



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 024 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Tuesday, November 1, 2011

—
Chair

Mr. James Rajotte

Standing Committee on Finance

Tuesday, November 1, 2011

• (1600)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order, and I ask all of our friends in the media to cease recording, please.

Thank you.

It's our pleasure today to welcome the Minister of Finance, The Honourable Jim Flaherty, to the finance committee to discuss Bill C-13, An Act to implement certain provisions of the 2011 budget as updated on June 6, 2011 and other measures.

Minister, it's a pleasure having you here. We have you here for one hour, from 4 p.m. to 5 p.m., and then we'll have your officials after that. We want to welcome you to the committee. I think the last time you were before us was on August 19, and a lot has transpired since then. But you're here in particular to discuss the budget measures. I know you'll have an opening statement, and then you'll have questions from members.

You may begin your statement at any time.

Hon. Jim Flaherty (Minister of Finance): Thank you, Chair. I'm here, of course, with officials from the Department of Finance who can be helpful on any technical questions after I make some relatively brief opening remarks.

Now before I begin, let me congratulate the chair and the members of the finance committee for your hard work over the past few months doing pre-budget consultations. I know you've been travelling across the country to places large and small, and I appreciate the effort you do.

Along with my consultations as Minister of Finance, the finance committee's pre-budget consultation does help ensure that Canadians are heard and that their voices are reported, through you, from across the country.

Recommendations flowing from your pre-budget hearings always inform and influence the ultimate budget document. I urge the finance committee to conclude its pre-budget consultations, and I look forward to reviewing your findings.

[Translation]

First, I want to urge the committee to study and pass Bill C-13, the Keeping Canada's Economy and Jobs Growing Act.

That legislative measure, adapted to today's realities, is an important and positive solution to the current economic challenges.

It also prepares Canada to take advantage of tomorrow's economic prospects.

While the economic recovery remains fragile and uncertain, as exemplified by the situation in the U.S. and Europe, Canada will continue to face and feel the effects of global headwinds from abroad. In any event, our government knows that this is not the time to rest on our laurels, as we are still faced with very real economic challenges.

[English]

On economic growth, both the IMF and the OECD forecast that here in Canada we will have among the strongest economies in the G-7 in the years ahead. On jobs, Canada has the strongest job creation record in the G-7, with about 650,000 net new jobs created since the end of the recession in July 2009. Nearly 90% of those jobs are full-time. On our fiscal situation, Canada, based on IMF projections, has and will continue to have by far the lowest total government net debt to GDP ratio in the entire G-7.

On our financial sector, the World Economic Forum has, for the fourth straight year, rated our banking system the best in the world. On fiscal and economic fundamentals, Canada's credit rating, unlike that of numerous other countries, has been affirmed as the highest possible by all three major credit-rating agencies. Indeed, only last week, Standard & Poor's renewed Canada's leading credit rating, declaring, and I quote:

Canada's superior political and economic profile rests...on its policymaking and political institutions, which we see as highly effective, stable, and predictable. Canadian authorities have a strong track record in managing past economic and financial crises and delivering economic growth.

On competitiveness, *Forbes*, the influential business magazine, ranked Canada—largely due to our low tax plan for Canadian businesses—as the best country in the world for businesses to grow and create jobs. And the list goes on.

As RBC chief economist Craig Wright recently observed, and I quote:

In Canada's case we're well positioned, whether you look at it from our fiscal position in Canada, or indeed from our economic fundamentals.our domestic economy has a very solid foundation....

Nevertheless, our government recognizes that now is not the time to rest on our laurels, as very real economic challenges persist.

• (1605)

[Translation]

In fact, too many Canadians are still looking for work. As I just pointed out, the global economic recovery is still fragile. That is why our government continues to focus on supporting the Canadian economy and helping it grow.

At the first signs of economic downturn, at the end of 2008, our government responded by introducing Canada's Economic Action Plan. That measure earmarked \$60 billion to support employment and growth while the country weathers the worst global economic crisis.

[English]

It is an economic action plan that, according to independent observers, was both appropriate and effective. In the words of BMO economist Doug Porter, it was, and I quote, "arguably one of the most successful stimulus programs in the industrialized world".

Now, earlier this year, our government further built on the record of accomplishment with Budget 2011, which is the next phase of Canada's economic action plan. The next phase seeks to promote long-term economic prosperity while staying on track to return to balanced budgets and helping Canadian families.

Since March 22, Parliament and all Canadians have examined and debated the provisions included in the next phase of Canada's economic action plan. I'm happy to report that the reaction has been positive. Indeed, Canadians expressed their support for it this past May, and their support for a government squarely focused on helping Canada's economy and job growth.

Today's legislation, the Keeping Canada's Economy and Jobs Growing Act, is an important component of the next phase of Canada's economic action plan, as it includes many of the key provisions from Budget 2011.

While I do not have enough time, nor would I take that much time, to highlight every measure in today's legislation, I would like to provide the committee with a brief overview of some of the measures and how they will assist Canadians.

For instance, the act supports job creation and economic growth by providing a temporary hiring credit for small business to encourage additional hiring; by expanding tax support for clean energy generation to encourage green investments; by extending the mineral exploration tax credit for flow-through share investors by one year to support Canada's mining sector; by simplifying customs tariffs in order to facilitate trade and lower the administrative burden for businesses; by extending the accelerated capital cost allowance for investments in productivity-improving machinery and equipment for Canada's manufacturing sector; and by eliminating the mandatory retirement age for federally regulated employees in order to give older workers wishing to work the option of remaining in the workforce.

The act helps Canada's communities, large and small, by legislating a permanent annual investment of \$2 billion in the gas tax fund to provide municipalities predictable long-term infrastructure funding; by enhancing the wage earner protection program to cover more workers affected by employer bankruptcy or receiver-

ship; by introducing a volunteer firefighter tax credit for volunteer firefighters; and by increasing the ability of Canadians to give more confidently to legitimate charities by helping combat fraud and other forms of abuse by illegitimate charities.

The Keeping Canada's Economy and Jobs Growing Act helps families from coast to coast by introducing a new family caregiver tax credit to assist caregivers of all types of infirm, dependent relatives; by removing the limit on the amount of eligible expenses caregivers can claim for their financially dependent relatives under the medical expense tax credit; and by introducing a new children's arts tax credit for programs associated with children's arts, cultural, recreational, and developmental activities.

The act also makes key investments in education and training by forgiving loans for new doctors and nurses in underserved rural and remote areas; by helping apprentices in the skilled trades and workers in regulated professions; by making occupational trade and professional exam fees eligible for the tuition tax credit; by improving federal financial assistance for students; and by making it easier to allocate registered education savings plan assets among siblings without incurring tax penalties or forfeiting Canada education savings grants.

With that, Chair, I invite questions from the committee. Thank you.

• (1610)

The Chair: Thank you very much, Minister, for your presentation.

We will begin members' questions with Mr. Julian for a five-minute round, please.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you very much, Mr. Chair.

Thank you, Minister Flaherty, for coming here today.

As a finance committee we have been seized with a number of forecasts over the course of the day. The first was from the Governor of the Bank of Canada, who has indicated an economic slowdown this fall. We've had the Parliamentary Budget Officer indicate that in many respects we're already in a slowdown.

The original plan of this government was for an austerity budget and to bring in significant additional corporate tax cuts—billions of dollars—on January 1. We've been hearing as a finance committee that there are needed investments.

With some of the other figures that have come out—for example, the disturbing figures around food banks and record usage, with nearly a million Canadians depending on food banks to make ends meet, and two million unemployed in this country—it's fair to say that we can't really look at the economic situation with rose-coloured glasses.

I was in this Parliament when we were on the boundary of a recession in early 2008, and I recall that your comments were very positive. You said on June 3 in Parliament, "The Canadian economy is strong." You said on August 15, "I anticipate that over the course of the year we will have positive economic growth." Of course, we were entering a recession at that point.

Given all of these disturbing indications that we're in an economic slowdown, will you revise the approach that seems to be based on austerity on the one hand and significant additional corporate tax cuts on the other, and work with the opposition to build the kind of job plan we need to see to get through this slowdown?

Hon. Jim Flaherty: Thank you for the question.

We will maintain our business tax reductions. We introduced that program of tax reductions in the fall of 2007. We have followed through and stayed the course on that. That was cited as one of the major reasons why Canada is viewed as the best place to invest and create jobs in the world.

We have a moderation of our business tax rates. When we took office back in 2006, the federal corporate tax rate was slightly in excess of 22%. As of January 1, less than 60 days from now, it will be 15%.

In the fall of 2007 I encouraged the provinces to join us in this by reducing their corporate tax rates to 10%, in order to brand our country as welcoming to business and investment from both within our country and outside of it. The majority of the provinces have joined us in this effort. So by 2013, generally in Canada businesses will pay a corporate tax rate of 25%. This is a tremendous advantage for our country. It's one of the reasons we have had the job creation we have had in Canada.

The deficit reduction—

•(1615)

Mr. Peter Julian: Sorry, I have some additional questions. I appreciate your responding on that, but I think that's scant comfort to the couple of million unemployed in the country.

There have been concerns about the forecasting methods and how accurate they are. On the chances and opportunities of actually balancing the budget in 2014-15, there are two approaches. You can cut and slash out of deficit or you can grow your way out of deficit. Of course, we prefer growing the economy and creating those additional jobs.

There are also concerns about the use of the EI premiums as part of the government's revenue package. We certainly recall, as we were both in the opposition a few years ago, that the Liberals used EI premiums to bolster revenues for the government rather than help the unemployed.

Could you respond to the concerns around the inaccuracy of your economic forecasting and the concerns around using EI premiums, as the Liberals did, as a way to grow government revenues rather than help the unemployed?

My final question is on the current account deficit on balance of payments. Among industrialized countries, as you know, the IMF is forecasting that in 2012 we'll be among the worst, partly through the

failed export policy of this government. Could you comment on that?

The Chair: Minister, we have a tradition in this committee of asking three big questions and giving you 20 seconds to answer. So if you can handle all those questions in 30 seconds....

Hon. Jim Flaherty: Just so we're agreed on the facts, the economic forecast we make is based on the average of 15 private sector economists. I met with them last Tuesday. They agreed that the forecast we are using is a reasonable basis for fiscal planning in Canada. Other people have other views from time to time, but since 1994 that has been the practice of the Department of Finance. That's what we use. They provide me with useful advice.

We are on track. We are seeing modest growth in Canada this year. This is relatively good. As you know, Europe is going through a very difficult time, and it may well be entering into recession. That is not true in this country. We just had the August GDP figure, which was plus 0.3%. It looks like Q3 will be reasonably good for Canada, and I expect it will continue to grow in Q4 as well.

Canada is doing relatively well, and I'll continue to rely on the private sector economists with respect to economic forecasts.

The danger of debt is real. We see that in Greece, in Portugal, and we see it in other countries in the world. For governments to continue to run deficits and accumulate public debt is a very dangerous thing.

I think Canadians understand that, and that's why they have supported our plan, which is to plan on the realistic moderate growth we expect to have this year and next year and to implement a deficit reduction tax plan. It's not to reduce transfers to the provinces for health or education, and it's not to reduce transfers to individuals who are disabled or elderly and funded by the Government of Canada through the taxpayers of Canada. We're not reducing any of that.

We are looking for at least 5% savings on the operating costs of government, which most people in the private sector tell me they can do over breakfast.

Thank you.

The Chair: Okay, thank you.

Thank you, Mr. Julian.

We'll go to Ms. McLeod, please.

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

I want to talk briefly about our tax plan and the good news in my riding. In 2008, one of our mills closed down because of competition and the opportunities with more trade. The mill locally put in \$25 million, and the community re-employed approximately 250 workers. So I think our plan is working.

Canadians saw the budget in March, and they had an opportunity to spend many months looking at it. I think they have given us a strong mandate to move forward with many of the measures. I'm really pleased with how things have been going in the riding that I represent, but I also see it across the country.

The NDP, I think, typically likes to think there are no measures that will help everyday Canadians in this budget. They seem to think there's nothing there.

As a former health caregiver, I see many items in this budget that I think are very, very important. I have to look, first of all, at the new family caregiver tax credit, which is a 15% non-refundable credit on an amount of \$2,000, providing relief to caregivers. We certainly know that more and more often we have challenges in that area. Many families are facing those challenges. We've seen the very, very positive response from the Canadian Caregiver Coalition.

Can you briefly talk about the family caregiver tax credit in Bill C-13 and how it will help caregivers in Canada?

• (1620)

Hon. Jim Flaherty: Thank you.

As members of Parliament, I think all of us frequently have constituents speaking to us about their responsibilities in caring for infirm parents or relatives. This measure, which is in Bill C-13, addresses that challenge. It proposes to provide new support for caregivers of infirm dependent family members by introducing a new family caregiver tax credit.

Technically it is a 15% non-refundable credit on an amount of \$2,000, to provide tax relief for caregivers of all types of infirm dependent relatives, including, for the first time, caring for spouses, common-law partners, and minor children.

Assuming it is passed by Parliament, the measure will apply for the 2012 taxation year and subsequent taxation years. It's estimated that over 500,000 caregivers will benefit from the tax credit, receiving \$160 million in new annual support.

I hope you will support this measure in Bill C-13.

Mrs. Cathy McLeod: Thank you.

There is another measure that I do have to note, again representing rural communities that traditionally have challenges in terms of recruitment of nurses and doctors.

Could you briefly talk about some of the measures in this act, not only where we're going in terms of supporting nurses and doctors moving into rural communities, but also education in general?

Hon. Jim Flaherty: Yes, there is the measure about doctors and nurses in rural communities. We hope that will provide an incentive for doctors and nurses—this is an area you would be familiar with, in particular—to be attracted to the good life that exists in rural communities in Canada.

Mrs. Cathy McLeod: I note also there were some general changes in terms of education. As a parent of a number of children...I think many people know that different children have different aspirations in terms of education. And although you might save for one, there are some very important measures that will really support

big choices children make regarding education and where money goes in terms of RESPs.

Hon. Jim Flaherty: The change involves the reallocation of assets in registered education saving plans for siblings without incurring tax penalties, which is important when one has a number of children, whether you have them at the same time or not. I know my parliamentary secretary has five children. I appreciate that. You'll be able to move money around from one RESP to another without having some of the tax consequences that have proven to be difficult for parents, so we're sorting that out in Bill C-13.

I hope members will see fit to support it.

The Chair: Thank you, Ms. McLeod.

We'll go to Ms. Murray, please, for five minutes.

Ms. Joyce Murray (Vancouver Quadra, Lib.): Thank you, Mr. Chair. I appreciate having the opportunity.

Minister, I was interested to hear you talk about the fundamentals of the fiscal situation in Canada and the strong banking situation, and I may have misheard, but I thought you said now is not the time to rest on the Liberals' laurels.

I agree with you. One of the things you are doing, though, is creating this EI tax increase. One of the reasons that concerns me is that although the date you picked for your selective statistics on employment was at the very trough of full-time employment, if we look at the beginning of the recession, Canada still has over half a million fewer full-time jobs than we had before the recession, and that's with a million more Canadians in the country, many of whom are also looking for work. We are down in terms of full-time jobs compared with where we were in August 2008, and yet this EI tax increase will put an extra burden of \$1.2 billion, just in 2012, and \$1.8 billion....

When the temporary hiring credit, which was the first in your list of positives, is only \$165 million, do you not see this as a job-killing, payroll tax increase that you're putting into your budget?

• (1625)

Hon. Jim Flaherty: Thank you for the question.

EI, of course, is a system funded by employers and employees, so there is always a consequence for employers and employees year after year in order to fund the system.

This year, we modified the increase that would otherwise have taken place next year, and this was supported very broadly, I can add. It was supported by unions. It was supported by the Canadian Labour Congress. It was supported by the Canadian Chamber of Commerce. It was supported by the Canadian Federation of Independent Business. This was broadly supported as the right thing to do, but of course one must fund the system, because if the system is not properly funded, then it ends up in a very serious deficit situation, which is not desirable.

Ms. Joyce Murray: It is a matter of timing. We're looking at a time when we're still under the employment that we had a couple of years ago. Our contention is that having a hiring credit that's less than 10% of the cost you're loading on businesses will be a job killer. We recommend and request that the government change that plan.

A second area I wanted to explore is the idea of the new non-refundable tax credits. I'm not sure if the minister is aware that the former tax credit, the child sport tax credit, is essentially \$100 million going to families that earn, on average, 25% more than the Canadian average family earns, and probably 400% or 500% more than the very families that are excluded from that tax credit. Low-income people, people who are at the bottom of the inequality gap in Canada, are the ones being excluded.

