reregulation instead of deregulation.

Mr. Arthur Cockfield: Could I respond to that as well?

A brief defence of IFRS. I used to be a securities lawyer in Toronto, and my understanding is the main rationale is to enhance efficiency within the capital market. So when I would prepare a prospectus or an offering memorandum as a securities lawyer, it would comply with Canadian GAP—I was also trained as an accountant—but then I would create a separate document, or we'd hire counsel in New York to create a separate document, to comply with U.S. GAP. The theory is that if we all play by the same rules, this will make it easier for Canadians to invest in the U.S. But that—

Mr. Lawrence S. Rosen: That's a complete misconception.

The Chair: Order.

Mr. Arthur Cockfield: That was the main theory by the people who put it all together, and we've heard there are some problems.

The government can do more. Last year, in the budget, they introduced enhanced reporting for those who market aggressive international tax, and I think that was an important step.

In the late 1990s, there were a variety of scandals. KPMG was subjected to a heavy fine because they would go to a multinational CFO, for instance, and say, "I can save you \$500 million in taxes next year through my international tax shelter, or whatever I save you, I'll take 30%." This led to a proliferation of these sorts of schemes, which are tax avoidance and not evasion. They're attempts to reduce global tax liability while complying with all rules.

Now we're forcing the marketers to disclose. I do think the accounting profession could be better regulated, but regulating lawyers is a different story. I'm a member of the Law Society of Upper Canada, and we don't like government interference. We don't want the government to tell us, for instance, to disclose confidential client information. But I think, certainly for the accountants, enhanced disclosure is required.

The Chair: Thank you.

We'll go to Mr. Allen, please.

Mr. Malcolm Allen: Thank you, Mr. Chair.

I'm always fascinated when lawyers say they don't want to actually disclose things they happen to know about. It might be legal, client privileges being the mask, but that's a debate for another day.

I'm interested, Mr. Cockfield, about this sense of harmonizing regulations with the U.S., if you will, to make it easier...as you talked about that one example. And I give credit to the government side, who trumpeted that our regulations in the banking sector saved us from what happened in the U.S. It seems to me, if we want to harmonize with the United States, from that perspective, maybe they should have gone the other way and harmonized with us.

Here's my point. We were selling—not us, personally, and not you either, Mr. Cockfield, but folks were selling a pig in a poke for the last three years. Whether they call it derivatives or asset-backed paper, you name it, it would be fascinating to know how much of that money actually found its way to offshore banks. I would suggest a fair amount.

If we lose the oversight ability, in the sense that we give it up to someone else whose history, quite frankly, albeit short.... I wasn't around in the thirties, so I'm not really sure what happened then—I can read about it—but I lived through the last 10 years and saw the devastation, not just to the U.S. market, U.S. consumers, and U.S. workers, but right across the world. We got off a little bit lighter than some other places. The one thing I see, not as an expert—I'm not an accountant, nor am I a tax lawyer—that was absolutely true about all those jurisdictions, including the U.K., and I grew up in Glasgow, Scotland, was that they went to deregulated or self-regulated markets where they said, "Trust us."

My old granny used to say, if you've got 5¢—or in her case five pence—and you don't know the guy who's asking for the five pence, do you trust him or do you keep your own five pence in your pocket? So if we look at recent history, where folks who self-regulated almost wrecked the financial world—almost, they came within a hair's breadth—why should we trust them?

• (1020)

Mr. Arthur Cockfield: Those are all very legitimate points. There's the banking sector, and of course I think you're exactly right, we shouldn't replicate the American reforms. They got rid of the 1934 Glass-Steagall Act. That was the problem. They had a regulated sector, they deregulated it, and that led us into a lot of these problems.

But with respect to the accounting and tax evasion and disclosure of financial statements and so forth, the Americans have actually been aggressive here. Post-Enron and WorldCom, they introduced federal legislation called Sarbanes-Oxley, because of all the various scandals involving accountants and at times hidden revenues and so on. And then, in turn, we matched that legislation. Sometimes the nickname is SOX, for the U.S., and we call it Can SOX here. So we are regulating to a greater extent our accountants, following the U.S. initiatives.

