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Chair

Mr. James Rajotte

Standing Committee on Finance

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order.

This is meeting number 50 of the Standing Committee on Finance. Our orders of the day are pursuant to Standing Order 83.1, continuing with pre-budget consultations 2014.

I want to thank our guests very much for coming in this afternoon. Colleagues, we have two panels before us on the pre-budget consultations.

In the first panel we have, from Queen's University, Professor Arthur Cockfield. Welcome back to the committee. Also back to the committee we have Professor Mike Moffat from the Ivey Business School. From Credit Union Central of Canada, we have the CEO of Conexus Credit Union, Mr. Eric Dillon. Welcome. From Imagine Canada, we have the president and CEO, Mr. Bruce MacDonald. From the Investment Funds Institute of Canada, we have the director of policy and research, Mr. Jon Cockerline.

Welcome to all of you. Thank you so much for being with us. You each have five minutes maximum for your opening statement, and then we'll go to questions from members.

We'll begin with Professor Cockfield, please.

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

[*Translation*]

Mr. Chair, ladies and gentlemen.

[*English*]

Thank you again for the privilege to appear before you.

The last time I spoke before this committee was during the FATCA hearings, which were quite contentious. Of course, the budget is very important to all Canadians, but I suspect it might be a little bit less contentious today. Again, thank you.

In my brief comments I thought I would emphasize what I consider to be the academic tax consensus surrounding how one should form a budget. None of this will surprise you. You need a broad base, fewer loopholes.

Today I have come from my Queen's law class. It ended at one o'clock. I taught them a little bit about the 1987 budget of Michael Wilson, the former finance minister. I teach that as the high-water mark of my generation in terms of achieving a fair budget which both brings in revenues and drives the economy forward. As a very broad generality then, one should try to broaden the tax base, reduce shelters, reduce loopholes, and potentially even bring down rates at the same time.

I know this would be a very ambitious agenda that's not going to be implemented within the next budget, so my main recommendation today would be, within this budget, to appoint an independent expert panel to provide advice on the short-term and long-term options to streamline our current tax system. The problem is that since that 1987 budget, almost 40 years have passed and the amount of tax provisions have ballooned to a significant extent.

In the United Kingdom, they have a permanent independent tax simplification office. If we could allocate moneys and budgetary amounts toward that sort of independent expert panel, I think you would see a lot of good come out of it.

I recently participated in an expert panel at the Mowat Centre of the University of Toronto. This was a project directed by Matthew Mendelsohn, and it involved two years of analyses concerning how to modernize our corporate income tax system. A report was recently co-authored on this topic by my colleague Robin Boadway at Queen's, as well as his co-author Jean-François Tremblay.

Through that process one could see, because it was an independent panel, an awful lot of thought put into the long term. I think that's what Canada's tax system needs, this long-term independent perspective.

I have two specific recommendations.

I have previously testified on several different occasions about the problem of offshore tax evasion. I think you're all familiar with the 2013 data leak obtained by the International Consortium of Investigative Journalists. They partnered with the CBC, which retained me. It showed that there are thousands of Canadians maintaining offshore accounts. There was clear illegal activity taking place. I've also consulted with the Auditor General more recently on this file.

There are a lot of revenues, in my opinion, to be found in the offshore world. I should note, of course, that much of this activity is legal, but much of it is not. To the extent the government could invest funds in tracking down these offshore tax cheats, for every dollar you put into that system, I suspect you'd see a significant return.

This brings me to the final thing I'd like to mention. Again, I've just talked about the need to broaden the tax base, but I'd also highlight what I thought was a very reasonable reform effort back in 2007, when this government introduced the working income tax benefit, the late Jim Flaherty's WITB. It was based on the Americans' earned income tax credit. It's generally available to working families with a low income. It gives them a refundable tax credit. This has turned out to be a powerful weapon to fight poverty in our country. To the extent the government would see fit to extend these benefits and enlarge them, in my opinion this would be a worthwhile reform effort.

Thank you, sir.

● (1535)

The Chair: Thank you very much for your presentation.

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

Mr. Mike Moffat (Assistant Professor, Ivey Business School, As an Individual): Thank you for having me here today.

My name is Mike Moffat. I'm a business owner, a chief economist with the Mowat Centre, and an assistant professor at the Ivey Business School in London, Ontario. Those are a lot of hats, but I'm here representing my own views.

I'm here today to talk about tax policies and regulatory burdens. I share the views of my University of Calgary colleague, Jack Mintz, who has called for tax simplification, stating in the *National Post* that the tax system has gone off the rails.

Before he enacted the Tax Reform Act of 1986, Ronald Reagan described the tax code as being complicated, unfair, and cluttered with gobbledygook and loopholes. The same criticisms can be applied to the Canadian tax system, which is in dire need of reform.

Let's start with income tax. The current system is riddled with a variety of tax expenditures. The system, while well intentioned, has Canadians overpaying tax each month, then has some of that money returned to them if they remember to save a receipt and fill out the correct box on their tax form. This places a burden on families, lengthens tax forms, and requires the government to police credit claims.

This added complexity could be justified if the credits increased the use of public transit or got more kids playing sports, but research in the *Canadian Tax Journal* shows that the children's fitness tax credit largely pays families for what they were planning on doing anyway.

We can greatly reduce regulatory burdens on Canadians by ridding ourselves of many of these tax expenditures and use the savings to either lower income tax rates or by strengthening the universal child care benefit or HST rebate programs and allow families to decide how to spend their hard-earned dollars.