We have called for the government to make these refundable tax credits, and yet we now have another series of programs like that—the family caregiver tax credit, the children's art tax credit, and the volunteer firefighter tax credit—doing exactly the same thing as the child support tax credit.

Minister, did you have your officials estimate the scope, the size of dollars that will be going to those tax credits and the incomes of the families receiving them compared with the incomes of those families not benefiting from that reduction in the treasury?

The Chair: There are about 30 seconds to answer.

Hon. Jim Flaherty: We have a progressive tax system in this country. I'm proud of our progressive tax system. Because we have a progressive tax system, various credits have different effects on different families depending on their level of income.

The same families you're complaining about that earn more money than some other families are the same families that pay more tax than those other families because they earn more. That's the nature of a progressive tax system. This is a good thing, in our democracy. This is not a bad thing.

The children's fitness tax credit has been hugely popular. Millions and millions of Canadian families have claimed it. I expect that the children's arts tax credit, if it's passed, will also be very popular.

The Chair: Thank you.

Thank you, Ms. Murray.

We'll go to Mr. Van Kesteren, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you, Minister, for appearing here before us.

I want to talk a little bit about small businesses and why small business owners in my riding are encouraged by Budget 2011, especially by things like better transparency and accountability in the Canada Revenue Agency and the hiring credit for small businesses.

We've heard quite a bit. I wanted to quote some of the good news we've heard, for instance, from the Canadian Federation of Independent Business. They said:

In this Year of the Entrepreneur, we give credit to the government for continuing to work to balance its books while finding important, low-cost ways to help small firms grow the economy.... The government took some important steps to enhance

job creation and recognize the economic contributions of small businesses in Canada.

The Timmins Chamber of Commerce said:

In Timmins, we estimate the hiring tax credit will affect approximately 90% of all Chamber members. It's something that can be used for training and to encourage hiring.... It's great to see some of the tools being given back to businesses.

I wonder if you could talk to us for a few moments and tell us about the hiring credit for small businesses included in Bill C-13 and how it will help small businesses.

• (1630)

Hon. Jim Flaherty: Right. I hope small businesses get the message on this and that they hire people, because this is a direct tax credit or a direct incentive. The credit will provide up to \$1,000 against a small employer's increase in their 2011 EI premiums over those paid in 2010. So it's a direct, clear benefit to small businesses in Canada, which should help address the challenge of job creation in Canada. About 525,000 businesses are in that category.

We all know from our own experiences and our own communities that it is small business that creates the jobs. We have many more small businesses in Canada than we have large corporate entities. These are the businesses, as I say, that create the jobs, and that's why this hiring tax credit, we feel, will be useful in job creation in Canada.

Mr. Dave Van Kesteren: You've called this the year of the entrepreneur, and through this budget you've helped to encourage that.

I want to tell you that in my specific case I had the privilege of starting two businesses. I had a friend who moved back to Holland, and he came back. He told me about the hurdles put in front of somebody who wants to start a business. In this country, and especially with this budget, you've made it so that it's easier for those to start a business. You've also put some measures in place to assist entrepreneurs. Could you maybe talk about that a little bit, and why that is so important to the economy?

Hon. Jim Flaherty: This has been a constant challenge since we've been the government. We have lowered the small business tax rate to 11%. We have increased the amount of the small business income eligible for the reduced rate to \$500,000. As I say, we have gone ahead with the hiring credit for small business in this budget. We need to encourage entrepreneurship, risk-taking in Canada. We need to encourage people to work, to invest their money, take some chances, hire people, as entrepreneurs and small businesses do.

Mr. Dave Van Kesteren: I put this question to the governor this morning and I want to get your take on this.

You have been quite stringent and forthcoming in your decision to wrestle the deficit down and to get that under control. There are those who think we should continue to spend money at this time, maybe spend our way out of the deficit.

Why is it important for this country that we adopt and maintain a policy whereby we don't go on successive deficit accumulation?

Hon. Jim Flaherty: So we'll be in good shape when the next crisis happens, as we were in good shape when the last crisis happened.

One of the challenges that some countries in the world are facing now, when we again have a time of some economic uncertainty, is that because they have accumulated deficits year after year, and therefore have accumulated a very large public debt, their room to move is limited. In the budget in January 2009 we were able to bring in a large stimulus program federally. I thanked the provinces for joining with us in that. This federation worked very well during the last recession, where together we provided stimulus of 4% of GDP, which is what we all agreed to do at the G-20 summit in Washington in November 2008.

This is important, but part of the economic action plan was always that we would return to balanced budgets. If you go back and look at the budget in 2009, it's set out there. We're on track now in the medium term to go back to balanced budgets. The deficit this year is roughly 40% less than the deficit last year. We need to stay on this track so we'll get back to balanced budgets in the medium term. It puts our country in a position of strength in the world, where we can resist when crises come to our country from outside.

• (1635)

The Chair: Thank you, Mr. Van Kesteren.

[Translation]

Mr. Mai, go ahead.

Mr. Hoang Mai (Brossard—La Prairie, NDP): Thank you, Mr. Chair.

Minister, as we know, infrastructure investments generate five times as much spin-off as corporate tax cuts. That information comes from the 2009 budget. According to the Federation of Canadian Municipalities, Canada has a structural deficit. We are talking about infrastructure worth \$120 billion or more.

As you mentioned, the Standing Committee on Finance has travelled across Canada. Economic experts, as well as business and chamber of commerce representatives called for more investments in infrastructure. Today, we had with us representatives from the Assembly of First Nations, and even the Association of Consulting Engineering Companies-Canada was on the Hill. Those people are also calling for increased investments in that area. That is an urgent need.

We know that those types of investments lead to job creation and economic development. They also encourage stability here in Canada. Why then should we limit those investments? Do you think that the measures taken as part of Bill C-13 are sufficient to resolve the infrastructure deficit issue?

[English]

Hon. Jim Flaherty: Thank you for the question.

Obviously I feel the measures in the budget are the appropriate measures. Making permanent the \$2 billion sharing of the gas tax with the municipalities was a request from the Federation of

Canadian Municipalities; in fact it was their primary request. It will make it easy, especially for smaller municipalities, not all of whom have been able to do this effectively, to go to their financial partners and leverage the \$2 billion share they get every year. This should be leveraged, it shouldn't just be taken as a grant, and especially, as you have accurately described, in infrastructure, which has a long life ahead of it. So it's very appropriate for municipalities to leverage that money.

The other request we had from the Federation of Canadian Municipalities was to launch a discussion, a consultation, with them to develop our infrastructure plan for the future, which is being undertaken by the Minister of Infrastructure. We also have PPP Canada Inc., which we created several years ago, which is approving projects, negotiating public-private partnerships in Canada, and playing a leading role there, and I expect will play a leading role with respect to the commitment to build a Pont Champlain, for example.

[Translation]

Mr. Hoang Mai: Part 10 of Bill C-13 vests the Minister of Finance with the power to provide additional funding to the Canadian Securities Regulation Regime Transition Office.

First, could you explain why the original amount of \$33 million was not enough for the Canadian Securities Regulation Regime Transition Office?

Second, most of the provinces are against this bill, and the Conservatives promised in their 2011 platform not to carry out this project before the Supreme Court had ruled on it. So, why are we going ahead with it?

[English]

Hon. Jim Flaherty: We are anxiously awaiting the decision of the Supreme Court of Canada on the reference we made to it of the draft bill for a national securities regulator. The argument was heard by the court in April, and we're looking forward to the court's decision. We will, of course, honour and follow the decision of the Supreme Court of Canada, as I expect will the other governments in Canada.

In the meantime, we have been taking some preparations to have the draft bill, which we are able to refer to the court so the court itself can see the proposed legislation in detail. Some work has also been done on other regulatory aspects. Of course, we have a group of participating provinces and territories that have been working with the transition office to help prepare the way for a national securities regulator.

This is the one part of our financial system where we have a significant gap. We have the Bank of Canada, the Department of Finance, the Office of the Superintendent of Financial Institutions, CDIC, and the Financial Consumer Agency of Canada, but we do not have a national securities regulator at the table. This is a gap that I hope we will be able to fill.

The Chair: Thank you.

We'll go to Mr. Jean now, please.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair, and thank you, Minister, for your attendance today.

First of all, I want to thank you for your good management of the economy. My constituents thank you for keeping the election promises in relation to the volunteer firefighters tax credit, and I thank you for reducing my personal taxes, as well as those of my constituents. I appreciate that very much. The children's arts tax credit is especially popular in northern Alberta, as is the hiring credit for small business.

It seems clear that you and your department respect Canadian taxpayers. In particular, you've taken the initiative to close numerous tax loopholes, as well as phase out the direct subsidy of political parties. That, of course, was part of our commitment.

When I first came to this place, and later on, I found it shocking that taxpayers were giving money to political parties without their say-so, and political parties could do whatever they wanted with that. I want to say congratulations on that. The Canadian Taxpayers Federation was recently quoted as saying that eliminating the per vote subsidy is a major victory. It's a major win for taxpayers and for democratic reform.

I wonder if you can describe to us how that is a major win for taxpayers—I think it's fairly obvious—and how much that major win is year over year. How does the phase-out of this particular subsidy work?

• (1640)

Hon. Jim Flaherty: Thank you for the question. I'm glad you're paying less tax. It's a good thing. I was unaware of that directly. Don't worry, I can't check, so it's all right.

We've done things before on this issue of funding of political parties. We have a fairly generous system, as you know. If people make donations to political parties they get a significant tax credit in Canada. Back in 2006 we eliminated large personal donations federally, and we also banned donations from corporations and unions.

In this bill we are going to follow through on the campaign commitment to phase out per vote subsidies for political parties. So the subsidy will gradually be reduced from \$2.04 per year per vote in increments of 51¢ starting April 1, 2012. It will be completely eliminated by 2015-16, and there'll be a savings there for the federal treasury of about \$30 million by 2015-16.

Mr. Brian Jean: So by my calculations that's somewhere around \$30 million per year. Would that be fair to say?

Hon. Jim Flaherty: Yes, that would be very fair and accurate to say.

Mr. Brian Jean: Now, sir, I have to say that the thing that most pleases my constituents is what has been mentioned by the parliamentary secretary, the new doctors and nurses being encouraged to go into rural parts of Canada. I have to say that over the last 10 years we in northern Alberta, in particular in Fort McMurray, have been faced with real struggles for doctors in particular. I'm wondering if there's been an analysis regarding how

many doctors would be encouraged to go from urban areas—where there is, frankly, an abundance of doctors, or at least a significantly greater number than in rural Canada—to rural Canada. If so, depending on whether or not this works, has there been thought of a re-analysis to encourage them even more so?

I see you looking to your officials.

Hon. Jim Flaherty: I am, because I don't have the numbers. I know there were some numbers on what was expected from the tax incentive for doctors and nurses in rural Canada, but let me see if anyone does have numbers.

Mr. Brian Jean: Minister, I know we're bound by time here, and your time is very valuable, so maybe we could have those forwarded to the committee chair.

Hon. Jim Flaherty: Sure. I'd be happy to get the information and send it along.

Mr. Brian Jean: Thank you very much, sir.

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

I think I speak on behalf of all committee members when I say we look forward to your sharing your increased disposable income with all of us.

We'll go now to Mr. Marston, please.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): You're welcome to buy us coffee any morning.

Minister, welcome. I'm glad to see you here again.

You'll know better than most that the New Democrats and myself have been raising concerns about pensions in the House for a couple of years now. I have to say that, in my opinion, when we look at where it stands, Bill C-13 doesn't begin to address the very real pension problems facing Canadians. It also suggests, sir, that part 15 of Bill C-13, which deals with the CPP disability, could only have been agreed to at meetings of the federal, provincial, and territorial ministers. For me—and you'll know this well because I questioned you in the House prior to Kananaskis—this was a great opportunity to have started a phased in enhancement of the CPP. I have to question why instead you undertook what appears to be house cleaning. It really strikes me as strange, because we felt before that there was an opportunity here, that going forward it seemed to be something you had recognized as a serious concern.

• (1645)

Hon. Jim Flaherty: Thank you for the question.

It's a good question about possible increases in the Canada Pension Plan, and the ministers of finance have dealt with this at some length at our conference. We commissioned some good research that was done. Jack Mintz led that research team, and it reported back to the federal, provincial, and territorial ministers of finance.

The reality is that we've gone through some economic slowness, and the concern was, and remains, that this would not be the best time to impose an additional burden on business by requiring higher CPP premiums. It is a work in progress, however. I say to the honourable member that this is an issue we continue to discuss. I certainly hear from many on this subject, including the Canadian Labour Congress, which has had a lot to do with the subject, and I welcome its continuing participation.

We have gone ahead with the pooled registered pension plans to address a gap that we have; that is, if you work for a big company in Canada you probably have a pension plan that you're eligible to participate in, but if you work for a small business in Canada, or even some medium-sized businesses, you probably don't. That's the advantage of the pooled registered pension plan.

So we look forward to introducing legislation, I hope, on that subject before too long, again in cooperation with the provinces and territories.

Mr. Wayne Marston: Sir, as you're considering your legislation for PRPPs, you might consider capping the fees, as that's an area that could be of serious concern to folks.

This morning, when Governor Carney was before us, I posed a question to him, and I appreciate the fact that you're here, and perhaps it's worthy of doing it again. I'm very concerned about the potential for the Canadian banks getting sideswiped by the American exposure to the European banks. There are a number of European banks that are problematic right now, and it looks to us as if the Americans are going to take a bit of a pounding if they go under. Do you see any opportunity or chance that this would affect our banks?

Hon. Jim Flaherty: Well, as you know, the Canadian banks have very limited exposure to Europe, but your point is well taken that American banks have greater exposure and we can be affected by that. I'm satisfied that our banks are well capitalized, stable, well regulated, and well supervised, and that the risks they may have relating to American counterparties are controlled risks.

The Chair: You have about a minute left.

Mr. Wayne Marston: I have one last point.

Mr. Jean talked about the defunding of the money for political parties. It's my understanding that when Hillary Clinton and Mr. Obama ran against one another for the nomination of the party, it cost \$250 million. One of the things we have here...even if it was only \$20 million, one of the things we had in Canada was the ability for our parties and our people to run without being exposed to spending half their day, as the congressmen in the U.S. do, raising money.

You said \$30 million will be saved by this. I accept that figure. But what percentage of our national budget would that be in what we're sacrificing in the name of this cut to our democracy?

Hon. Jim Flaherty: The budget, as you know, is in the area of \$265 billion, so you can do the arithmetic on \$30 million.

The point is this, though: if people in Canada want to give money to a political party of their choice or political candidate of their choice, they're free to do so without any compulsion, and they get a significant tax benefit from doing that. That system works well.

I agree with you that it's a good thing that we do not let corporations, including unions, determine disproportionately what happens in our political lives, because they are not permitted to donate. I think that's a healthy part of our democracy.

The Chair: Thank you, Mr. Marston.

Ms. Glover, please.

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

• (1650)

[Translation]

Thank you for being here, minister. It is always a pleasure to have you with us.

[English]

I'm going to ask you about the volunteer firefighters tax credit, just because Ms. Murray did comment about it from the Liberal Party.

Before I do so, I want to take a moment to thank you, Minister. I know my colleague mentioned education. We have three teachers here in the room today from Manitoba. One is from Flin Flon. I know you have a whole bunch of measures in the budget about education, including investing in education in the north. I just wanted to thank you for that and acknowledge that these teachers work very hard. I'm sure this will enable them to help educate the future generation of politicians who come here.

Nevertheless, let's go back to the volunteer firefighters credit. The reason I'm bringing it up is that I work very closely with firefighters as a police officer; as you know, I'm on leave.

I remember when Rick Casson, who used to be a member of Parliament from Lethbridge, brought this forward back in 2002. Many of the firefighters I knew had approached the Liberal government of the day numerous times to say, "Please, help us. We're doing this job." They put their lives on the line, and really are committed to the protection of families and communities. Yet there was nothing done back then. Then Rick Casson came along, and he put forward a private member's bill to actually address this.

I know you have had a personal commitment to this, sir. I remember reading the Canadian Association of Fire Chiefs press release that said you were the first finance minister in their hundred-year history to meet with fire chiefs and examine their issues and concerns. They thanked you for that. And here we have a Liberal member come to committee today and ask for improvements on this very valuable tax credit, but during 13 years they did nothing to address it.

So I want you to share with us today, sir, how this is going to help our communities, how this is going to help us to preserve the good work of these firefighters, volunteer firefighters for the most part.

Even though they refused to do it—and I'm appalled that they would ask for improvements now, after refusing to do it—please address for us how this is going to help our communities.