In some circumstances we probably should follow them, but in others, I absolutely agree with you. With respect to the banking sector, we should not follow the U.S. reforms.

Mr. Malcolm Allen: Dr. Rosen, do you have any comment?

Mr. Lawrence S. Rosen: The U.S. banking system is totally different. I took my graduate studies in the U.S. and had to do various reports on this. You can't compare a half dozen big banks in Canada to literally thousands and thousands of state-regulated banks in the U.S. Canada was easier to regulate.

Also, I'm on the same floor as OSFI, in Toronto, and I don't want to make my life in the elevator any worse, but—

Voices: Oh, oh!

Mr. Lawrence S. Rosen: —I'm standing on that.

Still, the general point that you're getting at is, for sure, how can we deregulate accounting when the rest of the world—most, unfortunately—is going in the other direction? I belong to all the big accounting associations, so I'm annoying all of them at the moment. They went with this international stuff and deregulation without understanding all the loopholes. They're beyond belief. Unattainable is the idea that you will have one system across the world. You can't even do it in three companies in Canada.

The Chair: You've got a very brief question, if you want it, but it has to be very brief.

Mr. Malcolm Allen: It seems to me we're at a juncture where either we believe we need to regulate these markets and what happens or we believe they are capable of actually looking after themselves.

Does that seem to be the juncture for you on that?

• (1025)

Mr. Lawrence S. Rosen: The evidence is overwhelming that they have messed up the Nortels and the business income trusts, and on and on. We can't gather evidence to support this. It doesn't exist.

The Chair: Mr. Pacetti.

Mr. Massimo Pacetti: Mr. Rosen, on that note, can you circle the circle? What does the Nortel fiasco have to do with tax havens? You've stated it on a few occasions. What does that have to do directly with tax havens and offshore bank accounts?

Mr. Lawrence S. Rosen: Where do you think the money went that those people made? That stock went up to \$124, and there were people doing all sorts of things with it—shorting it. They were also the executives, and I can't comment because there is this eventual criminal trial. There was a lot of those types of things. The money is all over the place. There were the business income trusts. You were taking companies that were ready for failure, or had already failed, and you were selling them as future income producers, when they didn't have any income. Nortel didn't have a profit under any sort of fair accounting. They rejiggered their figures and paid bonuses on a fake profit figure.

Mr. Massimo Pacetti: They were recording sales even before it happened, based on—

Mr. Lawrence S. Rosen: Where is the money? I think I know where a lot of it is, but it would take a fair bit of proof.

Mr. Massimo Pacetti: You believe that if these companies are policed, there doesn't necessarily have to be any oversight or closure to people doing business in offshore tax havens.

Mr. Lawrence S. Rosen: I didn't say that. I'm just saying that you can probably cut off 70%, 75% of scams that you can work in Canada just by having a few pieces of decent legislation that provide the resources to investigate and prosecute.

Mr. Massimo Pacetti: How does somebody walk into Nortel and say they shouldn't be using offshore bank accounts, or that they shouldn't be transferring money from one account to another? We've been hearing that companies need to operate in offshore havens, and that there's a legitimate reason for it. We're talking about businesses particularly.

Mr. Lawrence S. Rosen: I'm talking about the individuals who are trading the stocks, getting the bonuses, and so on. This is all published. It is in the *National Post* and *Canadian Business*. We said, "Look, here's what these guys are doing. You should not be investing in this stock, because this is all artificial in the way the numbers are being produced." That's being directed at the stock brokers, the advisers, the securities part of the banks. It's not picking at the company as such. It's the directors, the officers, and auditors who are involved in it.

Mr. Massimo Pacetti: Mr. Cockfield, there's talk about having a legitimate reason to do business with offshore tax havens.