Much can be done to reduce the regulatory burden the tax system places on Canadian businesses. The tariff system is a prime example. During the so-called iPod tax debate, government departments were divided on whether televisions and MP3 players were considered computer parts for tax purposes, with the CBSA and the Department of Finance providing opposing answers to Canadian businesses. If the government cannot decipher the tariff code, what hope do Canadian businesses have?

This government has eliminated tariffs on many items, and I commend them for doing so, but much more can be done at little cost to the treasury. One such example is propylene copolymers that are used as an input by plastics, foams, and auto parts manufacturers in southwestern Ontario. There is a 2% tariff rate on imports of this chemical unless it is from a country that Canada has a free trade agreement with, such as the United States, in which goods come in tariff-free.

In 2012 the WTO estimates that the government collected only $360,000 in tax revenue on over $485 million in imports for an effective tax rate of 0.08%.

The customs tariff is littered with items from grape crushers to storage heating radiators where tariffs generate almost no revenue, but impose significant regulatory burdens. In a recent paper, the Canadian Council of Chief Executives detailed the expenses companies face in importing goods at preferential tariff rates. Firms must keep detailed records for several years and ensure their imports meet the rule-of-origin requirements in order to claim a preferential rate. These rules are not simple or trivial. The NAFTA rules-of-origin regulations alone are 556 pages long.

A study by Keck and Lendle found that many companies find it cheaper to avoid these regulatory costs and simply pay the higher rate, bypassing the benefits of Canada's free trade agreements. Due to the high fixed costs involved in tracking and claiming preferential tariffs, small and medium-size enterprises are less likely to take advantage of free trade deals.

To summarize, large portions of the tariff code impose significant regulatory burdens and discriminate against small and medium-size businesses while generating very little revenue for the government.

My primary recommendation is to set a zero MFN rate on tariff items with very low effective rates as it would provide substantial benefits at minimal cost.

I could talk for hours on these issues and I suspect many in this room feel that I already have, so I look forward to your questions.

● (1540)

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

We'll go to Mr. Dillon, please.

Mr. Eric Dillon (Chief Executive Officer, Conexus Credit Union, Credit Union Central of Canada): Thank you, Mr. Chair and the committee, for this opportunity to share with you the credit union's systems recommendations for your pre-budget consultation process.

I am especially grateful that you have done something different this year by asking to hear from on the ground practitioners like me. This shift feels right to me, because one of the things we do at Conexus Credit Union where I'm the CEO is to always ask how we can do things differently. This approach has helped us to grow, to become Saskatchewan's largest credit union and one of the 10 largest in the country.

With that in mind, I, too, want to do things a bit differently today. Instead of telling you about the credit union system in great detail, I want to jump straight to what you in Ottawa refer to as our ask. As I discuss our proposal, I'll weave in facts about our system.

What are we asking for? Quite simply, credit unions are calling on the federal government to create a capital growth tax credit. It would be calculated at 5% of the growth in year-over-year retained earnings. If a credit union were to increase its retained earnings by $1 million, it would save $50,000 on its tax bill. It's that simple.

I'm sure you're accustomed to receiving requests that probably sound a lot like mine do. Your default response is probably to ask why the federal government would create a special tax measure for credit unions. My answer is that we're not asking for special treatment; we're asking for fair treatment that recognizes credit unions are structured very differently than charter banks. Both operate in the same sector. Both offer similar banking services. Both are required to hold large amounts of capital and both are well-regulated and prudent, but that's where the similarities end.

We're cooperatives. They're joint stock corporations. They're regulated federally. We're regulated provincially. They're small in number and operate across the country and are internationally active around the world. We have 320 credit unions operating within provincial boundaries and serving communities.

These differences show up in ways that are relevant to the question of how we should be taxed. We give back proportionately more to our communities than they do—on average, 4.5% of pre-tax profits across our system versus 1% for charter banks. In my particular credit union, last year it was 5.8% of pre-tax profits, and most recently, a $1 million contribution to a new children's hospital in Saskatchewan, the first in our province.

Because we're cooperatives and not pressured to generate short-term results, we tend to stay invested in our communities even when competitors chase more profitable opportunities elsewhere. In fact, the credit union system today operates 380 branches in communities where there is no other physical banking presence.

These differences show up in other ways. CFIB data shows that credit unions, including Desjardins, have the second highest share of small business lending in this country at 18.6%. In my province of Saskatchewan, the credit union system provides just over half of all small business loans. We have been able to achieve that kind of success because the CFIB says we dominate the banks in providing exceptional service to the small business market. How? The CFIB would say that small businesses value our ability to offer financing at low fees with high-quality account managers. Our people understand small business. They know this sector is vital to a growing Canadian economy, the local economy, both in good times and in bad.

The data also tells another important story. On average, almost 80% of our credit union equity is made up of retained earnings versus only 45% for charter banks. In my credit union, that number is virtually 100%. The composition of our capital tells a story of a sector that grows its business in an organic way, at a speed that's profitable, sustainable, and prudent.

Our tax proposal recognizes this fact about credit unions. It also recognizes that we do not issue shares on publicly traded markets to support our growth. Because of that, our cost of capital is higher than that of the banks, whose shareholders can benefit from the 50% capital gains exemption and tax-incentivized savings plans, such as RRSPs, RRIFs, and the like.

At the same time, our calculations suggest that if the federal government does not act on our proposal, my credit union could potentially pay a higher effective tax rate than the banks by 2017. Obviously we think the tax system should strive for fairness and a competitive balance among organizational forums, especially when regulators, provincial, federal, and other, are demanding that financial services companies build and hold more capital.

● (1545)

The Chair: You have one minute.

Mr. Eric Dillon: Our proposal does that and more. We estimate that in the aggregate our proposal could help credit unions make another $700 million in loans at the cost of a $66-million aggregate tax credit. In my credit union, that means another $20 million for small businesses and homeowners.