Hon. Jim Flaherty: Thank you. I must say, Chair, that it's to my great benefit that we have a police officer as parliamentary secretary to Finance. It brings a certain focus and discipline to the work of the finance department.

I enjoyed the meeting with the fire chiefs. They gave me a really cool hat, which I did not wear last night, but it would have been appropriate for Halloween.

We have a lot of volunteer firefighters across the country. The number is really quite remarkable. They tell me there are about 85,000 volunteer firefighters who keep our communities safe across the country. I heard from many members of Parliament, and some are around this table, including members of the opposition parties when we were preparing the budget last year, encouraging the government, through Finance, to bring forward in the budget a tax credit for volunteer firefighters. There has been some pressure on many communities trying to recruit volunteer firefighters. One of the realities now is that a lot of people who would be volunteer firefighters work in larger centres and travel there to work and aren't available during the day to respond to emergencies.

So we hope and expect that this tax credit will help volunteer firefighters by providing them with a 15% non-refundable tax credit on an amount of \$3,000, which was the recommendation made to us by the volunteer firefighters associations, and we accepted their proposal.

Mrs. Shelly Glover: Thank you.

I have one minute?

In that one minute, sir, I want to share with the committee, just in case they missed it. The New Brunswick Association of Fire Chiefs also endorsed this, and I'm going to quote them. They said:

The tax credit is also an important tool when it comes to recruitment and retention. We feel that retaining volunteers that are already in place is even more important...because you've already invested money into those volunteers. So you want to keep them on and keep them as long as you can. Retention with some of the smaller volunteer fire departments is a big deal.

I end the quote there, sir, and I thank you once again on behalf of the volunteer firefighters and on behalf of other firefighters who support them. We police officers also work with them very closely. I want to thank you for paying such close attention to their needs, and regardless of what others think, I think this is a fantastic measure.

The Chair: Thank you, Ms. Glover.

[*Translation*]

Mr. Giguère, you have five minutes.

Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP): Thank you, Mr. Chair.

Minister, thank you for coming to see us today.

During the last economic recession, Canada lost 300,000 jobs in the manufacturing sector. Those jobs have not been recovered since. Many stakeholders have stated that the Canadian dollar exchange rate against the U.S. dollar is one of the major factors that have hurt them and forced many small manufacturers into bankruptcy.

Currently, we are at par with the American dollar. Unfortunately, that does not really help our manufacturers. In addition, it doesn't help consumers, as they have not benefited from the rise in the Canadian dollar. The reason is that American and other exporters have decided to keep their higher flexibility and profit margin.

This morning, Mr. Carney told us that interventions to deal with the rise in the Canadian dollar and the floating dollar are in line with decisions made as a result of your own guidelines. We would like to know when the Canadian dollar will return to a lower rate so that our manufacturing industry can breathe a little.

• (1655)

[*English*]

Hon. Jim Flaherty: I'm expressing my own view on this, but I've never thought that Canadians could only be successful if their dollar was worth significantly less than the American dollar. When I was young it was not, and Canada was doing very well back then. I've never accepted that thesis, that a devalued currency will make our country stronger. I think Canadians are capable of competing on a level playing field with Americans or anybody else in the world.

Our manufacturing sector went through a very difficult time during the recession. That's why we encouraged the acquisition of more productive machinery and equipment through the accelerated capital cost allowance, which again is continued in this budget, which I hope you will support.

This is a two-year extension of the 50% straight line accelerated capital cost allowance rate. This will provide a total of \$620 million over the 2012-13, 2015-16 period.

With respect to the dollar, I hear from businesspeople—and you've probably heard it too in your travels across Canada with your consultations—that for many Canadian businesses, having a stronger Canadian dollar permits them to acquire machinery and equipment priced in American dollars that help them be more productive and more efficient and have a better future and employ more people in Canada.

[Translation]

Mr. Alain Giguère: Minister, I am sure that the 300,000 people who lost their jobs would be very happy to hear that!

Canada's economic situation is not as rosy as you think. We are faced with a major trade balance deficit. We have a problem with our rate of productivity. The prices of machines we import from abroad are not dropping despite the rise in the Canadian dollar. Our unemployment rate has increased, and it's emphasized by a drop in the labour force participation rate. In addition, consumer debt has reached a historic level. In its monetary policy report published in October 2011, the Bank of Canada stated that the Canadian economy was operating at about 1 1/4% below its production capacity, which is a much greater margin of unused capacity than what was predicted in July.

There are 2.7 million Canadians looking for full-time work. Twenty-seven per cent of part-time employees would like to work full time. Companies have accumulated \$500 billion that has not been reinvested at high production rates.

We would like to know what you will do to ensure that the \$500 billion is invested.

Thank you.

[English]

The Chair: Okay.

Could we have just a brief response, please, Minister?

Hon. Jim Flaherty: Right.

The honourable member is absolutely right that Canadian corporations are in strong balance sheet positions, strong cash positions. Now, this is true also in the United States. And it's a challenge, because the view of many is that we're going through a difficult economic time; there's a large degree of uncertainty and a certain lack of confidence.

I must say that in our own country, in Canada, there's good reason to have confidence, for all the reasons I expressed earlier. The world looks at Canada as being in relatively good shape and as being solid, stable, and reliable.

I encourage Canadian businesses to invest. I'm sure they will, over time, as confidence mounts and we're able to see further employment in Canada.

Our unemployment rate is 7.1% now. It's two full percentage points better than the rate in the United States. We haven't been in that situation for a generation.

• (1700)

The Chair: Thank you. *Merci.*

We have time for a very brief round, Mr. Hoback. Unfortunately, we are running out of time.

Mr. Hoback, please go ahead quickly.

Mr. Randy Hoback (Prince Albert, CPC): Thank you.

Thank you, Minister.

Again, there are lots of things I'd like to say and ask, and we can do that. I know you're a very approachable minister, and I thank you for that.

One thing I think you need to clarify here for our opposition members who don't believe in trade, who are against trade for, it seems, every reason, is just the importance of trade. Maybe you could just clarify for them, to help them understand how important trade is, especially for provinces like Saskatchewan, where I come from.

Hon. Jim Flaherty: For a country the size of Canada, we're a relatively small trading nation. If you look at the history of our country, we would not have the high standard of living and quality of life that we have were we not open to trade and were we not free traders. It's amazing to think that we had an election in this country in which free trade with the United States was the issue, not that many years ago. Thank goodness we got over that.

As you know, our government is negotiating free trade agreements around the world. A lot have been successfully negotiated. This is vitally important.

In the forestry sector, for example, we had some real losses during the course of the recession, along with the collapse of the housing market in the United States. And now—and you've probably heard the same thing—British Columbia is exporting, I think, something like 50% of the product to China. We're being flexible and going to where the markets are and where the demand is. That is one of the reasons our country is as great as it is.

The Chair: Thank you

I apologize. I know not all members got a chance, but we had the minister here for a short time. We have officials up next.

Minister, I want to thank you very much for being with us. You're certainly welcome back at any time. We thank you for responding to our questions.

Colleagues, we will suspend for a couple of minutes, and we'll bring the Finance officials forward.

Thank you.

• (1700)

_____ (Pause) _____

• (1705)

The Chair: Colleagues, please take your seat.

I apologize to the officials and colleagues. We are going to be interrupted by a vote, but we should get started on this.

It's been indicated that part 1, which is obviously a very large part of Bill C-13, is of interest to many members. I think, in the interest of time, we'll do question rounds, and I'll try to follow the same format we typically follow.

We have two officials here who are able to answer questions on part 1, so I'll begin with questions.

Perhaps I'll just have the officials introduce themselves and tell us their role with the Department of Finance.

Welcome to the committee.

Mr. Gérard Lalonde (Director, Tax Legislation Division, Department of Finance): Good afternoon. My name is Gérard Lalonde. I'm the director of the tax legislation division at the Department of Finance. Some of you will recognize me as having been to this committee many times before, and I welcome the opportunity to come back.

I have with me Mr. Ted Cook, who is our recently appointed chair of the legislation review committee here at the Department of Finance. Ted will be a familiar face to this committee in the future, and certainly much more familiar than I will be. So I would like to introduce you all to Ted. He will be taking over the presentation today, and I'll be here more or less for moral support.

Thank you.

The Chair: Thank you.

[Translation]

Thank you and welcome.

[English]

We'll start the first round with the official opposition.

[Translation]

Mr. Mai, go ahead.

[English]

Mr. Hoang Mai: Thank you, Mr. Chair.

[Translation]

I want to thank our witnesses for joining us today.

I have a few questions about part 1, especially the family caregiver tax credit. Why has the additional \$2,000 amount not been indexed for inflation like other tax credits?

[English]

Mr. Ted Cook (Senior Legislative Chief, Tax Legislation Division, Tax Policy Branch, Department of Finance): The amount of \$2,000 is set for the 2012 taxation year, but the amounts that are actually in section 118 of the act—the \$2,000 family caregiver credit that I believe you're referring to—will be indexed for inflation in future years.

Mr. Hoang Mai: Okay.

[Translation]

What would be the costs for the federal taxation authorities if they were to make the suggested tax credits for informal caregivers refundable? We have received many questions about people who really need the money and who cannot take advantage of the tax credits because they are not refundable. That has to do with the tax credits proposed for family caregivers, children's arts and volunteer firefighters.

[English]

Mr. Gérard Lalonde: As we explained at the all-party briefing on this measure, these tax credits are intended to ensure that the tax burden on amounts spent for the various activities is reduced. If you have no tax burden, then you don't need the tax reduction.

On the cost of changing the proposals and introducing them instead as refundable tax credits, I would have to defer to one of the economists from our department.

The Chair: Is there someone in the crowd who can answer that?

Mr. Gérard Lalonde: There is not somebody in the crowd right now who can answer that. The upshot is that we haven't calculated those numbers because the proposals, as put forth in the budget, were intended to be non-refundable tax credits.

• (1710)

Mr. Hoang Mai: I'm sorry, I didn't get that. So you did not look at the options, or you didn't...?

Mr. Gérard Lalonde: These were designed to be non-refundable tax credits that would reduce the tax burden on the amounts spent for these activities. If there's no tax burden on the amount spent—you don't have the tax payable to absorb the credit—making them refundable would not serve the purpose of reducing any tax on that amount, because there's no tax payable.

[Translation]

Mr. Hoang Mai: Thank you.

Regarding tax credits for qualifying environmental trusts, amendments have been made to include the debt of public corporations, investment-grade debt and securities that are listed on a designated stock exchange. Does that not make environmental trusts less secure in terms of protection?

[English]

Mr. Ted Cook: You're referring to the measure on qualifying environmental trusts. The main thrust of that amendment is to allow qualifying environmental trusts to be established with respect to pipelines as well as the existing qualifying environmental trusts, which relate to quarries, mines, and things of that nature.

In the course of developing that proposal, it was requested that our qualifying environmental trusts be allowed to have a slightly broader range of investment. With respect to the extension of the investments that are allowed, they are at the next tranche of publicly listed securities and debts of corporations.

In that sense, it's a slight broadening of the investment abilities of those qualifying environmental trusts. It is not a very large broadening of their investment abilities. It was specifically designed in the sense that these were not supposed to be a list of prudent investments for the trusts, the idea being that these trusts are established provincially as well.

The Chair: Thank you.

We'll go to Mr. Adler.

Mr. Mark Adler (York Centre, CPC): Thank you, Chair.

I want to focus on the gas tax and the financing of the municipal infrastructure. Why is the funding only being legislated starting in fiscal 2014-15 and not immediately?

Mr. Gérard Lalonde: We are here in essence to respond to part 1, and I gather we're going through the bill part by part. That particular thing is not in part 1.

The Chair: This is on part 1.

Mr. Mark Adler: My mistake.

The Chair: Ms. McLeod.

Mrs. Cathy McLeod: I briefly mentioned this to the minister, but he didn't have time to respond. There are a number of measures having to do with tuition, RESPs. Could you talk about the measures in that area—what we're doing and where we're going?

Mr. Ted Cook: With respect to RESPs, the measure you're referring to is the allocation of RESP assets from one RESP to another. This measure relates to RESPs that are set up not by the parents of the siblings but by someone like an aunt or uncle. When an aunt or an uncle sets up an RESP for an individual, she or he cannot set up a family RESP. They're only allowed to set up individual RESPs. Where one sibling is unable to use the RESP amounts, they were essentially trapped in that RESP. This measure will allow the transfer of RESP assets from one RESP to those of the sibling, as long as the sibling's RESP was set up before he was 21 years old.

Mrs. Cathy McLeod: I also note that there are a number of other measures related to education, like the tuition tax credit. You've made some changes there. In view of the diversity of skilled workers that we're going to need in the future, could you talk about what that's actually going to look like and who it's going to benefit?

• (1715)

Mr. Ted Cook: You're most likely referring to two measures in the act. One is examination fees, which are distinct from a course of study but are necessary in order to carry on a trade or a profession in Canada. These will now be eligible for the tuition tax credit as long as the fees paid are in excess of \$100.

In some cases, the final examination fees may be part of the course of study. For other professions, such as veterinarians, the actual examination fees are paid separately and up until now would not qualify for the tuition tax credit. In addition, we have shortened the length of courses that will be eligible for the tuition tax credit—courses undertaken outside Canada. This measure recognizes that in some cases foreign universities may have semesters shorter than the traditional 13 weeks.

Mrs. Cathy McLeod: As I understand, it will also allow for some occupational changes there in terms of the examination fees.

Mr. Ted Cook: That's exactly right. That's the examination fee. It's broadly written, both professional fees...and the examination fee that's required in order to carry on a trade will also qualify.

The Chair: You've got one minute.

Mrs. Cathy McLeod: The last measure that I think is certainly very important for a number of businesses is the extension of the eligibility for accelerated capital cost allowance for clean energy generation and conservation equipment. Could you talk about what the changes are there?

Mr. Ted Cook: Certainly. The specific amendment you're referring to has to do with energy conservation and clean energy generation equipment in the context of the use of waste heat energy.

For example, you may have an industrial process or compressor plant that pushes oil through a pipeline, and waste heat that would otherwise be unused is now used either within the activity or perhaps sold to a power grid. That equipment will now qualify for capital cost allowance under classes 43.1 and 43.2, which are 50% and 30% depreciation rates.

The Chair: Thank you.

And thank you, Ms. McLeod.

I'll just make sure I clarify for members. There are 22 parts to the bill, so as the chair, I'm bringing forward officials when it's been indicated to me by members that they want to ask questions on certain parts. Those parts that have been mentioned are 1, 2, 5, 8, 9, 10, 15, 16, and 18. I'll bring the officials forward for each particular part and have questions, rather than keep shuffling people in and out of the witness seats. That's the logic of it.

I hear the bells are going off. As you know, I need unanimous consent to keep going, if members do want to keep going for a few minutes. The vote is down the hall, but I do need that unanimous consent.

Mr. Peter Julian: Mr. Chair, I think if we went for another 10 minutes, that would be reasonable.

The Chair: Can we go for another 10 minutes? Okay. Thank you.

We'll go to Ms. Murray, please.

Ms. Joyce Murray: Thank you, Chair.

And thank you for being here to help us understand this bill's provisions.

I asked a question of the minister and he didn't have time to get into the detail of my question. It's with respect to the non-refundable tax credits for family caregivers, children's arts, and volunteer firefighters. Do you have estimated dollars of what it will cost over the next three years to provide those tax credits? Do you have an estimate of what it would cost to have those be refundable tax credits instead?

Mr. Gérard Lalonde: On the second part of your question, we've already responded to that. We don't have that number. The credits are designed to be non-refundable tax credits in order to relieve the tax burden on the amounts expended for the particular activities.

In terms of the cost of those measures, it would have been outlined in the budget.

I see that Mr. Cook has already pulled them up.

•(1720)

Mr. Ted Cook: As outlined in the budget, the expectation is that the children's arts tax credit would cost approximately \$100 million per year for the next three years. The volunteer firefighter tax credit would cost approximately \$15 million per year for the next three years. The family caregiver tax credit would be approximately \$160 million for the first three years.

Ms. Joyce Murray: Am I to understand that it was not even analyzed what it would cost to provide this relief to lower-income families? There was not an analysis of that? There was no analysis of how that might help those families have their children in these activities—for example, the arts?

Mr. Gérard Lalonde: These measures were designed consistent with the other non-refundable personal income tax credits in the act to be non-refundable. It would be a departure from the general tax treatment of the various personal income tax measures. For example, the medical expense tax credit is not refundable either. The idea behind it is that the purpose of these credits is to reduce the tax burden on the amounts expended.