Mr. Arthur Cockfield: This gets back to my opening remarks on the distinction between evasion and avoidance. Evasion is bad and avoidance is acceptable. This is a free country. We all put our money anywhere on the globe we wish, as long as we comply with customs laws and disclose to the CRA. Industry would scream bloody murder if we tried to stop access to tax havens.

Certain countries are doing this: France is, and the U.S. has made some recent moves to cut back on tax haven use. Our government tried to attack the main problem, which is the double-dip financing, through the 2007 budget. This is the main revenue leakage. When you place an affiliate, you make a loan and get a deduction here in Canada, and the moneys come back tax-free. And then the government lost. They reversed their decision, in part because of the recommendation of the advisory panel.

Mr. Massimo Pacetti: One of the reasons we started with this study is that banks have a legitimate reason to use offshore tax havens. Again, I'm not sold on that. But let's assume that companies require these tax havens to do business. I can't see why an individual would need that.

• (1030)

Mr. Arthur Cockfield: Again, there is some legitimate usage by Canadian individuals and others. For instance, if you have foreign business operations around the globe, and maybe you have multiple homes around the globe, presumably you'd have offshore bank accounts. I think that's probably the rare case, and you're right that this is used mainly to avoid.

Sometimes they're used for asset protection—going back to the multinationals' captive insurance companies—but asset protection is perfectly legal as well. You set up a trust in an offshore account. Maybe you want to protect it from the spouse, as somebody mentioned earlier, but typically it's from certain business creditors. I don't think we should try to stop usage, but from the multinational aggressive avoidance perspective, the government has undertaken a lot of initiatives with respect to the accounting profession. Enhanced disclosure could help. We could have avoided the Nortel-type situation if firms and their accountants were disclosing to the marketplace what they were up to, if there had been greater transparency. Then Canadians would have yanked their moneys out, presumably, earlier from Nortel. But in terms of evasion, I don't think you can stop people from using it, because this is a free country and you can put your money wherever you want, as long as you follow all the laws.

The Chair: Thank you.

Thank you, Mr. Pacetti.

Monsieur Carrier, s'il vous plaît.

[Translation]

Mr. Robert Carrier: Thank you.

I share Ms. McLeod's opinion; she was talking earlier about victims. We are studying this topic today because we are concerned by the situation of those who must assume an additional tax burden because others are avoiding their taxes.

Mr. Rosen, you said in your conclusion that it is much more reasonable, when it comes to prosecution, to target those bank accounts that are clearly being used to defraud taxation authorities, and that we should then quickly undertake criminal prosecution. That is a nice statement, but do you think that the Canada Revenue Agency staff has everything it needs to do that? How is it possible to identify these bank accounts at source?

[English]

Mr. Lawrence S. Rosen: I think we're saying the same thing. What I'm trying to say is there are certain transactions and events in Canada, as in the case of Nortel, which was asked about before, in which you have to ask where that cash went, because many Canadians lost, and the losses were in the billions of dollars. So then you go after those transactions, and you may find that these are very clever people and they will take it through five or six different jurisdictions and end up in one where the laws are not going to protect you.

But there are others you can trace—and we have done this before—and we have turned some of them over to the police forces. So it can be done, but it has to be focused, and it requires a fair bit of effort and a client behind you to pay for these.

[Translation]

Mr. Robert Carrier: You seem able to identify these cases directly, but does the Canada Revenue Agency have the necessary expertise to identify these problems at source? If we could identify the bank accounts that are exported abroad and then analyze that right from the beginning, that would be ideal.

Do you believe that the Canada Revenue Agency has all the tools that it needs to do that?

[English]

Mr. Lawrence S. Rosen: I think as I said in the material distributed, that compartmentalization drives me crazy, with the various governments across Canada, because I'm always off the particular subject. So cooperation has to occur across different government departments, and this can be done. I don't see any reason, for example, why in a number of the cases I've had, OSFI or its predecessors could not have said, look, this stinks, with regard to Northland Bank or Canadian Commercial Bank or something like that.