From these numbers, you can see how our tax proposal aligns with the federal government's effort to ensure continued economic prosperity through targeted tax relief and support for small business.

To conclude, we hope you will support our call for a capital growth tax credit. We think it's the right way to achieve a competitive balance in the tax system, help small businesses, and support the growth of the Canadian economy.

Thank you for your time. I'm certainly happy to answer questions.

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

Mr. MacDonald, please.

[*Translation*]

Mr. Bruce MacDonald (President and Chief Executive Officer, Imagine Canada): Thank you, Mr. Chair.

My thanks to the committee for inviting me to testify before you today.

As you know, Imagine Canada is the national umbrella organization for the charitable sector in Canada.

As committee members, you are well aware of the contributions made by charitable organizations in areas as diverse as education, arts and culture, amateur sport, youth services, international development, the environment, health care and religion.

You know from experience the contribution made by charitable organizations in your constituencies to the quality of life; they make Canadian communities pleasant places to live, work and invest.

[*English*]

What is less well known is that charities together with public benefit non-profits generate more than 8% of GDP and employ two million people every day in Canada. We're one of the fastest growing sectors, yet we're reaching a point where demand for what we do is outstripping our financial capacity to deliver. As we work to strengthen the financial footing of charities, we welcome the opportunity to partner with the federal government to unleash the tools through taxation and regulatory reform that will allow charities to meet demand.

Our first recommendation is the stretch tax credit for charitable giving, to help Canadians increase their donation over time and make giving a lifelong habit. Unlike some tax credits that reward people for what they are already doing, the stretch only triggers a government investment if and when Canadians change their behaviour by increasing their giving over the previous year.

This committee has heard a great deal of support for the stretch during the incentives for charitable giving hearings, and you recommended it for serious consideration once the books were balanced. The government took note, and in addition to announcing the super credit in budget 2013, also made the following commitment:

> ...the Government will work with the charitable sector, including Imagine Canada, to encourage more donations by a greater number of Canadians....

The first-time donor’s super credit was an encouraging start. Now it's time to finish the job by helping more Canadians to do more.

What would the stretch mean? It would mean more dollars for the widest array of good causes, more investment in every community, and broad-based tax relief. It would mean that donations that have stagnated would begin to grow again, as more than half of donors say they would increase their giving if there were better tax incentives. What better investment could we make as we approach the 150th anniversary of Canada than to give Canadians from all walks of life and all means the tools to better invest in their own communities and in the causes that make a profound difference in their quality of life.

This fall we asked charities across the country to connect with their members of Parliament, as they are best placed to let you know what the stretch would mean for their organizations and their own communities. In only the first six weeks of the campaign, over 150 MPs have received letters, e-mails, phone calls, and visits from local charities, and we're just getting started. We hope we can count on all committee members to strongly endorse the stretch in your pre-budget report.

Our other two recommendations this year deal with regulatory issues and also get at the heart of charities' financial resources and sustainability.

The first of these is merchant fees on credit card transactions. Last year's budget signalled the federal government's concerns about these fees, which are disproportionately high in Canada. Proposed legislation in the Senate would, among other things, eliminate these fees for registered charities. Merchant fees have a real and significant impact on charities' bottom lines. They divert millions of dollars that could otherwise be invested in responding to the growing demand for charity services.

We understand that regulation is a last resort, and we recognize that a voluntary arrangement may prove preferable. Either way, charities must be invited to the table and benefit significantly from much-needed reforms.

[*Translation*]

Finally, we hope to see some explanations and possible changes in terms of the regulatory and administrative obstacles that limit the access of charitable organizations to federal services that provide advice to companies when they are seeking new sources of revenue. This is particularly important because governments are looking for new forms of social financing and entrepreneurship in order to fund vital initiatives that involve charitable organizations. The economic contribution of charitable organizations in Canada is huge already; giving them access to those tools would allow even more growth.

Thank you very much.

● (1550)

The Chair: Thank you very much for your presentation.

[*English*]

Mr. Cockerline, please make your presentation.

Dr. Jon Cockerline (Director, Policy and Research, Investment Funds Institute of Canada): Thank you, Mr. Chair and members of this committee, for this opportunity to provide the views of members of the Investment Funds Institute of Canada, IFIC, at this meeting.

IFIC is the voice of Canada’s investment funds industry. By connecting Canada’s savers to Canada’s economy, our industry contributes significantly to Canadian economic growth and job creation.

In my remarks today, I will focus on recommendations related to three areas: registered plan reforms in support of retirement savings, GST/HST reform, and equitable taxation for mutual fund corporations. Also, I'll be pleased to respond to committee questions on any of the recommendations provided in our formal brief of August 6, 2014.

IFIC has consistently supported the government's efforts to offer Canadians more ways to save for their retirements and other financial needs. Our industry has been an important contributor, for example, to the success of RRSPs, RESPs, RDSPs, and TFSAs, to name a few, and we have supported new savings programs, such as PRPPs, as a matter of good public policy, even though our members are not positioned to participate directly in the manufacture of these plans.

While GRRSPs, group registered retirement savings plans, fulfill the same goal as PRPPs, and that is, long-term savings through a workplace plan, they are not accorded similar tax and regulatory treatment. Such differences unnecessarily disadvantage GRRSPs, which are an accessible and efficient option within the retirement savings landscape. To ensure that GRRSPs continue to fulfill this role, we ask that that they be accorded the same treatment as that of PRPPs with respect to payroll tax exemptions, auto enrolment, and the locking in of employer contributions.