Ms. Joyce Murray: I appreciate that. I have to say I disagree that it wouldn't be normal to have refundable tax credits, because the HST/GST tax credit, the Canada child tax benefit, the working income tax benefit, Quebec's caregiver tax credit, and Nova Scotia's volunteer firefighter tax credit are all refundable. So there are provincial and federal examples and precedents to that. But since the answer was that there isn't that information, I accept that. Thank you.

I have another question.

In part 1 there's a mineral exploration tax credit and help for clean technology. I'm supportive of mineral exploration and clean technology development, of course, but to pick and choose specific activities, is there a rationale, based on how many jobs would be created by that, versus a small business tax reduction?

I'm thinking of the fact that in six years the small business tax rate has only gone down by 1%, from 12% to 11%. That's less than a 10% decrease. Is there an analysis of the job creation impacts of the choices that are made here for businesses versus small businesses?

The Chair: Okay, let's get a brief response to that.

Mr. Gérard Lalonde: The mineral exploration tax credit was an extension of an existing tax credit. So in that context it was looked at more in terms of whether the existing provisions were working and if it was reasonable to extend them for one more year at this time of recovery. The government determined that it was, so they did.

The Chair: Thank you.

We'll go to Mrs. Glover, please.

Mrs. Shelly Glover: Thank you very much for being here.

I have some clarification questions that won't take long. I'm even going to give you the page—page 12, in A. I've read it several times. I know this book fairly well, but I'm having a hard time understanding the adjusted stub period accrual. Perhaps you could explain it again so that everybody understands it.

Mr. Ted Cook: Sure.

The adjusted stub period accrual relates to our corporate partnership deferral provision. It is an estimation of the income from a partnership earned in a corporation's taxation year that, without this provision, would not be included in the corporation's taxable income for the year.

Under the Income Tax Act, partnerships are allowed to have a different fiscal period end than the end of the taxation year. As a result, by staggering the end of a partnership's fiscal period with the end of a corporate's taxation year, there's an ability to defer income. This adjusted stub period accrual is trying to get at the amount of income that is deferred.

•(1725)

Mrs. Shelly Glover: I see that you have three formulas. It's appreciated that you went into some detail to try to provide them. It makes it a little bit easier to do. The same thing applies when you use examples. You went to a lot of work to make sure we could understand them, and I appreciate that.

My next question is about the ability of this BIA to extend the tax on split income to capital gains. Can you explain how we are broadening the tax on the split income regime?

Mr. Ted Cook: Certainly.

The measure you're referring to is an extension of section 120.4 of the act, or what's commonly known as the kiddie tax. It is a tax to get at situations where individuals, rather than receiving income themselves, channel it to be received by a minor child, who would most likely be taxed at a lower rate.

The kiddie tax was originally aimed at income from trust distributions and dividends. But as often happens, planning has arisen to try to get around the kiddie tax as designed and use capital gains and the sale of shares to non-arm's-length parties.

So section 120.4 is just being amended to stay within the basic policy parameter that informed it in the first place, and to ensure that certain capital gains, rather than being taxed as capital gains in the hands of a child, are instead taxed at an appropriate rate in the hands of the parent.

Mrs. Shelly Glover: Some people have actually asked me whether or not this will affect people who are outside of a relationship with those minor children. But my understanding is that it's really geared towards parents and relatives.

Mr. Ted Cook: That's correct. The transactions that are caught by this measure are simply dispositions of shares to related corporations. So where there's a true disposition to an arm's-length party, that disposition won't be subject to the measure.

Mrs. Shelly Glover: I just wanted to make sure I understood it right.

Thank you.

The Chair: Thank you.

I'm going to suspend the meeting. We will be back as soon as possible after the vote. We'll begin with Monsieur Giguère's round.

•(1725)

(Pause)

•(1820)

The Chair: I call this meeting back to order. Again, I thank our officials for patiently waiting for us through the three votes.

Before we suspended, we were going to go to

[*Translation*]

Mr. Giguère, you have five minutes.

Mr. Alain Giguère: Mr. Chair, thank you very much. My questions are about part 1.

I want to raise a few issues related to volunteer firefighters and the relationship between subsection 81(4) and section 118.06. According to what I have read, volunteer firefighters would be better served if we kept the old legislation because they would lose benefits under section 118.06. Being a volunteer firefighter prior to the Conservative reform is better than being one after it. Basically, section 118.06 excludes most volunteer firefighters and provides others with fewer benefits than what they had under subsection 81(4). That's on page 52 in the French.

[*English*]

Mr. Ted Cook: Thank you for the question.

What the honourable member is referring to is that prior to the introduction of this volunteer firefighters tax credit, there was an exemption under subsection 81(4) of the act for honorariums of up to \$1,000 per year. The effect of the exemption was that if a municipality paid \$1,000 to the volunteer firefighter, the person would be able to exclude that in computing income.

Under the volunteer firefighter tax credit, volunteer firefighters, if they so choose, are able to get a credit for the amount of \$3,000.

Now, what we've done in terms of drafting the law is to make a consequential amendment to subsection 81(4) of the act, which says that the person takes "the lesser of \$1,000 and the total of those amounts, other than, if the individual makes a claim under section 118.06 for the year, amounts received in respect of duties as a firefighter". Where it is advantageous for the volunteer firefighters to claim the exemption instead of the credit, they would be able to do so. The intent of the—

•(1825)

[*Translation*]

Mr. Alain Giguère: I beg your pardon, but section 118.06 is fairly clear. Most firefighters are excluded under that provision. Basically,

you are asking firefighters to work for 200 hours and under no circumstances be paid by the municipality. A good example is that of a firefighter who is on night duty at the fire hall instead a lieutenant or a captain. That firefighter is excluded.

Section 118.06 is fairly clear. It is very exclusive. In addition, you say that it will cost you a maximum of \$15 million. If we divide that \$15 million by 85,000 firefighters, it comes out to \$170 per firefighter. However, under subsection 81(4), it seems to me they can receive up to \$270. They are losing \$100. One does not get much out of becoming a volunteer firefighter.

[*English*]

Mrs. Shelly Glover: I have a point of order.

I just want to ask a question of you, Mr. Chair, with regard to the process here. The political decisions are not what the officials are here to address. They're here to address technical questions in the BIA. I would just like your ruling here, Mr. Chair, on that. Otherwise, we're going to be here all night. The minister was here ahead of time, and—

[*Translation*]

Mr. Alain Giguère: I want to answer Mrs. Glover, please.

The Chair: Go ahead.

Mr. Alain Giguère: Introducing a legislative provision that benefits volunteer firefighters is a political decision. Yet, when we look at how the section is worded, we see that it is actually hurting them. It's your choice, as it's your piece of legislation.

[*English*]

The Chair: *Merci.*

Ms. Glover is correct in the sense that the officials are here to add clarification to specific questions and technical questions. A political decision as to whether a firefighter tax credit is implemented and in what form, or whether a tax credit is refundable, is ultimately made by the government as a political matter. That is a decision we as parliamentarians direct to the minister of the government.

The officials are here for technical questions, so I'd ask you, Mr. Giguère, to keep your comments to technical questions.

[*Translation*]

Mr. Alain Giguère: Very well.

Section 118.06 sets out some exclusions. Could you tell us whether it's true that a volunteer firefighter who works under 200 hours is excluded and that any volunteer firefighter who is paid in any way, even by municipalities, is also excluded? Basically, the \$1,000 tax exemption helped people who were somewhere around the limit to avoid changing income brackets.

[*English*]

The Chair: Okay, we'll have the response.

Mr. Cook, please.

Mr. Ted Cook: The honourable member is correct. If a volunteer firefighter does not spend 200 hours per year performing volunteer firefighting services, which are defined within this section as responding to calls, attending training, those types of things, the individual will not be eligible for the volunteer firefighter tax credit.

[*Translation*]

Mr. Alain Giguère: My second question....

[*English*]

The Chair: Monsieur Giguère, we'll be going on to the next member.

I just want to remind members that there was a full technical briefing offered by officials. If we're going to be asking things of that nature, we're going to be here until midnight. That's fine with the chair, but there was a full briefing offered by all officials, to which all the parties were invited. I encourage members to raise issues they need clarification on further to that briefing.

The next person is Mr. Julian, please.

Mr. Peter Julian: Well, Mr. Chair, the standard format for committees is that when the minister and senior officials appear there is a fairly wide-ranging depth of possibility of questions. I would agree with you that if we were in clause-by-clause, we would be restricting the questions to a very limited range. But generally speaking, certainly in the seven years I've been here, when we're at a point where there are more general questions, and that's certainly what happens around the appearance of a minister, there's some scope for questions.

● (1830)

The Chair: To respond to that, I'm not saying general questions are not allowed; I'm saying the officials cannot answer why something is in there. They can answer on the how, but they cannot say why this is in this budget. Only the minister can answer that, which I think you understand very well.

In terms of general questions, absolutely they're allowed. I would just say that the committee has agreed to deal with this in three meetings—tonight, tomorrow night, and Thursday night—and it's up to the committee as to how long we sit each night. That's all I'm saying on that point.

Mr. Peter Julian: Thank you for clarifying, Mr. Chair.

And thank you to the officials for coming. My questions will deal with the how and the what.

My first question regarding the how is on the volunteer firefighters tax credit. I believe you evaluated the global estimate per year as \$15 million. In the evaluation of the cost of the volunteer firefighters tax credit, I'm wondering whether there was any consideration of the \$3 million that firefighters have been requesting for a number of years in the public safety officer compensation fund. You'll recall, of course, that Parliament adopted that about five years ago.

So with regard to the \$15 million for the voluntary firefighter tax credit, did you do an evaluation as well—

Mrs. Cathy McLeod: A point of order, please.

The Chair: Ms. McLeod, on a point of order.

Mrs. Cathy McLeod: I appreciate going perhaps to the more general, but Mr. Julian is looking for items that aren't in the BIA. They weren't in the budget.

I think we have to respect what the officials are here to do. Again, that's a political conversation. It's not appropriate for this venue.

The Chair: Mr. Julian, can you state your question quickly, then?

Mr. Peter Julian: I have two, so that was the first one, an evaluation of whether or not the public safety officer compensation fund was evaluated.

The second is on the temporary accelerated capital cost allowance. With regard to the extension to the end of 2013, certainly that's a measure we've supported in the past.

Was there an evaluation on to what extent the accelerated capital cost allowance has contributed to the dearth of business investment in machinery and equipment? Over the course of the last few weeks we've certainly seen to what extent there's been a fall in business investment. Was there an evaluation of the impact so far on business investment, before we look at the extension?

The Chair: Mr. Hoback.

Mr. Randy Hoback: Again, Chair, he's asking the department to speculate on something.

Mr. Peter Julian: No.

Mr. Randy Hoback: The way I read your question, you're asking them to speculate on a comparison. Maybe I've misread your question.

The Chair: My understanding of the question is that he's asking the officials to say whether they have an analysis of the effects of the accelerated capital cost allowance to date in terms of its impact on investment.

Mr. Peter Julian: Yes, it's perfectly in order.

The Chair: I can put that question to the officials, but, frankly, the panellists we have coming up in about 20 minutes would also be able to answer that question.

Mr. Lalonde.

Mr. Gérard Lalonde: Well, I think I'd first like to answer the question about the firefighters tax credit. The important thing to understand about the firefighters tax credit is that it is an alternative to the existing tax exemption, and the policy behind it had not so much to do with this other fund that the honourable member has mentioned as it did with recognizing the fact that the existing exemption of \$1,000 didn't get you much if you weren't being paid anything in the context of being a volunteer firefighter. As the word "volunteer" implies, that was often the case.

Hence, there were some recommendations to the government to introduce instead a tax credit that would offer relief to those who didn't receive compensation for their volunteer firefighting, and those are in the alternatives. Someone said earlier, if you don't have your 200 hours, isn't this worse than what you had before? It absolutely is not, because what you had before is still an alternative. You can have one or the other, but you can't have both. So that's the answer to that question.

In terms of the analysis of the effectiveness of the accelerated capital cost allowance, we're really sort of delving into advice to the minister that we've given in the course of developing Budget 2011. As was indicated before, these things are really the purview of the Minister of Finance, and with regard to that, I think it's obvious that the government considers an extension of the accelerated capital cost allowance to be a good and worthwhile idea.

I suspect you're thinking that maybe it should be made permanent, but the government has had a policy for the last several years of trying, for the most part, to keep capital cost allowance rates in line with economic depreciation. This is a drastic divergence from that policy, and it's done on a temporary basis as part of the economic action plan, but not as part of a long-term policy for the government.

•(1835)

The Chair: Okay, thank you.

Colleagues, we still have parts 2, 5, 8, 9, 10, 15, 16, and 18, on each of which we have at least one question, so I'm going to recommend we move to part 2.

[Translation]

Mr. Alain Giguère: Mr. Chair, part 1 covers many considerations. If we had a total of 40 parts, I would have been willing, but almost 30 elements are included in part 1. Those who drafted the bill may have gotten a bit carried away when they put part 1 together. Part 1 covers all kinds of different things. There are too many elements to discuss.

[English]

The Chair: I appreciate that, but I have eight more parts to do tonight. We have witnesses who are waiting to present. This is the schedule that was agreed to by all three parties, not one imposed by the chair. We all agreed to do this tonight and tomorrow night and to have clause-by-clause on Thursday afternoon.

If the committee wishes to change that schedule, it can do so, through a majority vote, indicating that to the chair. There were discussions among three parties to come up with this schedule. This is the schedule the chair has to adhere to.

There is an option to keep going with part 1, but we're not going to keep our witnesses waiting for another hour and a half in the crowd. So the parties have to decide: do they wish to move to part 2 and try to get through all eight of the other parts they have questions on, or do they wish to continue with part 1? At a certain point I'm going to move to the witnesses who are patiently waiting in the crowd to present to us tonight.

Mr. Julian.

Mr. Peter Julian: Thank you.

Because I wasn't part of those discussions, I apologize for this question in advance. But I fail to see why, if some members are asking questions on part 1, we can't have the other witnesses come forward for the other parts and handle them all at the same time. Is there something I'm missing here?

The Chair: When do you want the other witnesses, the finance officials, on the other parts to come forward?

Mr. Peter Julian: My understanding was that there was scope for asking questions on various parts of the bill. But when you say you want to move on from part 1, is that because what you would like to do is have other witnesses come forward? My only question is this. Is there a problem with having all the witnesses come forward so that we can go through the questions one after another?

The Chair: Because you weren't part of the discussions, let me explain the process. The process was that we were having three sessions to deal with this bill. In the first session, the first hour was the Minister of Finance; the second hour was senior officials from the department; and then from 6:30 to 8:30 p.m. it was witnesses, as agreed to by the three parties. We're obviously late because of the half-hour vote, so we've pushed that back and the witnesses are waiting in the crowd to present.

We're still in the senior officials part, and we were supposed to be done by 6:30, but obviously we're running past 6:30. Tomorrow night we have more witnesses, as agreed to by the three parties, to appear before the committee. Thursday afternoon we've agreed to deal with clause-by-clause.

That is the agreement between the three parties, and that is what the chair is attempting to get through, in the interest of time, because it may get to be midnight and we'll still be here. I suspect that's not what committee members want. I'm assuming the opposition wants to deal with the other eight parts of the bill it has questions on, which is why I've asked members about 16 times to prioritize their questions on the sections.

At a certain point the chair is going to move to the witnesses in the crowd and allow the finance officials to go home.

Yes, Ms. Glover.

•(1840)

Mrs. Shelly Glover: I'm a little disheartened, because these fine folks who are waiting spent hours at a budget implementation act briefing specifically for MPs and senators. And I know that most of the opposition members who are asking questions didn't send staff and didn't ask any questions during that budget implementation act briefing. This was supposed to be for brief clarifications, and unfortunately Mr. Peter Julian wasn't part of that.

But in the interest of collaborating with this committee, I am going to make a suggestion that because they missed the briefing—unfortunately, and that's their own choice—they could suggest questions or they could pose questions through written form and they can get answers later.

But we intend to get through this bill, as we suggested earlier, so I would suggest that to them. And I'm not sure why they didn't show up for the briefing, but these fine folks did and already went through this once.

The Chair: Okay, thank you.

Mr. Mai, please.

Mr. Hoang Mai: Maybe I can explain why.

You're speaking about working together. We were in committee. As you know, we were on the pre-budget tour when you—

Mrs. Shelly Glover: I came back.

Mr. Hoang Mai: You came back, but that's the thing. We have a bill of some hundred pages. You're doing everything together. You know that we have a pre-budget tour and you called the briefing at the same time, and you say you want to work with us? Do you want us to cancel the pre-budget tour and come here to listen to the briefing?