So if CRA sees its role too narrowly, then it's a problem, but I think that requires a bit more cooperation, among multiple committees, including standing committees, to say let's get our act together.

• (1035)

[Translation]

Mr. Robert Carrier: I would now like to talk about the role of the OECD.

Mr. Cockfield, the first reform you recommend consists in particular in ratifying the OECD Convention on Mutual Administrative Assistance in Tax Matters. If I understand correctly, Canada signed it in 2004, but it has not yet been ratified. You conclude that this convention would be important to avoid tax evasion.

[English]

Mr. Arthur Cockfield: Yes, exactly. It's the only multilateral tax agreement that Canada participates in. It's the only way for governments as a collective to get together and share information, at least in an effective fashion.

I think it would help to reduce international tax evasion if we signed it.

[Translation]

Mr. Robert Carrier: Generally speaking...

The Chair: You have thirty seconds left.

Mr. Robert Carrier: ... the OECD draws up a grey list of countries that are not participating in the exchange of tax information.

Do you think that this information compiled by the OECD is important? Is it taken into account by Canada?

[English]

Mr. Arthur Cockfield: They are taken into account. The OECD, working with the G-20, most recently reformed the list and indicated that all the listed countries are now in compliance, that is, they've signed 12 TIEAs. The next step is to see whether or not they're sharing information, and as I said, our TIEAs aren't in force yet, so they're not working yet. But certainly the hope is that through this OECD/G-20 process we'll get greater or enhanced information sharing among the countries, but I'm still skeptical it'll work.

[Translation]

The Chair: Thank you.

[English]

Thank you.

We'll go to Mr. Wallace.

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

It's been a very interesting conversation this morning and a little bit different from what we've had thus far. All our guests who have been in front of us have indicated the difference between avoidance and evasion. I like to use a simple example. Buying an RRSP is a tax planning system that's an avoidance. Taking advantage of tax credits that are available, whether it's for your kids' fitness tax credit or whatever they are—those are tax avoidance issues, and I think most people understand that.

But when we talk about evasion, they think of other things, and based on the conversation today, I think the area gets greyer and greyer instead of clearer.

Professor Cockfield, you teach tax law at Queen's. Is that correct?

Mr. Arthur Cockfield: Yes.

Mr. Mike Wallace: Is there a course on ethics for lawyers at your school?

Mr. Arthur Cockfield: There are courses; it is an area. For instance, this year I teach contracts law and I teach extensively on legal ethics and our rules of professional conduct. In two years the law society is going to mandate an exclusive course on legal ethics focused in the first year of our JD program.

Mr. Mike Wallace: You did indicate that at one time you were a professional accountant before you became a lawyer. Is that correct?

Mr. Arthur Cockfield: I was trained as an accountant; I was never licensed as one. So I never apprenticed with a firm.

Mr. Mike Wallace: Okay.

Was there ethics training for accountants?

Mr. Arthur Cockfield: This was at the Richard Ivey School of Business. No, at least when I went through the program.

There is a course. I'm just saying I wasn't trained in it.

Mr. Mike Wallace: The reason I'm asking is we're talking about trying to catch those who are breaking the rules, and I might be very naive about it, but I'm guessing that a number of them...maybe not everybody, but not everybody understands how the system works and how to evade taxes. Somebody has to teach them or show them or give them instructions on how to do it.

We talked about voluntary disclosure and trying to get the money back and not pay interest and so on, but do we have enough teeth in the legal system to go after those who are counselling cheating, breaking the law?

Mr. Arthur Cockfield: Certainly, it would be a violation of the rules of professional conduct of this province and any other province to counsel any kind of illegal activity, to aid and abet in any illegal activity. Are there some bad apples? Absolutely.