During the 2011 federal election, Prime Minister Harper announced his intention to increase the annual individual TFSA contribution limit to $10,000 after the budget returned to balance. We agree that increasing the TFSA contribution limit would improve the options and flexibility available to Canadians for saving and investing. We ask the government to consider raising the TFSA contribution limit to $10,000 annually.

A recent report published by the C.D. Howe Institute highlighted the impact of mandatory minimum withdrawal rules for registered retirement income funds, RRIFs. As the report notes, these rules have not kept pace with gains in Canadian life expectancy, and as such, can increasingly cause seniors to outlive their savings under the current withdrawal rates. We ask the government to consider increasing the mandatory age for initial RRIF withdrawals and/or reducing the minimum drawdown amounts in order to mitigate the risk that seniors outlive their savings.

Since its inception in 1991, the GST has applied four to five times more heavily to the value of services provided to mutual and other funds than to the equivalent value of services provided to non-fund investment products. For the majority of mutual fund investors, the GST/HST on the management expense ratio is a tax on retirement savings. Today, almost 57% of assets under management in Canadian mutual funds are held in registered plans by investors saving for retirement. We ask the government to consider applying GST more fairly to fund products in order to relieve the tax burden on Canadians who are saving for their retirement.

● (1555)

When calculating their taxable corporate income, most corporations in Canada are entitled to apply the 13% general rate reduction to income that is not eligible for another corporate tax reduction. Mutual fund corporations, however, are not allowed to apply this reduction because two of the principal forms of mutual fund corporation income—capital gains and dividends—are already subject to tax reductions. Yet mutual fund corporations may earn income from sources other than dividends and capital gains, such as interest income or income from foreign sources. To rectify this imbalance, we request that Canadian mutual fund corporations be entitled to apply the general rate reduction to all eligible income.

Mr. Chair, that concludes my opening comments. I would be pleased to answer your committee's questions.

The Chair: Thank you very much for your presentation.

We'll begin questions with Mr. Cullen, please, for seven minutes.

Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP): Thank you to all our guests today.

Mr. Dillon, I'm going to start with you, and then I will have a couple of questions for Mr. Moffat and Mr. Cockfield, depending on how we do with time. It will pass quickly, I suspect.

On the specific ask, as you put it, the capital growth tax credit, can you remind the committee of the amount you're seeking and recommending to the federal government?

Mr. Eric Dillon: By our calculation, Mr. Chair, that growth credit based on 2013 numbers would be $66 million.

Mr. Nathan Cullen: It's $66 million. Is there a multiplier with regard to what happens if the government does accept a capital growth tax credit in terms of what then manifests in the general economy?

Mr. Eric Dillon: There certainly is. At the current multiple levels, Mr. Chair, that would equate to about $700 million of additional lending that would take place in communities across the country.

Mr. Nathan Cullen: Say that last sentence again. Sorry; it was $700 million that would be for what?

Mr. Eric Dillon: It would be lent out. That could be leveraged and lent out to communities from credit unions from coast to coast.

Mr. Nathan Cullen: Connect the dots for me. There is a $66-million tax credit put through, leveraged then to $700 million through the credit unions. Why would that explicitly be made available for lending to small businesses?

Mr. Eric Dillon: That is the way credit unions operate, Mr. Chair. What happens in our world is as retained earnings grow and capital grows in the credit union system, that money can be leveraged. The beauty of the credit union business model today is that this money doesn't end up offshore in profit to a shareholder, but rather gets returned to communities. The credit union retains enough to invest in its future and build a sustainable model, and over and above that the money is lent out to support businesses in Canada.

Mr. Nathan Cullen: You're suggesting that by the structure, the way the credit unions are built and mandated under law, the amount leveraged of $700 million, by your estimation, would likely go back out into loans and whatnot to the small business community.

Mr. Eric Dillon: That's correct.

Mr. Nathan Cullen: At one point in your testimony, you talked about.... Is it your credit union that is responsible for half of all small business loans in your region? Is that right?

Mr. Eric Dillon: No, that would be credit unions in Saskatchewan.

Mr. Nathan Cullen: This is credit unions across Saskatchewan. That would be the reason to support this for Saskatchewan.

I'd be curious if you could provide us with what the number is across Canada for credit unions in terms of their representation.

One criticism of your ask is that for many credit unions, a large percentage would fall under the exemption for small businesses, and that wouldn't be hit by the tax increase that came from the federal government in budget 2013. Is it a fair criticism to say that most credit unions would be exempt from this policy?

Mr. Eric Dillon: It's not.

To answer your first question on the amount of lending that credit unions do in Canada, we hold 18.6% of the small business market across the country.

On the second question, there are varying sizes of credit unions, and what happened with the old policy was about 10% of those credit unions would be eligible, but that only represents about 30% of the assets held in Canada because of the varying sizes.

Mr. Nathan Cullen: Right, so the vast majority of capital that's held in credit unions was exposed to the tax hike in the 2013 budget, just being larger than a small business designation.

Mr. Eric Dillon: I don't have those numbers handy but I'm certainly happy to provide them to the committee.

Mr. Nathan Cullen: I have a quick question on what, for us at least in the opposition, was a surprise tax hike on credit unions in the 2013 budget. What consultation or notice was given to you by the federal government before that tax hike was introduced in the budget?

Mr. Eric Dillon: There was no consultation with the credit union system.

Mr. Nathan Cullen: That's not very nice.

Mr. Moffat, I'm looking through some of what you said today and also some of your writing around the government. They've set up a panel to reduce red tape, which is somewhat ironic in its structure, but it's an understood effort and maybe even noble, yet at the same time increasing the complexity of the tax system for Canadians. Why is that a problem?