Mrs. Shelly Glover: Not at all. You have staff.

The Chair: Okay, we're getting into a debate here.

Mr. Hoang Mai: That's not collaboration. I don't call that working together.

The Chair: Here is what the chair is going to recommend in the interest of generosity and good fellowship. I'm going to push the officials... We'll keep them here until 7 p.m., or maybe a little beyond. But at that point I'm going to call the witnesses who we, as a committee, have invited to appear before us here tonight.

I'm going to ask members to try to get through the eight sections in this bill very quickly, and to be very quick with their questions. The political debate is between the political parties. Let's not involve the officials in the political debate; let's just get through it.

Do members still have questions with respect to part 1?

Mr. Giguère.

[*Translation*]

Mr. Alain Giguère: My question is for the officials.

I have carefully read section 118.031 regarding children's arts and I see a problem with it. Arts is such a broad term that it covers recreational and development activities.

I have a very simple question. I will use a hypothetical situation. Let's imagine that there are 300,000 children in daycares. If all daycare owners were to increase their fees by \$500 and justify that increase by saying that they would become educational daycares, the government would be footing quite a bill.

What do you think about that?

[*English*]

Mr. Ted Cook: In response to the question about the nature of the activities covered by the new children's arts tax credit, I would point out that in clause 98 of the bill, there is a provision that defines artistic, cultural, recreational, and developmental activities, and the eligible programs for the purpose of the credit. It specifically refers to the types of activities involved: literary, arts, visual arts, performing arts, music, etc., and then as well, in terms of the eligible expense, it requires that it be separate from the school curriculum, and also that 50% of the activities offered to the children by the organization include a significant amount of the artistic, cultural, recreational, or developmental activities. So in addition to the cost of day care, it would have to satisfy any of the requirements of the regulations related to the credit.

•(1845)

[*Translation*]

Mr. Alain Giguère: So you are confirming that a daycare claiming to have an educational component could be allowed to increase its fees by \$500. That way, parents could be leaving their children in educational daycares. That's exactly how I had understood it.

In the French, this is on page 65 of your document on finance and on page 55 of your document on Bill C-13.

[*English*]

Mr. Ted Cook: I'm sorry. Is that the clause-by-clause explanation that was provided to the committee?

[*Translation*]

Mr. Alain Giguère: Yes.

I have a question about the \$500 tax credit.

Someone who earns \$12,000 and has two children won't be able to afford the \$500. No tax credit is possible in that case. Is there a social exclusion for the poor when it comes to arts.

Would it have been possible to apply the refundable tax credit to everyone earning under \$15,000 to some extent? Has that been calculated?

[English]

Mr. Gérard Lalonde: I think this is probably at least the third time we've had a question about the refundable tax credit, and I think I would refer back to the comments of the chair that our responses here are really about how the legislation and the proposals in the budget are put forth.

Now, in terms of what the government might have done differently, again, that's a decision of the government of the day, and I would ask the chair—

[Translation]

Mr. Alain Giguère: The notion of informal caregiver now has a family connotation. In other words, an informal caregiver must be a blood relative to be entitled to benefits.

I have a bit of a problem with that. In my riding, there is a Canadian legion association where the older people are supported by the younger ones, who act as informal caregivers. Unless I am mistaken, if the informal caregivers are not related by blood to the 90-year-old veterans, they will not be considered as family caregivers? Did I understand correctly?

[English]

Mr. Ted Cook: I think your understanding is correct in the sense that the caregiver credit is not available where there is no relationship, no familial relationship at all between the parties.

[Translation]

Mr. Alain Giguère: Thank you very much. That's exactly how I understood the legislation.

[English]

The Chair: *Merci.*

Can I move on to another part? The priorities, I'm understanding now, are parts 8, 10, and 18. Is that correct, or is that not correct? It's not correct?

Mr. Julian, do you have a comment?

Mr. Peter Julian: To clarify, Mr. Chair, we're going to be doing clause-by-clause on Thursday, and evidently there will be questions on many of those clauses and parts at that time.

The Chair: There will also be amendments and debate.

Mr. Peter Julian: I've been speaking to my colleagues just to understand what the purpose was this evening. It almost looks as if there were two things scheduled at once: a technical briefing or general questions on the parts of the act, and witnesses speaking more generally to Bill C-13. Would it be correct that we're actually looking at two agendas for one evening of meetings?

• (1850)

The Chair: Yes. The thinking was to have the minister and officials for political dialogue and questions generated by the members' reading or briefings, and then to hear from witnesses tonight and tomorrow.

Mr. Peter Julian: I can understand your challenge and your dilemma.

The Chair: I didn't decide that. We had a discussion, and the two vice-chairs were there, as was Ms. Glover and Ms. McLeod and the clerk. That's the agenda we came up with.

Mr. Peter Julian: And therein lies the dilemma.

The Chair: Here we are.

Mr. Peter Julian: We're trying to do two things at once.

The Chair: Well, no. Members had some specific questions. Some might have had something they wanted to follow up on that would help them draft an amendment, just to make sure they understood that clause of the bill. That's what the officials were here for, which is typically how this committee has proceeded on budget matters.

Mr. Peter Julian: Will we have an opportunity for further questions on Thursday?

The Chair: Well, it's clause-by-clause and there's debate. You can debate each clause and you can amend each clause.

Mr. Peter Julian: The officials will also be present. And generally the way we've worked is that if questions come up—

The Chair: I think the officials will be present on Thursday. I'm sure they wouldn't miss this for the world—they're excited about coming back.

Can I prioritize to parts 8,10, and...? Frankly, I don't even know if we'll get that far.

Mr. Peter Julian: Since we have other witnesses, I suggest that we will have other questions on Thursday. We will try to limit our questions to the three parts. We will also limit the number of questions on those three parts so that we can bring other witnesses forward.

The Chair: Right now.

Mr. Peter Julian: Take a few minutes now to respond on those other three parts that you've mentioned. Notwithstanding that, we should come back Thursday for some of the questions we have. I think that's a way of sorting out these two agendas for one evening. We get through some of the questions, bring our other witnesses forward, get into a more general discussion on C-13, and then leave some of the questions for Thursday.

The Chair: So can I move to part 8, then?

Mr. Peter Julian: Yes.

The Chair: Okay.

I want to thank Mr. Lalonde and Mr. Cook. We are not going to do part 2 or part 5. I apologize to those officials who stayed, but we are going to move to part 8. I understand there's one question on part 8. Could I ask the officials responsible for part 8 to come forward?

Part 8 of Bill C-13 deals with amendments to the Employment Insurance Act—hiring credit for small business. We have three officials with us. I want to welcome them to the table. If you'd like to introduce yourselves, we'll ask our questions afterwards.

Mr. Cuthbert.

Mr. Ray Cuthbert (Director, Legislative Policy Directorate, Canada Revenue Agency): My name is Ray Cuthbert. I'm the director of the Canada Pension Plan and Employment Insurance Rulings Division at the CRA.

[Translation]

Ms. Mireille Laroche (Director General, Employment Insurance Policy, Department of Human Resources and Skills Development): Good evening. My name is Mireille Laroche, Director General, Employment Insurance Policy, Department of Human Resources and Skills Development Canada.

[English]

Ms. Tamara Miller (Chief, Labour Markets, Employment and Learning, Federal-Provincial Relations and Social Policy Branch, Department of Finance): Hello, my name is Tamara Miller. I'm chief of the labour markets, employment and learning section at Finance Canada.

The Chair: Thank you. *Merci*.

And the question, Mr. Marston.

Mr. Wayne Marston: In the background, we talk about part 8 amending the Employment Insurance Act in order to reap, on a temporary basis, a portion of employer premiums. For those employers whose premiums are no more than \$10,000 in 2010, the small employers would refund the difference between 2010 and 2011 premiums, so a maximum of \$1,000. How was the choice of the maximum refund of the \$1,000...? Also, how did it come to be set at \$10,000 for the premium amount paid? What was the process?

• (1855)

Ms. Tamara Miller: Again, I think that's a question with respect to the decision of the government.

In terms of the measure itself, we can answer any questions in the technical—

Mr. Wayne Marston: So it was, again, a political decision is what we're hearing. Okay. I won't press you any further on that then. We don't want to get into political decisions, that's for sure.

The Chair: Are there further questions?

Thank you for staying. That was a very tough panel for you.

Voices: Oh, oh!

A voice: We're really mean here.

The Chair: We're now moving on to part 10, additional funding for the Canadian Securities Transition Office. I believe we have two officials. One official?

Mr. Marion, do you want to introduce yourself and your role?

Mr. Nicolas Marion (Chief, Economic Analysis, Securities Policy Division, Financial Sector Policy Branch, Department of Finance): My name is

[Translation]

Nicolas Marion. I am the Chief of the Economic Analysis unit, Securities Policy Division, Department of Finance.

The Chair: Thank you and welcome.

[English]

I understand I have one question from the government and one from the opposition. One question from the opposition, then.

Monsieur Mai.

[Translation]

Mr. Hoang Mai: Good evening. Thank you for being here. We apologize for making you wait so long.

We are talking about \$33 million. Has that amount already been paid to the transition office?

Mr. Nicolas Marion: Actually, the \$33 million was earmarked under the Canadian Securities Regulation Regime Transition Office Act. A total of \$33 million has been transferred to the transition office.

Under the legislation that created it, the transition office must submit annual reports to Parliament. The last annual report was submitted on September 19. You will see that, since its creation, the transition office has been operating with the amounts that have been transferred to it on an annual basis.

Mr. Hoang Mai: How much money do you think will continue being transferred to the transition bureau? How long do you think that will go on?

Mr. Nicolas Marion: Parliament has approved \$33 million. At the end of its last fiscal year, the office had spend about \$14 million of that total. Therefore, you can see that the remainder of the \$33 million is supposed to cover the rest of the office's mandate, which ends in July of next year.

Mr. Hoang Mai: The mandate ends at the end of July. That means that, at the end of next July, the \$33 million will have already been reached. As of today, has the \$33 million in expenditure transfers been reached?

Mr. Nicolas Marion: Here is how that works. The Minister of Finance has the authority to transfer amounts of up to \$33 million to the transition office so that it can carry out its mandate. Its responsibility is to develop and set up a national securities regulator. At the end of last fiscal year, the transition office had spent \$14 million of the amount that had been transferred to it.

Mr. Hoang Mai: Great. Thank you.

The Chair: Is that all?

Thank you very much, Mr. Marion.

[English]

The last part, I'm told, is part 9, "Gas Tax Fund—Financing Municipal Infrastructure".

We could ask those officials to come.

I understand this is the last part we'll be dealing with tonight.

Welcome to the committee. Please introduce yourselves.

•(1900)

Mr. Sebastian Badour (Principal Advisor, Policy and Priorities Directorate, Infrastructure Canada): My name is Sebastian Badour. I'm a principal adviser at Infrastructure Canada. I work in the policy and communications branch.

The Chair: Thank you.

Mr. Ross Ezzeddin (Director, Sectoral Policy Analysis, Economic Development and Corporate Finance, Department of Finance): My name is Ross Ezzeddin. I'm the director of sectoral policy analysis at the Department of Finance.

The Chair: Thank you.

Welcome.

Your questions, please.

Mr. Hoang Mai: Thank you for coming here.

First, in terms of that amount of \$2 billion, do you have instructions as to why it was \$2 billion and why it wasn't indexed?

Mr. Sebastian Badour: The \$2 billion is the amount it reached in 2009-10. It has been at that level since then.

Mr. Hoang Mai: Okay.

Are you aware of how much infrastructure deficit we have in Canada? FCM was talking about \$120 billion back in 2007.

No?

The Chair: I'm assuming that's transport infrastructure.

You deal with the financing with respect to the gas tax.

Mr. Sebastian Badour: There are various estimates out there on the infrastructure deficit. There's a lot of debate over them. It's hard for us to nail down a figure in terms of what the deficit is.

The Chair: A point of order, Ms. Glover.

Mrs. Shelly Glover: I'm sorry I have to do this, Chair.

I just want to make sure that when we're following the process—and I think you were quite right in suggesting that they might not be here—I don't want the officials to feel they have to answer questions they're not qualified to answer. So if it is political, then it really ought not to sit with these officials.

The Chair: I'll just reinforce that point again to the officials.

If it is a political question or a political answer, you can appeal to me as the chair and say it's beyond the scope of your expertise or your very objective status as an official within the Department of Finance.

Mr. Mai.

Mr. Hoang Mai: The point is not to put you in the corner. I'm just asking, if you have information you can let us know, and if you don't, don't hesitate to let us know that you don't have it. I'm new, and I don't know who knows what, so I'm asking questions.

My last question is this. Can you confirm with the wording that this transfer is permanent?

Mr. Sebastian Badour: Yes.

Mr. Hoang Mai: That's it.

[*Translation*]

The Chair: Thank you.

[*English*]

Thank you.

Thank you for being with us. We appreciate your attendance here....

Mr. Adler, I apologize.

Mr. Mark Adler: Thank you, Chair.

I just want to ask a quick question.

Why is the funding legislated to start in 2014-15 and not immediately?

Mr. Sebastian Badour: There's already funding until 2013-14. It was provided for in Budget 2007 as part of the Building Canada plan, and we've already signed agreements on that until then with provinces, territories, municipal associations, and the City of Toronto.

The Chair: That's it?

Thank you.

Thank you, Mr. Adler.

I want to thank you two gentlemen for coming here and responding to our questions.

I have the final part to deal with, which is part 18, the Canada Elections Act.

I will state again that this is not a political debate about whether we should have this or not. That's between political parties. This is for questions dealing with the technical implementation of it. Okay?

If we could have our two officials introduce themselves, please....

Mr. Matthew Lynch (Privy Council Officer, Legislation and House Planning/Counsel, Privy Council Office): Good evening. My name is Matthew Lynch. I'm director of democratic reform at the Privy Council Office.

[*Translation*]

Mr. Frédéric St-Martin (Policy Advisor, Democratic Reform, Privy Council Office): My name is Frédéric St-Martin, Policy Advisor at the Privy Council Office.

The Chair: Welcome.

[*English*]

The question is for Mr. Julian.

•(1905)

[*Translation*]

Mr. Peter Julian: Thank you, Mr. Chair. Thank you, Mr. St-Martin and Mr. Lynch, for being here this evening.

The notes on Bill C-13 actually mention other types of taxpayer support at the electoral level. It is estimated that the change set out in Bill C-13 will involve \$30 million.

Could you tell me how much is spent on other things, such as the 50% reimbursement of political parties' election expenses, the reimbursement of up to 60% of eligible candidate spending in their riding and tax credits for contributions to political parties? I assume you don't have those figures, but it would be beneficial to know roughly how much the Senate costs taxpayers.

[English]

The Chair: Thank you.

A point of order, Mr. Lake.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): I'm subbing in on this committee, but it seems to me, in looking at this section, that it doesn't deal with anything that Mr. Julian is talking about. So I would say that it doesn't seem to be within the scope of the bill at all.

The Chair: Mr. Julian, you're asking about other credits not affected by this piece of legislation. Can you explain why you're asking?

Mr. Peter Julian: Well, they're mentioned in the briefing notes from the minister, of course, Mr. Chair, so obviously if the briefing notes from the minister talk about those three other aspects of political support, taxpayer-funded political support in the system, it is part of this committee's work to ensure that we can compare the \$30 million contained within Bill C-13 to the other taxpayer-supported contributions mentioned by the minister in his briefing notes.

Part 18, page 1—the minister talks about it, so obviously it's legitimate to ask.

The Chair: I think in the minister's briefing notes to committee, it's fair to say he may mention things that are not in the actual bill itself.

I don't know whether these two gentlemen want to comment on those—

Mr. Peter Julian: If they have the information.

The Chair: If they want to, but it is beyond the scope of the bill—Mr. Lake is correct on that—so....

Mrs. Shelly Glover: And it is available publicly.

The Chair: I'll just give it to the officials if they want to address this.

Mr. Matthew Lynch: Well, we do have the information.

If I understand correctly, you're asking for the estimated value of the tax credit, the reimbursements to political parties and the reimbursements to candidates.

The tax credit—they're only estimates. They're provided by the Department of Finance and they vary from year to year, and of course they vary depending on whether there's an election. In 2010, the estimate was \$21 million. In 2008, it was \$32 million. So that's the range.

The reimbursements to political parties, of course, is only during election years. For 2008, from the information I have, it was \$29 million, and for candidates—again I only have following each election—it was \$25 million.

Mr. Peter Julian: Thank you very much. That's very important, and I appreciate your coming prepared. Obviously, you anticipated that this would be the type of question that would come.