Another interesting facet of this problem is the rise in websites that tell you exactly how to engage in international tax evasion. One article mentioned there are several thousand websites now on the

Internet that'll say, "Give me a call in the Caymans. Send me \$150 and I'll set up an account and tell you exactly how to engage in this activity."

It's not clear, at least to me, that it's the Canadian advisers. Certainly, there are a few bad apples, but even if we were to get rid of those, the problem is not going to go away.

• (1040)

Mr. Mike Wallace: Mr. Rosen, I have a question for you, and then I think I'm done.

This morning I was at a meeting with the Investment Industry Association of Canada, and they had a guest speaker. One of the reasons he was interested in and has been an active promoter of a single securities regulator is in the area of prosecuting those who are cheating. On the security side, because we have 10 different security regulators, the issue of catching people who are breaking the rules or the law and actually bringing them to court and getting it resolved is much more difficult. His view was that it's one of the areas that a single securities regulator could add value to this country's ability to protect investors from unscrupulous folks.

Based on your resumé and everything else you've said today, you have been involved in these prosecutions and you've had some difficulty. Is it because these individual provincial regulators don't have the teeth, don't have the money? If we were to go to a single regulator, what would your advice be?

Mr. Lawrence S. Rosen: IIROC is also in our building and we use the same elevator banks.

I'm not against the single regulator at all. What bothers me, within the realm of the single regulator, is that very little has to do with investigation, prosecution, and so on. That's why I want them split off. I don't think what you're describing is going to work.

The people who are handling it also, to be honest, are the wrong mix of people.

Mr. Mike Wallace: You'd like a separate arm.

Mr. Lawrence S. Rosen: It has to be, because we have the situations where you work this particular scam in British Columbia, you scoop out what you can, you move to Alberta to work it, and so on.

The databases don't exist in this country, to my knowledge. Even the lists of the people who are doing it don't exist. That's not going to be collected by the single regulator. It's something they've pushed off down the road.

We have to get a second one going and we have to get a government organization to sponsor...at least, to get away from the self-regulating organizations. Those are the cures.

The Chair: Thank you.

I want to thank our witnesses for being here today.

Mr. Rosen, I do have one question. If you want to follow up with the committee, I'd appreciate that.

You talked about where it comes from is a problem and where it goes. When you talk about either tax avoidance or evasion, you talk about individuals, corporations, or enemies like organized crime. I understand why they're doing that, but I thought you also said that governments engage in avoidance and evasion as well. Then you said it was naive not to believe so.

At the risk of sounding naive, I'm having a hard time understanding how governments do that.

Mr. Lawrence S. Rosen: What the governments do is have offshore bank accounts. I spent 15 years with three of the auditors general here in Ottawa, and the point is, in trying to take the budget information, it's just about impossible to see where that goes. Some of that can easily be leaked into an offshore account for a particular government purpose.

What I mentioned is not tax evasion so much as an allocation problem that leads to offshore accounts that may have acceptable purposes within Canadian ethics and so on.

The Chair: It's more government policy resulting in it rather than governments actually...

Mr. Lawrence S. Rosen: Yes, and it's a choice. Whether the opposition parties know that this is going on or not, I can't comment on that. Things have changed.

The point is, you cannot wipe out all of the offshore accounts when you're using them yourself. That is my point.

● (1045)

The Chair: Okay. If you have anything further on that, I would appreciate that, as the chair.

I do want to thank you both for coming in. It's been a very interesting discussion here this morning. If you have anything further, please submit it and I will ensure that all committee members get it.

Thank you.

Mr. Paul Szabo: Mr. Chair, are we going to deal with this?

The Chair: It's more a point of information.

Mr. Paul Szabo: Okay. Could I raise whether the committee would be interested in hearing from the Auditor General on tax evasion, simply because she did a report in 2007?

The Chair: Yes, you can submit a witness at any time.

Mr. Paul Szabo: Can I just make this a verbal request?

The Chair: Absolutely.

The meeting is adjourned.

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