Many of these complexities are added in what we generally call boutique tax credits that are politically popular sometimes. Why is that such a problem for Canadian businesses if all these boutique tax credits keep adding up?

Mr. Mike Moffat: It's more a problem for Canadian households. I would like to start by applauding the government for taking the initiative to cut red tape. As a business owner, I highly appreciate that, economic analysis aside. It's more a problem for households. Again, you're forcing households to save a bunch of receipts and then at the end of the year collect them all and fill out these various tax forms. They all work against each other. They all complicate the system, and you get these larger and larger—

● (1600)

Mr. Nathan Cullen: Are they efficient?

Mr. Mike Moffat: Not particularly, no. If efficiency is defined as changing behaviour, there's not a lot of evidence that they do that.

Mr. Nathan Cullen: Let me ask the contrary question then. Has your department done any analysis of what's called the free rider effect on some of these government programs in the sense that it's a new tax measure to encourage Canadians to do something they were going to do anyway?

Mr. Mike Moffat: Again, I did not write any of the papers on that issue, but there was an issue of the *Canadian Tax Journal* which looked at exactly that question. They surveyed households, and households were happy to get it. If you want to give households a cheque, we're all happy to get that, but households said that they were going to do those things anyway, that essentially they were getting paid to put their kids into hockey or ballet or what have you, and those are all things that families do.

Mr. Nathan Cullen: In a sense it depends on what your intention was when you started out to do it. Was it to change some behaviour, or was it to lower taxes? If it was mostly the second, are there more efficient ways to lower taxes for Canadians than this string of complicated boutique tax credits that come out of the government?

Mr. Mike Moffat: Oh, absolutely. You could just lower income tax rates, particularly at the low end. You could increase the universal child care benefits. You could increase HST rebates. You could do it all in one thing, rather than a little bit here and a little bit there, and trust families to do the right thing, because Canadian families care about their kids. I don't need incentives to put my kid into swimming lessons; I'm happy to do it anyway.

Mr. Nathan Cullen: Very quickly, Mr. Cockfield, do you have anything to add to that commentary with respect to the complexity of the tax code and maybe what burden it puts upon Canadian businesses and families?

Prof. Arthur Cockfield: I would tend to agree with Professor Moffat that it creates an economic drag over time, because many of these incentives often work against each other, and from an economic perspective nobody is sure whether they promote the goals that the legislators initially intended.

The Chair: Thank you, Mr. Cullen.

Mr. Keddy, you have seven minutes.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Welcome to our witnesses. It's an interesting discussion today.

Mr. Moffat, you talked a little bit about the overregulated tax regime we have. I think most of us around the table would have to agree with you on that comment, quite frankly. It's also very difficult to put a little bit of water or wine into that soup to make it a little thinner; there's a lot of pushback when you try to do it. I think we all agree that it is overly complicated, and especially the tariff code.

I would like you to expand on that a little bit and give three quick examples, if you could, of an overly complicated tax system and tariff code.

Mr. Mike Moffat: I think the first example was the whole iPod tax debate. We have these items, and the question became whether a television or an MP3 player is a piece of consumer electronics or is considered a computer part, which comes under a special tariff treatment. Depending upon what the answer is, there is a different tariff rate, and nobody was really quite sure.

There really doesn't seem to be any logical reason we should be putting tariffs on televisions and MP3 players in the first place. There's no domestic Canadian industry to protect there. That's one about tariff codes.

You have tariffs as well whereby there might be a 1% or 2% MFN rate placed on international imports and a 0% tariff rate for U.S. imports. For reasons of geography, basically everybody is importing from the U.S. anyway, but to get that 0% rate, you're having to go through all of this paperwork.

What you could instead do for everything from grape crushers to storage heating radiators to chemicals such as propylene polymers is reduce the MFN rate to zero. It wouldn't really change where we're importing from at all, and wouldn't change the amount of government revenue, because we're not collecting much revenue on these in the first place, and would save the government and businesses a lot of headaches.

● (1605)

Mr. Gerald Keddy: I'm not sure I got three recommendations there and I'm not sure I agree with you on whether it's an iPod tax or not. However, you said one other thing that I want to follow up on. That is about the HST rebate plan.

Don't mistake me here: this is a single question from a member of Parliament; this is not government policy, but for the life of me, I can never understand why we give HST money back to anybody. We spend a lot of money to gather this tax and then we rebate it to university kids and a whole bunch of people who may or may not qualify but do qualify on paper.

Do you want to make a quick comment on that?

Mr. Mike Moffat: I would fully agree with that. I think there's room to merge some of these plans, such as the HST rebate and the universal child care benefit, into a single cheque that's better targeted towards Canadians.

I absolutely agree that this money could be packaged in a more sensible way.

Mr. Gerald Keddy: It's rather circular.

Mr. Mike Moffat: Yes.

Mr. Gerald Keddy: Very quickly, because we have a limit on time, and our chair is very mean, I can tell you, let me ask Mr. MacDonald of Imagine Canada this. You talked about Visa, MasterCard, major credit card companies and banks reducing or eliminating merchant fees. You also talked about coming to the table, which is an expression that I really like, but have you as the charitable sector invited the major banks and the credit card folks to your table to ask can we get rid of the credit card fees on charitable giving?

Mr. Bruce MacDonald: Over the last number of years we have had some conversations with the credit card companies. I think it's one of those areas where obviously it's kind of a new approach, and what we're seeing around the globe is other jurisdictions starting to see some changes in this area that are really beneficial for charities.

We're hoping this is the beginning of a conversation that will really see a dramatic impact for us.

Mr. Gerald Keddy: There should be a case made.... I mean, they can take advantage of the charitable tax credit on that 1% or 1.5% they're charging, so there's no reason....