If you don't mind working very quickly with your calculator, I have a total then of taxpayer-funded support for the political system of \$32 million, if we include taxpayer-funded contributions for registered political parties; \$25 million for candidates; and \$29 million in total for registered parties. That puts us at \$86 million. Would that be an accurate figure for those three categories, if we add them together?

The Chair: Mr. Julian, asking the officials to add...I'm going to ask you to state your final question and then I'm going to move to the witnesses, and I'm going to do that as the chair because I'm following the agenda established by the three parties. So state your final question for the officials, and then we're moving on.

Mr. Peter Julian: Well, that was my final question.

The Chair: Your final question is to ask them to pull out a calculator and add up some figures for you?

Mr. Peter Julian: Well, they would have the total. They've come very well prepared, Mr. Chair.

The Chair: Mr. Lynch, do you want to borrow my BlackBerry and add up these figures?

Mr. Peter Julian: It looks to me like it's \$86 million. Perhaps they could confirm that.

Mr. Matthew Lynch: I don't know if I have summed it up...but it's \$29 million for party expenses, \$25 million for candidates, and that comes to about \$54 million; and then \$21 million to \$32 million for the estimate for the tax credit.

● (1910)

Mr. Peter Julian: So in 2008 it would have been \$86 million in all—

A voice: [Inaudible—Editor]

The Chair: Order.

A voice: [Inaudible—Editor]

The Chair: The time is up anyway.

Mr. Peter Julian: So it was \$86 million in 2008.

The Chair: Order, order.

Thank you. *Merci*.

I want to thank the officials for coming, for their patience.

We will suspend for a couple of minutes and then we'll bring our witnesses forward.

Thank you.

•(1910) _____ (Pause) _____

•(1910)

The Chair: I call this meeting back to order.

I want to thank our guests for being so patient. I really do appreciate that.

We do have four presenters. We have first, as an individual,
[Translation]

Jean-Pierre Laporte, Pension Lawyer. Welcome.
[English]

Second, from the Federation of Canadian Municipalities, we have Mr. Vrbanovic and Mr. Buda. Thank you so much for coming.

Finally, from Canadian Manufacturers & Exporters, we have Mr. Jayson Myers, the president and CEO.

We are on a very tight timeline. I'm going to ask you all to present an opening statement, but if you could do that within five minutes, I'd appreciate that very much. Then we'll have questions from members.

[Translation]

We will begin with Mr. Laporte. Go ahead.

[English]

Mr. Jean-Pierre Laporte (Pension Lawyer, As an Individual): Thank you for this opportunity to provide the standing committee with some observations about certain aspects of the proposed legislation contained in Bill C-13.

By way of background, I am a pension lawyer and I currently practise in the city of Toronto with the law firm of Bennett Jones, LLP. I've been specializing in the area of pensions and benefits since 2001, and I have a particular interest in pension law reform. Some of the committee members who served on this committee in the last Parliament may remember that I have made presentations to parliamentarians on reforming the Canada Pension Plan in the past.

One particular element of Bill C-13 that may be of interest to this committee is the provision of new rules affecting individual pension plans. I have written one of the very few academic papers on individual pension plans in Canada. In March of 2007 the *Estates, Trusts & Pensions Journal* said of individual pension plans, "Are they worthy of a second look?"

In the brief time allotted to me, given the relative dearth of expertise in Canada on IPPs, or individual pension plans, I thought it would be a most judicious use of your time to focus my remarks on two proposed changes that could impact IPPs.

I don't want my remarks to be overly technical. I'm sure the officials from the Department of Finance are quite capable of explaining the current regime and how the proposed new laws would work, and I leave that to them. But I want to make some general comments. My intervention is simply as a private sector service provider who's acquired familiarity with these pension rules and how they interact with the day-to-day lives of Canadians.

The two changes I want to talk about are those relating to buy-back restrictions and forced distributions at retirement. I propose to comment briefly on both.

In terms of the buy-back restrictions, this is the ability that someone has under a registered pension plan to buy back years of service at a time the plan wasn't in existence. By way of illustration, if you have an employer, for example, an individual who has incorporated a company, a small business owner who has been carrying out that business for a number of years and then decides to set up a pension plan, an IPP, if it's a defined benefit plan, which most IPPs are, the actuary for the plan would say that's going to cost, say, \$600,000. In order to fund that \$600,000 hole in the pension fund, you would have to transfer moneys from your existing RRSP or other registered sources, like a defined profit-sharing plan. If there isn't enough money in the RRSP, the company could make a tax deductible contribution to make you whole, so that the pension fund has enough moneys to pay the pension that was promised.

The proposed new rules would force you to not only use the money in your current RRSP, but also to use up any RRSP unused contribution room you have. This would mean that at the end of the day you would be left with no ability to tax shelter in excess of what is in your pension fund. That is a change in the law that I think may not be to the advantage of small business owners, the very people who are usually tasked with the job of creating employment and creating economic activity. So that's one concern I have with the buy-back.

The other is the new rule that would force the moneys that have accumulated in the pension fund to be distributed as if the pension fund was a registered retirement income fund, or RRIF.

•(1915)

Currently, in the Income Tax Act and regulations, there are some rules that say that if you have a RRIF, based on your age you have to start taking parts of it out, and of course you get taxed on that. My concern is that if the RRIF rules are such that you're forced to take more money out of the pension fund than what the pension plan itself contemplates, you're creating a bit of a deficit, because the fund was supposed to last for a number of years. Now you're increasing the amounts that are coming out of it, so you're creating an imbalance between the moneys that you had set aside for retirement and what they're supposed to do for you.

So that's another kind of issue with the proposed rules, and I just wanted to make sure that this committee had a chance to think about that, because, again, IPPs are really targeted at small business people, and those are the very people to whom we're trying to give a break, so they can keep employing people, etc.

That's about it.

• (1920)

The Chair: Thank you for your presentation.

We'll now hear from FCM, please.

Mr. Berry Urbanovic (President, Federation of Canadian Municipalities): Thank you very much, and good evening, Mr. Chairman and members of the House finance committee.

On behalf of the 2,000 member cities and communities of the Federation of Canadian Municipalities, I want to thank you for the opportunity to speak to you again this evening as you consider Bill C-13, and in particular part 9 as it relates to the gas tax legislation.

Our central message is brief and has three points.

One, the government's recent budget commitment to develop a long-term infrastructure plan, which would provide permanent long-term stable funding, holds great promise for Canada's cities and communities.

Two, the gas tax fund should be the cornerstone of this new infrastructure plan.

Three, as this new plan is developed, we must ensure that the gas tax fund is indexed to protect its purchasing power over time.

[*Translation*]

That's the only way for all the governments to continue reversing our infrastructure decline. The gas tax fund was a great way to address the infrastructural issue in Canada.

[*English*]

From 2005 to 2014, the fund will invest \$13 billion in municipal infrastructure, from new drinking water facilities to public transit, from roads and bridges to waste water facilities. The GTF has gone a long way to slowing the decline of our economic infrastructure.

We all know how inflation, no matter how mild at the moment, erodes buying power. For example, between 2005 and 2009, the construction price index, tracked by Statistics Canada, increased by 21%, more than double the consumer price index we're familiar with. Without indexation, the gas tax fund will effectively shrink while infrastructure costs rise. In fact, the gas tax fund will lose one-third of its purchasing power over the next 20 years. That means the fund will be able to invest in one-third less infrastructure in 2030 than it does today. That means our cities and communities will be back to juggling priorities and delaying much needed infrastructure investments.

Let me be quite clear. We applaud the government's economic action plan and its commitment in the budget to developing a new long-term infrastructure plan. The success of the economic action plan demonstrated that when governments work together we can provide better value, services, and programs for Canadians. We know that if governments work together we can restore aging roads, bridges, water systems, and public transit and still provide people with the everyday services they need. We can continue to do all this if we work together to develop a truly long-term, fully financed plan to invest in our country's public infrastructure.

Financing is the foundation of any long-term infrastructure plan, particularly long-term financing. Infrastructure projects are long-

term projects requiring long-term commitments, so we need a frank and serious discussion about protecting the value of the gas tax fund into the future. The most appropriate venue for this discussion is the long-term planning process being led by Minister Lebel, and I fully hope and expect that this discussion will occur.

Without an infrastructure investment plan that protects the value of the gas tax fund, we will see the recent advances slow and then reverse. Our cities and communities will be left without a long-term predictable funding source they can count on, and that will have a significant impact on all of us.

[*Translation*]

Canada needs first-rate and efficient public infrastructure to maintain its quality of life and its economic competitiveness.

• (1925)

[*English*]

To build and maintain that infrastructure we need that long-term plan, the cornerstone of which needs to be a permanent gas tax fund indexed to protect its value over time.

Thank you. *Merci beaucoup.*

The Chair: Thank you for your presentation. *Merci.*

We'll now hear from Mr. Myers, please, from the Canadian Manufacturers and Exporters.

[*Translation*]

Dr. Jayson Myers (President and Chief Executive Officer, National Office, Canadian Manufacturers and Exporters): Thank you, Mr. Chair.

Ladies and gentlemen, I want begin by thanking you for the invitation to come and talk about this bill.

[*English*]

I'd like to specifically address the issue of the two-year write-off for manufacturing and processing of machinery and equipment investments that the bill would extend to the end of 2013. This is something that is very important. Manufacturers, and many businesses generally, and the Canadian Manufacturers and Exporters strongly support and congratulate the government for extending it in the budget.

I have provided some material that shows you our response to the budget, particularly with respect to the two-year write-off. I've provided you with a great deal of analysis as to why that was important, and that's the analysis we provided the finance minister as well as the people in the Department of Finance. I've provided you with a quick slide deck just because I want to refer to a couple of slides and graphs that I think are extremely important.

As you know, manufacturing and exporting business sectors have been faced with quite a few big challenges over the past few years, to say the least: rapid appreciation, volatility of the Canadian dollar, rapidly rising costs, and a recession that within six months took out 30% of production in manufacturing. Now we're regaining that. We're about 10% lower than where we were at the mid-point in 2008. It's been a slow recovery, a faltering recovery thanks to issues like Japan.

I think we've learned a few things from the recession. First is that we don't create wealth in an economy by spending other people's money around and around and around again. You create wealth by producing real products and services that customers value.

The second thing is that going forward, let's face it, governments and consumers are pretty much maxed out. We can't continue to borrow our way to economic growth. We have to focus on two main areas: business investment and exports. The two are interlinked because the investments are what improve productivity, competitiveness, innovation, and drive export success.

We also have to realize that we're facing some long-term challenges in terms of demographics, health care, and environmental issues, and we're going to have to depend on innovative businesses, manufacturers in particular, that bring 82% of all new products to market to solve some of those problems.

But I want to point out—and this was our rationale, our argument, to the Minister of Finance—the importance of cashflow, the importance of profitability, both in boosting employment and in generating investment growth.

If I could draw your attention to page 2, there are two graphs in particular. I apologize; I'm an economist by background and I can't move without graphs here. But I do want to show you this. The top is the relationship between after-tax profitability of Canada's business sector as a whole and the unemployment rate. What this shows me is that there is a very close relationship. In fact, profitability changes before the unemployment rate. But what it shows me is that when businesses have money, they invest, they grow, and they employ more people.

The second graph shows the relationship between after-tax cashflow, which is—and I'm sorry for the technical details here—before-tax profits minus corporate taxes, plus capital consumption allowance. But you see here a very close correlation: cashflow drives investment activity. We are seeing business investment activity increase by 3.5% in the first quarter alone and by 3% in the second quarter. Business in manufacturing investment is up by more than 10% over the first half of this year, which is an indication that the cashflow is improving. I think it's also an indication of the importance of the two-year write-off at this time.

The tax structure we have, I think, should be geared to leaving more money in the hands of companies that are making investments in productive assets, in technologies, in new production technologies, in research and development, in new product development, and in upgrading the skills of our workforce. Those are the investments that are going to make a difference for the Canadian economy going forward.

So the budget that was introduced in March and in June that included the extension of the two-year write-off up to 2013 was really important because it's a tax deferral. What it does is move cashflow up front. It provides the whole manufacturing sector with about a 12.5% additional return on investment in the first three years of that investment.

● (1930)

That's what's so important today, when we need to replace technologies very quickly and we're competing with the rest of the world to do that. It was a badly needed infusion of cash, especially in the midst of recession, and extending it for a two-year period gives companies a period of certainty so that they can make investment decisions.

That's why Soprema in British Columbia made a multi-million-dollar expansion. That's what has helped Celestica move into solar panel manufacturing. It has helped Prévost bus lines in Quebec develop a new robotic system. And it has helped Aberfoyle heat treating, a 10-person operation, get a new contract with Boeing to do heat treating for Boeing aircraft. This is so important. It was supported by 47 industry associations, as well as by the Canadian Labour Congress.

We definitely support this measure in the bill. In our view, it should be made permanent. It makes sense to make it permanent, simply because we need these investments in order to grow the economy.

The Chair: Thank you very much, Mr. Myers, for your presentation.

We're going to begin members' questions with Mr. Julian, for a five-minute round.

Mr. Peter Julian: Thanks to our witnesses for coming forward. We apologize for the delay as we were sorting out our committee business. It's very good that you're here this evening.

I wanted to start with Mr. Buda and Mr. Vrbancovic on the issue of infrastructure generally. We heard testimony yesterday that we have an infrastructure deficit that was evaluated before the stimulus program at about \$125 billion. But of course, as you know, there is an ongoing year-to-year stimulus deficit. In transit alone it's been estimated to be about \$10 billion a year.

This is an important step. It's only a very small first step to what's needed to address the deficit on an annual basis and the overall infrastructure deficit that exists across the country—or the infrastructure debt, if you like.

If you could, I'd like you to speak to the issue of the gas tax transfer and to what extent that addresses the annual deficit, where you see the FCM's evaluation overall as to the infrastructure deficit generally across Canada, and what measures could be taken to increase the amount set aside in Bill C-13 to seriously address on an ongoing basis the deficit that exists in infrastructure in this country.

Mr. Berry Vrbanovic: Thank you very much for that question. As you point out, when we released our report in 2007 it really talked about two numbers: an infrastructure deficit of \$123 billion and a need for about another \$115 billion over the next 20 years in new infrastructure that was needed in this country.

We know in the intervening years there's obviously been progress made by municipalities through the gas tax, their own investments, and investments from provincial and territorial governments toward tackling some of that deficit. As well, there have been some successes that have obviously been achieved more recently, in the last couple of years, through the stimulus program and the investments that were made in infrastructure there.

The focus going forward is really on the development of that long-term infrastructure plan. That was our primary ask in Budget 2011. It was referenced in version 1.0 and in version 2.0 of Budget 2011. Over the last number of months, our officials have been having dialogue with Mr. Lebel's officials towards developing that long-term infrastructure plan.

The first phase of that plan will actually be to take stock of exactly where we are. As I said, there has been progress made, but to what amount specifically, we don't know. That's obviously an extremely important part if we're going to develop a long-term strategy involving all three orders of government to tackle the enormity of the issue going forward.

• (1935)

Mr. Peter Julian: At this point, you haven't been able to do a full evaluation of to what extent investment is needed in infrastructure generally. So the figure of \$123 billion wouldn't be valid, but the ongoing figure of \$10 billion to \$11 billion a year is valid. Is that not correct?

Mr. Berry Vrbanovic: Again, I think it's important to remember that the focus is really on developing that long-term plan and really doing an assessment of exactly where we're at amongst the municipalities of this country in terms of that deficit going forward, so that we can collectively develop an approach that's going to tackle the needs we face.

Mr. Peter Julian: Okay, but we can surmise that the \$2 billion, you said very clearly, has to be indexed, and we've heard that loud and clear. But you're not stating that the \$2 billion would be sufficient to address infrastructure needs across the country. That requires increased and additional investments.

The Chair: Please make a very brief response.

Mr. Berry Vrbanovic: Sure, very quickly, unequivocally, we believe it is necessary to index it in the long run. What that indexation should look like and what it is based on is obviously a matter of discussion that we believe is part of that long-term plan we're speaking of.

The Chair: Thank you, Mr. Julian.

We'll go to Mr. Adler, please.

Mr. Mark Adler: Thank you, Chair.

And I want to thank all of the witnesses for being here this evening.

I want to direct my questions to the manufacturers and exporters. Mr. Myers, it's good to see you again.

You spoke about the two-year write-off. I know there are a number of manufacturers in my own riding of York Centre that have benefited from this provision. It has led to increased business; they've hired more employees. It has been a huge boon for them.

I was wondering if you could give a couple of examples, because you represent how many...what's your membership?

Dr. Jayson Myers: About 10,000.