You know, this is a win-win.

Mr. Bruce MacDonald: We certainly think so. Thinking of the example we gave, ultimately, when a charity receives a contribution of $100 through a credit card, they're expected to receipt for that $100, but they're getting $95. I think the issue here is how we can direct more of those dollars directly into the missions and causes.

Mr. Gerald Keddy: Turning to you, Mr. Dillon, from Credit Union Central, in full disclosure I'm a credit union member. I have been since I was a child. In rural Canada, often the only banking institution we have is the credit union. You do great work. At the same time, I pay a premium to be a credit union member and live in the community I live in. I can get cheaper money at the bank, quite frankly, so it's not all just a one-way street here.

I have some real concerns. You're suggesting that we conduct a mandate review for Farm Credit Canada. I can tell you that the last people who lobbied me for that were the big banks. When you go into Farm Credit, they have people who are experts in agriculture. They know the type of farming that you're already in. They offer good advice. They can look at your business plan and determine very quickly whether it's a reasonable, rational business plan or not.

Why would we take that out of the marketplace and out of the hands of small farmers and farmers across Canada?

The Chair: Make it a brief response, please.

Mr. Eric Dillon: Sure.

In terms of paying more at the local credit union the first thing I would offer.... Certainly for small business, that wasn't the result of the CFIB survey. Credit unions are very competitive on prices, and I would argue that goes beyond small business into the retail markets as well.

With respect to the comments about the FCC mandate, other crown corporations active in financial services act in a complementary role to the private markets, where there's an adequate supply of funding available. I would argue that there are banks and credit unions ready, willing and able to serve the agricultural market. Certainly in my credit union's case, we have a 75-year history of serving that market exceptionally well.

I think what we're asking is for FCC's mandate to be more complementary, the way other organizations, such as Business Development Bank, EDC, and others, are.

The Chair: Thank you, Mr. Keddy.

We'll go to Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Mr. Dillon, in terms of the tax credit you're seeking, the $66 million and the associated multiplier effect or leverage in terms of lending, last year's Budget Implementation Act eliminated a long-standing tax credit for credit unions of $42 million. What has been the impact of that elimination on your members' ability to lend to small businesses in communities served across Canada?

● (1610)

Mr. Eric Dillon: Thanks for the question.

The first thing I would offer is that if you take a five-year period, that number would be somewhere between $42 million and $83 million. It was $42 million in the most recent fiscal year.

The credit union business model forces us to capitalize ourselves solely through retained earnings. On the one hand, we have international regulators, federal regulators, provincial regulators, and others asking us to build capital—we understand the reasons why—and at the same time reducing our ability to build capital by taxing the only source that credit unions have to generate capital.

To answer your question, if $42 million less is available to credit unions in terms of capital, at the standard multiplier we used earlier, that would be about half a billion dollars not available to communities across this country for small business and consumer finance.

Hon. Scott Brison: Thank you very much.

Mr. Moffat, I would appreciate your thoughts at this committee on the Conservatives' income splitting proposal from their last platform, and your thoughts on it as a use of government resources.

Mr. Mike Moffat: Thank you for that question.

I have some grave concerns about how that system was set up. It wasn't really creating a family tax system as we see in other countries. Instead, it's taking the individual taxes that we have and sort of jury-rigging a family tax credit on top of that. In the way it was structured really, almost all of the benefits went to high-income people like me, quite frankly, so I am talking against my own economic interest here. I think there's a general philosophy that any income tax change that benefits Mike Moffat is probably bad for the country because I'm one of the last people who needs help.

Again, I do think there is a way to structure this through a family tax system. This is one area where I would agree with Mr. Mintz, who generally supports income splitting. His statement was that, “simply allowing income splitting will do little for middle-income families, and equalizing the after-tax market income between single- and dual-earner families would ignore differences in time allocation between families”.

I would agree with that statement.

Hon. Scott Brison: In terms of the Conservatives' EI tax credit, small business tax credit, you've said that it “makes it weirdly profitable to fire people”. Can you explain for the benefit of the committee that statement? You seem to be saying it creates a disincentive to growth.

Mr. Mike Moffat: Normally, when you design a targeted tax credit for businesses, the eligibility requirements tend to be backward looking. They say that if you paid so much in tax or your earnings were a certain amount the year before, then you're eligible for this, and then what you do next year you may get a tax credit for. The proposal here was designed a little strangely: that the eligibility criteria was forward looking, that your actions next year determine whether or not you're eligible for the credit. You can find yourself in a situation where you look to be paying too much in EI, thus making yourself ineligible for the credit. By either delaying hiring, reducing hours, or in extreme measures firing people, you can actually make yourself eligible for the credit.

It was just, in my view, a design error. Had the design been backward looking instead of forward looking, I think there may be some merit to the idea.

Hon. Scott Brison: Okay.

What's your view of the Liberal proposal of an EI premium holiday for two years, only for new hires, for companies that actually increase their employment?

● (1615)

Mr. Mike Moffat: I think it's a stronger benefit. Now, again, based on what I said earlier, my inkling is always to have fewer tax credits, period. But if you're going to have a tax credit, I think the Liberal plan has two advantages over the Conservative one. One, it's backward-looking, so it doesn't have this weird drop-off point. Two, you only get the credit for increasing spending. You're not paying people for spending they were already doing. It's based on an incremental increase.

Hon. Scott Brison: Professor Cockfield, to follow on Mr. Keddy's questions about the tax code being too complicated, over the last eight years has the tax code in Canada become more complicated?

Prof. Arthur Cockfield: Yes. I don't think anybody would argue that it's become simpler. There was a commission, the Advisory Panel on Canada's System of International Taxation, struck by the Department of Finance in 2008. They investigated tax simplification, had some recommendations, but to my knowledge, none of those recommendations thus far have been implemented.

I suppose I should also say again that since at least the late eighties, it's just grown in terms of complexity, to the point now where we have certain sections, section 95, that is over 150 pages of tiny print—one section in our Income Tax Act.

Hon. Scott Brison: Okay, thank you.

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

We'll go to Mr. Allen, please.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you to our witnesses for being here.

Mr. Cockfield, I'd like to start on that line of questioning on tax simplification again. I know that the U.K. has a model whereby they have a sunset clause on their unlegislated tax measures, so that if something is not legislated, it's deemed dead after a certain period of time. This fall, the Minister of Finance is going to file his first report based on this committee's recommendation in the last budget bill with respect to unlegislated tax measures. That will happen this fall.

What I'd like to understand is this. The tax code was roughly 13 pages in 1917 and now it's 3,206 pages, give or take a few pages. It got that way over a lot of decades. What has been the key success of other countries in regard to kicking off that effort and making sure it's successful, as opposed to sticking in the mud?

Prof. Arthur Cockfield: To my knowledge, most at least similarly situated countries, like the United States, and even England or the United Kingdom, with its permanent tax simplification office have yet to achieve any major victories in this area. From a political perspective, it's obviously very difficult to get rid of perks, whether they're introduced by the current government or by former governments.

South of the border, one good example is the mortgage interest deduction available to taxpayers. You have to be an itemized tax return filer to be eligible, but virtually every economist or tax law professor who has looked at this deduction would say that it makes no sense, yet it persists over time. Many Canadian taxpayers, I suspect, would want a similar benefit.

I'm hoping that the U.K. efforts, which are fairly novel and fairly recent, will bear fruit in the future, but the key, I think, is to appoint an independent panel to investigate this over a period of years, versus the advisory panel's work, which was completed all in one year. I had to file my report on tax simplification within six months, I think, after I received my instructions, and it was simply insufficient time to really take a close look.

The only way to get any traction, in my opinion, would be to appoint this independent body. That way it insulates the government from a political critique if it's perceived that this body is to be unbiased or non-partisan. But yes, I don't think most countries have had any luck toward any significant or material tax simplification, to my knowledge.

Mr. Mike Allen: Thank you very much.

Mr. Dillon, I'd like to go to you for a few questions with regard to the credit union. In my riding a lot of small rural communities have credit unions. That's the only financial source that is actually in those communities.

You've already talked about your loan profile being at around 18.6% of the small business market. With this credit that you're talking about, the capital growth tax credit, what does that extra $700 million in potential lending mean to employment in the rural areas? Right now, I think the branches in New Brunswick and Atlantic Canada probably have between 9 and 15 employees per branch. What does that mean for employment in the regions for the credit unions?

● (1620)

Mr. Eric Dillon: That's a very difficult question to answer. That's national data as to where that money is deployed. Certainly we could try to come up with a bit of an educated guess for the committee, but I wouldn't want to wager a guess and be wrong today.

Suffice it to say, though, that while credit unions have grown in this country, there is a tremendous amount of employment created at the local level where credit unions are the only institution in town, I think both in terms of service provided and the economic benefits of having those people employed there. In my remarks earlier, you heard exactly how many communities are served by just a credit union in terms of financial services, and certainly we'll be happy to provide the committee some analysis behind that.

Mr. Mike Allen: Okay, if you would....

Also, the other challenge you had on the financing side of this, if I understand it correctly, is that it's a member-driven type of organization, as opposed to the banks, which are shareholder-driven organizations. If I want to get out of my bank stock, I sell it and I leave. When the members leave, they leave and take their money too. Is that correct?

Mr. Eric Dillon: That's not correct. What happens is that the retained earnings of the credit union are left for the credit union to use. Certainly the board directs those activities, but it does put a bit of governor on how quickly, given that there's only one source for equity in a credit union model, which is retained earnings, and it really comes from the earnings of the credit union year over year.

That's really the challenge we have, whereas if you go back to the global financial crisis, when the banks needed more capital, they were immediately able to access capital markets and meet that need. For credit unions our capital grows. In our case, at my credit union, that's over 75 years. We now manage about $300 million of equity on behalf of our members, but it's the only source we have.

Again, on what we're asking for, for those credit unions that are well managed, well run, and able to actually grow capital, that that be reflected in tax policy.

Mr. Mike Allen: Mr. MacDonald, I'd like to ask you a question about the stretch tax credit.

It seems to me if you have your groups approaching 150 MPs, and you have consensus among the charities as to this being the way, is there consensus in the charities and non-profits that this is the best option that exists? Can you actually project that this is going to drive up more and more giving? Has there been a long-term projection of the tax consequences and loss of revenue to the federal government on that?

Mr. Bruce MacDonald: I'm not sure consensus is the word I would use. There's strong, strong support, absolutely. It has really been interesting to see the range of charities that are stepping up to support this and contacting their members of Parliament, I would say, across subsectors and across geographic regions, and definitely across organizational size. It has been really fascinating to see. This is a universal measure that seems to appeal to them.

In terms of cost, we asked our chief economist to put his mind—he's here actually, if you want to have a chat later on. Right now he's estimating it would boost another incent of about $234 million in giving on top of a potential natural increase of $170 million. That would be a total of just over $400 million in new gifts, and if you apply the finance department methodology that was used in costing the super credit, that would amount to a cost of around $40 million a year.

Mr. Mike Allen: It's about $40 million a year.

That's fine, Chair.

The Chair: Thank you, Mr. Allen.