Mr. Mark Adler: You represent 10,000 companies. So you're where the rubber hits the road. Could you give a couple of examples, specific examples, of how this has helped some of your members?

Dr. Jayson Myers: I can, and there are a lot of examples. I mentioned Aberfoyle Metal Treaters, which put in a new heat treating centre and is getting the benefit of the two-year write-off to do that. Harry Hall runs the operation based in Aberfoyle. As a result of that, it is now able to do heat treating for Boeing, for a lot of the large aircraft producers, and this is unique in Canada. It has given it a capability that frankly doesn't exist in the country.

What we're seeing now, I think, on the part of a lot of companies.... For example, Promation in Mississauga, a company that was once an auto parts producer and now manufactures most of what they produce for the energy sector, and in fact is one of the leading nuclear welding companies in the world today.... Again, to get to that point requires an awful lot of capital investment, and again, the fact that we've had a two-year write-off in place now since 2007 was a major incentive for them to make those investments. It was an incentive for Celestica in putting in its new solar panel line, and IBM in Bromont, Quebec, which became a centre of excellence within IBM, the only manufacturing part of IBM left in Canada. It's a centre of excellence in microelectronics.

So there are an awful lot of good examples in terms of capital, but what it also does is free up other cash, so that companies like Alco Ventures out in Vancouver can invest in developing new markets, or Mel Svendsen of Standen's Limited in Calgary can invest more in training his employees in new production technologies or health and safety processes. Those are a few examples. I could go on.

Mr. Mark Adler: Those are very similar to the kinds of stories I'm hearing from businesses in my own riding.

Let me switch gears a bit. As you know, under the economic action plan, the government has a plan to keep taxes low, to increase jobs, and to make our economy more stable. We're recognized around the world, we're a leader in the G-8, and the IMF just validated our movement towards a balanced budget in 2014-15. The list goes on and on.

Forbes just gave us a triple A credit rating, and Standard & Poor's—all of that. Could you just explain to those who are in favour of increasing corporate taxes what that would do to your members? What would the effect be?

• (1940)

Dr. Jayson Myers: It gives them less money to make investments in new product development or new technologies or training their employees.

One of the things we found in some of the analyses, which I think made a difference in our discussions with the finance minister's view of this, if not Finance Canada's, is that if you look at the amount that businesses across the country, especially manufacturers, have invested in new product development, R and D, machinery and equipment, and expansion in terms of construction activity, those investments have been very, very consistent over the past 30 years as a share of cashflow.

Anything that detracts from cashflow means you're automatically going to reduce the investments in the productive assets you need to be investing in, particularly now as companies need to retool to bring new products to market. I think that's the key thing here.

The Chair: Thank you.

Thank you very much, Mr. Adler.

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

Mr. Ted Hsu (Kingston and the Islands, Lib.): Thank you very much, Mr. Chair.

I want to ask about corporate taxes as well. I heard the remark from Mr. Adler about increasing corporate taxes, and Mr. Myers spoke about the connection between taxes and employment and investment.

The Conservatives raised the EI tax rate, I believe, by something like 2.9% in 2011, and we're expecting something like a 5.6% increase in the EI rate in 2012. Do you think that will have an effect on employment and investment?

Dr. Jayson Myers: Any increase in cost is going to have an impact on the amount of money that companies have to invest, so, frankly, yes, it does.

One of our recommendations, though, is to take a look at the EI system. I think you could make a very strong argument that a tax credit could be introduced for companies that are undertaking workforce skills development to provide companies that are investing in their employees with a credit against the increases in employment insurance. That's what I think would be a very effective mechanism.

Right now, you have to lose your job before you get retraining. It would be nice to be able to support investment as it was being undertaken at the workplace itself.

So, yes, we are concerned about those increases as well.

Mr. Ted Hsu: Looking at the markets today and what's happening with Greece, it looks like the government might fall later this week. The bailout package is potentially in trouble.

Do your members need that increase in the EI rate in 2012, or do you think it would be safer to delay that?

Dr. Jayson Myers: I don't think that increase in EI rates is going to have an overall impact on the rate of employment. I think what we need above all is stability and certainty in the tax system, and in the economy, period. Right now there's a tremendous amount of uncertainty as a result of what's happening in Europe, and of course the impact on China and North America.

In fact, if you look at concern about the economy, I think the perception and uncertainty is running ahead of actual business. Orders are pretty good, and a lot of sectors are expanding right now. That is what's going to generate employment growth here.

Again, anything today that is adding to the uncertainty around investment I think is certainly not a good thing, at a time, in my mind, when we need to be laser focused on what it takes for companies to make these investments and to grow. That's what is going to be important. No company is going to increase employment if they don't have customers, financing, and if they are not making the right investments in new products or skills development or new technologies. I think that's the first consideration here.

• (1945)

The Chair: You have one minute.

Mr. Ted Hsu: Let me use my minute to be clear that your members prefer that the Conservatives not increase that tax.

Dr. Jayson Myers: Right.

Mr. Ted Hsu: Thank you.

The Chair: Thank you, Mr. Hsu.

We'll go to Mr. Van Kesteren, please.

Mr. Dave Van Kesteren: Thank you, Mr. Chair.

Thank you to everyone for coming tonight.

I want to thank the Federation of Canadian Municipalities. During the past couple of years we've had an interesting relationship, at least in Chatham-Kent. I'm sure everybody could share the same types of stories with their federal, provincial, and municipal counterparts. I know that in Chatham-Kent we manage to do an incredible number of projects that are going to benefit the municipality for years to come.

I got your message on the index. I think that's a consideration. I can't emphasize enough that in Chatham-Kent we probably have more bridges than most municipalities, because it's flat and there are tons of bridges. We've seen expansion in sewage and water treatment, and the non-traditional, like the YMCA—things we had to do. We've made those contributions in the knowledge that infrastructure...again, the municipality.

Can you comment on how important that has been, and how that's going to affect your municipalities in the years to come?

Mr. Berry Vrbanovic: I think it's fair to say that nobody can call into question the fact that there has been significant progress made in municipalities over the last few years in tackling the infrastructure challenges that local governments across this country have. Having said that, I think we equally can't underestimate the incredible importance of continuing to invest in infrastructure in our communities going forward.

The reality is that Canadian municipalities are responsible for over 50% of the infrastructure in this country. As you know, based on a tax system that gives municipal government roughly 8¢ out of every tax dollar collected in this country, it is just not sustainable for us to be able to tackle those challenges and at the same time, together with you and with the provincial and territorial governments, ensure that we put our communities and this country on the kind of economic footing that's necessary going forward if we're going to be able to compete in this global marketplace.

Mr. Dave Van Kesteren: I wouldn't disagree with you, but what I'm trying to lay across are the partnerships, and what worked and what didn't work. I could be wrong, but I don't see any stories of boondoggles; there was just this unique camaraderie. I'm encouraging you to look at those things to see what worked and what didn't work, so if this happens again in the future we can follow that same path.

Mr. Myers, you gave us some good examples of the write-offs and why they are important. You gave us some good examples of companies that took advantage of them.

I want to ask you about free trade and its importance. This government has made it a priority to secure free trade agreements, and we don't always get support for that. If you think that's important, why is it important?

Dr. Jayson Myers: It's probably more important than ever before, particularly given the fact that our major trading partner is going through such economic difficulty today. We are seeing companies that are looking for new markets and new customers. In fact, we've seen quite a shift in expectations and priorities, at least in the manufacturing sector. Maybe three years ago the emphasis was on productivity; now everybody is trying to find new customers as well. So those things are more important than ever.

We need to negotiate a new type of trade agreement. The issues are no longer tariffs and simple non-tariff barriers, like quotas. They're much more insidious. There are procurement restrictions, like Buy American, for example, that affect the municipal level and uncovered state levels that are not part of the NAFTA. There's the use of IP, export controls, regulations, and standards. All of these are being used by countries around the world to protect their own domestic industries and effectively put up barriers to trade.

So our trade agreements have to focus on those areas, and those are the areas that we're negotiating with the United States in procurement and border issues, and with Europe. I hope we'll continue to do it with other countries too.

• (1950)

The Vice-Chair (Mr. Hoang Mai): Thank you, Mr. Van Kesteren.

We'll go to Mr. Marston.

Mr. Wayne Marston: Thank you, Chair.

Mr. Laporte, I want to thank you for the cautions you've given us here today. I think they're significant. If I heard you correctly, by treating the pensions like a RRIF, we could actually build a systemic deficit into a pension plan. Did I hear you correctly?

Mr. Jean-Pierre Laporte: It's possible, yes.

Mr. Wayne Marston: That's very concerning. One of the arguments we make is that pensions are deferred wages, and we can argue that. Sometimes in bankruptcy situations you have almost a pool to tap into to pay other creditors.

This caution is very disturbing. Again, I want to thank you for that.

I'll go to Mr. Vrbanovic.

What I heard from your presentation is that there is a need for a long-term infrastructure strategy, and we certainly agree. Obviously, we need a clear assessment of what the needs are going forward. We have our differences on corporate tax breaks and that kind of thing.

In Hamilton, where I come from, and I'll use the word "neglect", we have a \$2 billion deficit in our sewer systems. That's the kind of thing we're facing. The decisions made by city council over a number of years weren't proper.

On the other side of it, you have places such as Whitehorse and others with populations that can't sustain the infrastructure. So it's very clear that going forward it's going to require an investment on the part of the government as part of a plan.

It occurred to me, when we talked about those corporate tax breaks, that you're not going to see those businesses, which are reaping those rewards, investing in our infrastructure. Really, it is fundamental, as I see it, that there be a better balance between the corporate tax breaks that are out there and the investment required. There are certainly situations in which the lead must be this government. Would you agree with that?

Mr. Berry Vrbanovic: I don't think I'm going to get into the debate about what the priorities of this government should be in terms of one issue versus another. What I will make a strong case for is what the Canadian municipal government sector needs in communities of all sizes, from our smallest towns to our largest city, the city of Toronto. The reality is that all of our communities have significant needs in terms of infrastructure. As your colleague, Mr. Van Kesteren, said earlier, without a doubt, the kind of partnership we saw in the last couple of years, with the three orders of government working together, is what I believe Canadians are looking for from all of us as elected leaders, so that they can deliver the kind of work that needs to be accomplished going forward.

Mr. Wayne Marston: I absolutely agree. And part of what the strategy must be is how we come together and how we find that balance. Without throwing anything at the other side, it's very clear that we have to find a balance.

Mr. Myers, I'd like to go to you for a second. In your conversation, you talked about the cashflow of business. One of the things we've repeatedly heard, which I've raised in this committee several times, at least, is the \$500 billion estimate of the capital that is being held because of the fear of a credit crunch. How do we find a balance with what the government should take a lead on to encourage business to release some of that money? Do you have any thoughts on that, sir?

● (1955)

Dr. Jayson Myers: I'm not sure, in an operating cashflow sense, where that pool of capital is. The numbers actually show that investment is picking up, along with cashflow, and that there has been a consistent share of the cash being invested in capital. Cash on a finance basis, short-term cash, has increased significantly, but so too have short-term liabilities and all liabilities. I think what we may be seeing here are companies holding more short-term cash rather than long-term investments. That's a reflection of maybe how difficult it is to get the money on a long-term basis.

All that being said, the worry right now is that we may be facing another cash crunch and a financing crunch, so companies are tending to be very conservative here. We are seeing investment plans, particularly employment plans, being postponed only because of concern about what may lie ahead as a result of the European crisis. We're seeing right now many of the same signs we saw in 2007, particularly when it comes to customer financing.

The availability of money right here in Canada is a little tight, but it is especially so in the United States. So we're seeing some of those signals already.

The Vice-Chair (Mr. Hoang Mai): Thank you, Mr. Marston.

Ms. McLeod.

Mrs. Cathy McLeod: Thank you, Mr. Chair. I do have to make a quick comment before I go into my questions.

I find it profoundly interesting when the opposition expresses concern over EI, which is a sort of self-sustaining loop, but at the same time votes for a 45-day work year that would have an incredibly detrimental effect. I find those two concepts very hard to align.

I simply had to say that. I won't ask you to express your opinion on that particular view, Mr. Myers.

What I would really like to do is focus on the FCM. Certainly, as a former mayor of a small town, I appreciate the challenges around infrastructure, even the one-third, one-third, one third, and the capacity of communities. I wasn't a mayor when the gas tax came in, but I know I would have welcomed it with open arms.

We did hear from the minister earlier in terms of hoping that municipalities don't simply treat it as a grant but use it to leverage. I guess I have a couple of questions. Past practices show it has been mostly used as sort of a grant. Is that because it wasn't legislated and you couldn't count on it long term, and will legislating it make a difference?

Could you maybe talk about what enshrining the permanent gas tax fund in legislation will represent to municipalities, and a little bit about whether they are currently leveraging to some degree?

Mr. Berry Vrbanovic: I believe it's very important to emphasize that one of the clear messages we heard from our members was the need to have reliable, stable funding that they can count on toward dealing with the capital infrastructure investments they need to plan for going forward.

One of the challenges that occurs when you have blips in funding, which happen for very good reason—for example, under economic stimulus and so on—is that you run the risk of potential inflationary pressures and so on, because there isn't the capacity at times in the marketplace to deal with some of those issues.

I think it's fair to say it's extremely important going forward that we have reliable funding that we can count on. It will certainly give municipalities what they need to be able to plan financially, in terms of the work that needs to be done, and to balance out the various responsibilities they have.

From the people I've spoken with, I can tell you that everyone recognizes the importance of those infrastructure dollars, those gas tax dollars, and so on, going to that very purpose. The process is set up in that way, to ensure that it goes to those purposes in our municipalities.

I think Mike may want to add a little bit to this as well.

● (2000)

Mr. Michael Buda (Director, Policy and Research, Federation of Canadian Municipalities): Very quickly, to answer your question about leveraging, yes, municipalities are using the gas tax fund to fund larger projects that they take debt on to cover, and then use future gas tax fund payments to pay the debt obligations of that loan. It allows people to fund much larger projects.

That is why the predictability is so important. It allows people to essentially leverage the long-term nature of the fund so that we can get the kind of capital investments today, rather than waiting for 10 years. Of course, we need the infrastructure to do that.

Mrs. Cathy McLeod: You talked about the gas tax being the major cornerstone; I would have to say it's one of the cornerstones. If you're looking at municipalities, they are 50% of the infrastructure. I look at so many important items around highways, which are provincial and federal.

I also have to quickly make note that certainly within lot subdivisions that straddle...we had to do water upgrades. We had a choice whether we paid it all ourselves, or so much per month over the next so many years.

I do appreciate municipalities and their significant needs, and the majority needs, but there are other situations in terms of provincial, territorial... It is not the one and only piece.

The Chair: Thank you, Ms. McLeod.

[*Translation*]

Mr. Giguère, you have five minutes.

Mr. Alain Giguère: My first question is for Jean-Pierre Laporte, and it's about individual pension plans.

How could I explain this to you? Let's look at how a person with a high income is taxed. The individual pension plan is not all that matters; there is also the \$400,000 tax exemption for Canadian controlled private corporations. If SMEs want to get around paying taxes, all they have to do is hire a tax expert. I don't want to be mean, but how can I tell you this without being a little mean?

However, the taxpayer has only one shirt and would like to hold on to it. Currently, there are so many tax loopholes that make it possible for someone who makes \$250,000 a year to pay as much in taxes as someone who only earns \$50,000, over a 30-year period. There's something of a tax fairness issue with that. Dr. Léo-Paul Lauzon, a professor in taxation at the Université du Québec à Montréal, has pretty clearly shown this to be true. Too much comes out to the same as too little. Perhaps we need an individual pension plan.

I think that's hard to justify in terms of ethics and fairness.

Mr. Jean-Pierre Laporte: Do you have a question?

Mr. Alain Giguère: I will put it to you clearly. How can you justify such loopholes in terms of tax fairness?

Mr. Jean-Pierre Laporte: First of all, the rules governing individual pension funds are roughly the same ones that govern defined-benefit pension plans, from which the members of this committee and public servants benefit. If you think that the rules that provide additional tax cuts to people with such plans are a problem, perhaps the federal plans and MPs' plans should be reduced a little. The rules are roughly the same. There are a few small changes in the regulations that somewhat reduce an individual's capacity to receive tax cuts.

Mr. Alain Giguère: The problem is that I am not sending the bill to a company that will receive a tax deduction. In addition, unlike a Canadian controlled private corporation, I'm not eligible for a \$400,000 capital gains deduction.

You are limiting your view to the pension plan matter, but I am interested in how taxation is ultimately affected. I think that there's a big problem with the fact that, if they are resourceful, people who earn \$250,000 a year will pay less taxes than people who make \$50,000 a year. Those earning \$50,000 would like people making \$250,000 to pay a bit more than they do.

● (2005)

Mr. Jean-Pierre Laporte: In a normal pension plan, such as the teachers' or the public workers' plan, taxpayers contribute as the employer. In an individual plan, the company must put up the contribution. However, the company is the individual who owns it. I am talking about a private company. If a doctor is incorporated, the company's income is that of the doctor. Consequently, the doctor must contribute to the plan, and the two parts come from the same source.

Mr. Alain Giguère: Your doctor example is very appropriate. Doctors are paid by the government, while high school teachers cannot become incorporated to include their salaries under a Canadian controlled private corporation. A doctor can do so. That is where the whole problem with tax fairness lies.

The Chair: Do you have an answer, Mr. Laporte?

Mr. Jean-Pierre Laporte: I talked to you about what retirement plans can provide taxpayers with. I am not here to analyze the whole Income Tax Act.

The Chair: Thank you.

[*English*]

We'll go to Mr. Lake, please.

Mr. Mike Lake: Thank you, Mr. Chair. I'm just going to focus on one issue here, if I can, because I think it'll be the defining issue probably over the next four years here in Parliament. You've seen a bit of the debates back and forth between the NDP and us. The NDP, in the previous election, called for a 19.5% corporate tax. Our corporate tax rate for next year will be 15%. Theirs represents an increase of 30% over ours.

There's a good slide on page 4 of your presentation, Mr. Myers, that talks about the impacts of the reductions in a positive way. For example, there are increased personal incomes of Canadians, boosting our GDP.

Maybe speak to some of the impacts of a lower corporate tax rate versus a higher corporate tax rate, especially with a difference of 30%.

Dr. Jayson Myers: I would first of all refer you to the graph on page 2, the top one, that shows the relationship between after-tax profits as a percentage of GDP, so it's a general measure of business profitability and unemployment. What it shows is that the only time unemployment rises is when profits fall, and the only time unemployment falls is when profits increase. That's after-tax profits. The relationship is not as strong on before-tax profits. In fact, as the profit margin increases over about 6.5%, there's almost a one-to-one relationship between the change.

On that basis, you can track the impact of reducing corporate tax rates in terms of an increase in profitability and a reduction in the unemployment rate. So if businesses are growing, they're employing more people. As more people are employed, personal incomes increase, GDP increases, government revenues increase, and that's where the overall economic benefits come from, as that table outlines.

Mr. Mike Lake: So it's fair to say that of the 650,000 net new jobs since July 2009, a significant number would be due to a declining tax rate on job creators.

Dr. Jayson Myers: What we've seen is that the unemployment rate falls as profitability increases. And I think that is a very important reason why profitability has increased so rapidly in Canada versus what is happening in the United States. It's not only because of the state of the economy, but also because of the tax reductions over the course of the last 10 years.

● (2010)

Mr. Mike Lake: I would just get in another comment. Back in the early summer, we had this debate over Canada Post that ran for 48 to 72 hours, or something like that. One of the advantages of that is we had time to do some reading. One of the things I started reading was about Canada Post's union pension plan. I think some of your members would be among the largest equity holdings in that pension plan. There's Suncor, for example. I think they hold about \$154 million worth of Suncor shares. There's PotashCorp., \$100 million worth of shares. Talisman Energy is a favourite whipping boy for the NDP, but the Canada Post union pension plan holds \$94 million in Talisman shares.

Maybe you could speak to the impact on those Canada Post pensioners of a 30% increase in taxes on those companies.

Dr. Jayson Myers: An increase in taxes does two things. It means there's a lower return on investment for the company and therefore the share value will fall. It also means there's less money to distribute in dividends, and unretained earnings by the company, so there's less of a dividend. Both of those have a negative impact on any investor holding the stock, and, as you say, these are some major investments that any pension plan would hold.

Mr. Mike Lake: Mr. Hsu made a couple of comments to do with EI—he wasn't here in the previous Parliament, but the Bloc, the NDP, and the Liberals banded together to put forward a 45-day work year proposal for EI. After 45 days of work, a worker would qualify to receive EI for the rest of the year. I can't remember what numbers were attached to that, but it was in the billions of dollars. Do you remember that—\$4 billion I think was the amount?

The Chair: Mr. Lake, there is a point of order.

Mr. Julian.

Mr. Peter Julian: Thank you, Mr. Chair.

I understand Mr. Lake has been brought in late on this. He may not be aware of the details on Bill C-13, but that is indeed what we are speaking to, and I'm sure his colleagues on the Conservative side understand that's completely out of the scope of what we've asked witnesses to come here to speak on tonight.

The Chair: I'll just respond to that point of order.

It's not a point of order, and it's not beyond the scope because I allowed the questions from Mr. Hsu who brought up the issue of something that was not in Bill C-13.

Mr. Lake.

Mr. Mike Lake: I've done my question.

Dr. Jayson Myers: I think there has to be a balance between the costs of the EI system and the contributions, and we can't be expecting the system to be paying out higher benefits while looking at the impact of the cost of this on employment itself. So there has to be a balance, and that balance is part of the system.

One very important part of the EI system that has been in place over the last couple of years that's made the real difference in terms of being able to retain jobs was work sharing. In my mind, work sharing was a far more important part of the EI benefit, and one that companies are prepared to pay for, because nobody wants to lose their employees in a short-term downturn. So there are some benefits that you really do need at this time, and companies are prepared to pay for it.

The Chair: Okay, thank you, Mr. Myers. Thank you, Mr. Lake.

We'll go to Mr. Mai, *s'il vous plaît*.

Mr. Hoang Mai: Thank you, Mr. Chair.

A quick question for the FCM. I'm trying to figure out, because we've been saying that we need to invest in infrastructure—we'll submit a proposal regarding indexing the gas tax and also adding another cent per litre to that fund. Do you have an idea of the updated amount of the infrastructure deficit we talked about today?

Mr. Berry Urbanovic: As I indicated earlier, the most current numbers we have are the ones from our 2007 report. And the first step of any new plan would be to take stock of where we sit.

Mr. Hoang Mai: Can you explain to us if the amount of \$2 billion is not indexed, what the implications would be for the municipalities?

• (2015)

Mr. Berry Vrbanovic: Even if we don't see any sort of indexation going forward, over the next 20 years, because of inflation and population growth, we will in effect lose the purchasing power of about 50% of that \$2 billion figure. That's why we talk about the long-term plan and the need to look at some form of indexation. What it looks like is a point of discussion as part of this process. Inevitably, other funding will become necessary as well. We know, for example, the Building Canada fund exists. We're going to need to see some sort of continuation of that in the future as well.

Mr. Hoang Mai: And we've seen in the 2009 budget that the government took a look at the numbers. Investing in infrastructure had five times the impact on the economy than reducing corporate tax for big companies.

Do you agree with that link? It was in the budget.

Mr. Berry Vrbanovic: Again, I'm not going to get into a debate on the merits or lack thereof of some of these particular fiscal approaches. What I will focus on is the fact that we as local government believe that certain successes are achieved by investing in infrastructure. Jobs are created.

Mr. Hoang Mai: And we totally agree with you. That's why we were pushing for it. The other one was more an economic multiplier, so it was just a fact.

A question for Mr. Myers. In your brief you mentioned that we should invest in R and D. In Bill C-13 there is a capital cost allowance for clean energy generation and conservation of equipment. Can you tell us, if we were to move toward a cleaner energy, greener economy, how that would benefit your members and the economy in general, and why it would be better for us to invest in that type of energy?

Dr. Jayson Myers: Good question.

I think in two ways, from a manufacturing point of view. This is the sector, by the way, that across the country has realized a 12% reduction in overall emissions since 1990, far surpassing the Kyoto target here, and the emissions were reduced primarily as a result of investment in new technology, which was also energy-efficient technology. So if you can provide incentives for that type of investment, it certainly makes a lot of sense from a business case. But also, of course, there are tremendous opportunities for companies supplying alternative energy projects across the country.

We've been talking about infrastructure, but the challenge to Canada over the next five years is going to be the following: how do we support the clean or carbon-based energy? How do we support the mining, forestry, shipbuilding, and upgrading projects that are across the country? There is tremendous opportunity for manufacturing and tremendous opportunity for clean energy and for clean technologies as part of that, because it's all going to be very tightly regulated, of course. But those are the infrastructure demands that we're going to be facing; there are tremendous strains already in terms of availability of labour and increasing costs.

So we have to figure out a way to ensure that those investments, which come from business, by the way, continue to be made. And the incentives, like the clean energy technology and the two-year write-off, are very powerful instruments that help those investments.

The Chair: *Merci.*

Over to Mrs. Glover, please.

Mrs. Shelly Glover: Thank you, Mr. Chair.

[*Translation*]

I want to thank our witnesses once again for joining us this evening. It is always a pleasure to have you with us.

I will start with a question for the Federation of Canadian Municipalities.

[*English*]

I'll speak in English, although I was very impressed with your French. So congratulations on that.

I'm going to ask you about a couple of measures that are in the Budget Implementation Act that I want your opinion on, to know whether or not we're going in the right direction.

First of all, I'm a police officer by trade—I'm on a leave of absence—and I worked very closely with firefighters over the 20 years I was policing. This was not just with the City of Winnipeg firefighters, but with some in rural municipalities. I know you have a number of firefighters working in your rural municipalities, and this volunteer firefighters tax credit that we've put forward seems to me to be a very important measure. We've heard from some folks who also see it as a good measure.

Do you know who Hans Cunningham is?

• (2020)

Mr. Berry Vrbanovic: Absolutely. He's our past-president.

Mrs. Shelly Glover: And what did he used to do before being your president?

Mr. Berry Vrbanovic: He was a volunteer firefighter. In fact, he was a fire chief.

Mrs. Shelly Glover: Can I share with you what he said to us? Here's the quote:

This is something that has been near and dear to the hearts of Ontario firefighters. Most fire departments in small communities are the hub of their community.

I know that's how he felt, but can you speak to the importance of this tax credit to the folks who are working in your rural municipalities now?

Mr. Berry Vrbanovic: Certainly what I can tell you is that, as an association of local government, we supported that initiative and we spoke in favour of that initiative, as you heard from our president last year, Hans Cunningham, at this very committee, who spoke in favour of it.

Mrs. Shelly Glover: Thanks.

I think it's an important measure as well, but some people don't think it's an important measure, so I just wanted to get your opinion on it.

The other one is the loans that will be forgiven for doctors and nurses who end up working in rural communities, mainly remote rural communities. Again, what do you think of that measure in the BIA?

Mr. Berry Vrbanovic: What I can say to you on that, obviously, is that doctors and nurses in our rural communities are extremely important. Again, that was an initiative that we were supportive of. We actually called for that in terms of our election platform and in the issues we were looking for the various political parties to respond to in the election.

Mrs. Shelly Glover: Do you think it'll make it easier for you to attract them to your communities in the remote areas?

Mr. Berry Vrbanovic: I think any initiative like that certainly can assist in attracting folks. I can tell you even in my own community, which is a large urban centre in southwestern Ontario, we have had our challenges attracting physicians and specialists. Any sort of incentive program that exists will certainly help bring them to the communities.

Mrs. Shelly Glover: Okay. Excellent.

[Translation]

Mr. Laporte, I have a quick question for you, if you don't mind.

Regarding federal employees, in our budget and our proposal, we have eliminated the mandatory age of retirement for employees. We think that's important. What do you think about that measure, which has been included in the budget? How important do you think it is and do you agree with it?

Mr. Jean-Pierre Laporte: Yes, I have no objection to people retiring after the age of 65. If people are skilled, have something to offer their employer and need to continue working, I think that allowing them to retire later benefits both parties.

Mrs. Shelly Glover: Excellent.

Had you, as a lawyer, received any complaints from employees regarding the obligation to retire at a certain age before that measure was implemented?

Mr. Jean-Pierre Laporte: Not personally, but I know that there were a few cases, especially involving pilots, who thought they were being forced to retire a bit too early. To get around that, they continue their career outside Canada.

[English]

The Chair: Okay. I'm going to take the final round as the chair and wrap up the questioning.

I wanted to address Mr. Myers and come back to the accelerated capital cost allowance, one of my favourite topics. Six years ago, you proposed to me that the industry committee look at manufacturing. Dave Van Kesteren was on that committee, and I thought all committee members, the industry, and the witnesses did an outstanding job. It was interesting. We had agreement from labour, from industry, all sorts of people telling us what the challenges were and how to meet them. This was our first recommendation as a committee, one of the unanimous recommendations.

The challenge has always been to prove the economic impact to people who are skeptical of it. Mr. Adler addressed this very well. I

can't tell you how many plants I've been through where the plant manager will say, "That \$1 million piece of equipment is there because of the government, and now we're much more productive." But they always say it's part of a whole series of measures. You mentioned work sharing and corporate taxes. But the one thing they raise with accelerated capital cost is the timeline. They need a timeline, because businesses don't operate under six-month schedules; they operate on a multi-year timeline.

I want you to address, first of all, the impact of this measure, taking into account the corporate tax argument. Frankly, your organization has done one of the best pieces on the benefits of corporate taxes. I can't understand why people still say it's like giving money to corporations. They talk as if Parliament is taking a bag of money, giving it to your members, and telling them to go have fun in Las Vegas. This is completely contrary to what really goes on.

I want you to talk about the impact of the CCA and to refer to your study on the corporate tax reductions and the benefits it brings, taking into account that businesses have already factored these corporate taxes for January of 2012 into their business plans.

• (2025)

Dr. Jayson Myers: Thank you, Mr. Chair.

First, I'd like to recognize your leadership on this issue as well. It was six years ago that we started talking about this and started asking what the most important measure to boost investment would be.

As you say, if you visit companies across Canada, they can show you the benefit there. It's not just the piece of equipment; it's what that has enabled their employees to do. It's the fact that their employees are still employed and the fact that their employees are in better jobs as a result of the greater profitability of the company. And that's important.

Frankly, I'd suggest that there might be too many tax economists in the Department of Finance and that maybe we should take all of them out to visit a few plants as well and show them what really goes on in business and what happens on a shop floor, because I think that's the type of technical experience and background that a lot of our policy-makers, especially in the Department of Finance, need.

Under the old system of depreciation, there is a 30% declining balance based on the economic life of an asset, and as long as the asset is generating money for you, it should be depreciated over that period of time. That's why we have 40-year-old boilers in place, and that's why we aren't moving to more energy-efficient systems. That's why the whole name of the game today is to compete on a very timely basis as new technologies emerge and you want to accelerate that capital turnover.

If we didn't have corporate taxes, in the best of all possible worlds, the manufacturing sector would be making a return on their investment in a period of three years. So when we implement a corporate tax system, wouldn't you want the rate of depreciation to sort of match the natural rate of return on the asset? That's what this effectively does. To me, this matches the rate of return for investors to exactly the rate of return they'd be expecting in the marketplace. They need certainty over a period of time, because it may take three or four years before the initial plan is put in place and the capital is installed.

That's why the two-year extension is important. It gave us three years here, and as I say, we'd like to make it a permanent part of the tax system, because it's a tremendous advantage. But, again, you need certainty, and I think right now, as you say, many companies have been factoring in tax reductions as part of their investment plans.

But I can also tell you that the combination—and it's a pretty powerful one—of a low corporate tax rate, a two-year write-off on manufacturing equipment, the introduction of the HST in most

provinces, and the elimination of tariffs on imported equipment is a very powerful message to send to a lot of international companies in Europe and especially the United States.

• (2030)

The Chair: Okay. I appreciate that very much.

I want to thank all of our witnesses for being here. I do want to thank you especially for your patience tonight and for coming to the committee on such short notice—I believe it was only a short time ago that you were contacted—and for your responses to our questions.

[*Translation*]

I want to thank you for your presentations and your answers to our questions.

[*English*]

Thank you, colleagues. We will see you tomorrow for another marathon finance session.

MAIL  POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid

Port payé

Lettermail

Poste-lettre

**1782711
Ottawa**

If undelivered, return COVER ONLY to:
Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5

*En cas de non-livraison,
retourner cette COUVERTURE SEULEMENT à :*
Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5

Published under the authority of the Speaker of
the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Additional copies may be obtained from: Publishing and
Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Also available on the Parliament of Canada Web Site at the
following address: <http://www.parl.gc.ca>

Publié en conformité de l'autorité
du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

On peut obtenir des copies supplémentaires en écrivant à : Les
Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5
Téléphone : 613-941-5995 ou 1-800-635-7943
Télécopieur : 613-954-5779 ou 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à
l'adresse suivante : <http://www.parl.gc.ca>