[*Translation*]

Mr. Caron, you have the floor for seven minutes.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you very much, Mr. Chair.

My thanks also go to all the participants for being here with us today.

Mr. Dillon, I am going to start with you, but I am going to go in a slightly different direction.

One of your recommendations dealt with Farm Credit Canada. Do you believe that Farm Credit Canada's activities compete with those of credit unions?

[*English*]

Mr. Eric Dillon: I am sorry. I'm not getting any translation, Mr. Chair.

The Chair: I think it's on channel one. Are you on channel one?

Mr. Eric Dillon: Yes, thank you.

[*Translation*]

Mr. Guy Caron: Thank you. So I will ask my question again.

One of your recommendations dealt with Farm Credit Canada. Do you believe that Farm Credit Canada is currently in direct competition with credit unions, and if so, to what extent?

[*English*]

Mr. Eric Dillon: Yes. We would suggest Farm Credit is a very direct competitor with those people who are active in farm finance. In fact, the way Farm Credit is structured today in terms of the risk profile of the credits and the business they typically write, it would be the lowest best profile, and in some cases what we would call the most attractive, where there is the most active market from other institutions like credit unions to finance that business. Very much so, they are an active and direct competitor.

● (1625)

[*Translation*]

Mr. Guy Caron: Ideally, you would like Farm Credit Canada's role to complement the role of institutions such as credit unions.

What modifications would be needed to make that complementary role a reality?

[*English*]

Mr. Eric Dillon: What we've asked for historically is that there be a mandate review, for instance, where Farm Credit and the credit union system could come together to actually cooperate in serving Canada's farmers. For instance, Farm Credit doesn't provide businesses around wealth management or succession. Credit unions are very active in that business, so why wouldn't we want to approach those people together to ensure there's an orderly transition of farm wealth from one family to the next, because generally that's how it happens. However, it doesn't appear there's any appetite on behalf of Farm Credit to approach farm members and farm clients in that way.

[*Translation*]

Mr. Guy Caron: Were you under the impression that a program review like that was likely to happen?

[*English*]

Mr. Eric Dillon: We were hopeful, yes.

Mr. Guy Caron: Yes.

[*Translation*]

It was one of the main recommendations, but it has not become a reality.

Let me play the devil's advocate for a moment.

Suppose I am a farmer and I have to choose between a credit union and Farm Credit Canada. Since it is a competitive situation, perhaps I will be able to get better service. Why is competition between your two organizations not an advantage, in terms of financing, for the agricultural sector in general?

[*English*]

Mr. Eric Dillon: That's a very complex question. How I would answer that is to say I think there is a very mature credit market in Canada that understands risk. In our case, we've been in the farm finance business, as I said earlier, for 75 years. I'm not sure there's a necessity for government to play a role in financing those activities where there's not an active market between either banks or credit unions.

As I said earlier, I think if you look at CFIB data, which does include agrifood businesses, credit unions are very competitive with price, so I'm not sure there would be a material loss to farmers, if you will, if that were the case.

[*Translation*]

Mr. Guy Caron: If I understand correctly, to use an analogy, you feel that the role of Farm Credit Canada should be complementary, a little like the Business Development Bank of Canada complements the activities of the general banking sector.

[*English*]

Mr. Eric Dillon: We do. We see it being very analogous to the role BDC plays, as well as EDC, Export Development Canada.

[*Translation*]

Mr. Guy Caron: Okay. Thank you very much.

Now I would like to talk to Mr. Cockfield and Mr. Moffat.

I think that this has already been discussed, but I would like to deal with the issue of simplifying the system.

Not too long ago, the Income Tax Act was 2,300 pages long. Then 900 pages of recommendations from the Canada Revenue Agency were added, making a total of about 3,000 pages. If I am not mistaken, the first Income Tax Act had a dozen or so pages. So it has expanded very quickly.

Let me start with you, Mr. Moffat.

One of the things you mentioned was a variety of tax credits, boutique tax credits, as my colleague called them. It is more than that. If we are talking about simplification, given that the Income Tax Act is 3,000 pages long, it is not just a question of tax credits. There is something much broader, related to the complexity of the tax system. I do not wish to diminish your proposal, but do you not feel that any correction to the act that your proposal would make would be only a minor one?

[*English*]

Mr. Mike Moffat: I think that's a fair comment.

I think what's needed is, as my colleague suggested, to have a large analysis of the system as a whole and go through all of these things and see what has become out of date. I think it's analogous to the tariff code, where there are tariffs in the system designed to protect domestic industries that no longer exist. I think that if we went through the Income Tax Act we would find a number of provisions that may have made sense in 1960 or 1970 but no longer make sense today.

[*Translation*]

Mr. Guy Caron: Mr. Cockfield, should we go further? Can we limit ourselves to studying only tax credits in the context of simplification?

[*English*]

Prof. Arthur Cockfield: I think it is possible.

Again, I recall that the last time this was done with some success was during the Mulroney government in the late 1980s. They did feel significant fiscal pressure at that time, but maybe governments no longer do, so it was a powerful political motivator. I think politicians are also aware that the next year, in 1988, the Tories introduced the GST and arguably paid a heavy political price, and that may be weighing on the minds of some individuals to this day. But it does show that you can make progress with respect to simplification, with respect to broadening the tax base, which makes it fairer and more efficient for all Canadians. Again, if you could strike a permanent body to examine this in detail, I think that would be the best route forward.

● (1630)

[*Translation*]

Mr. Guy Caron: Thank you.

[*English*]

The Chair: You have about 20 seconds.

[*Translation*]

Mr. Guy Caron: So let me ask a question in the hope that I will get the answer later.

Mr. Moffat, you mentioned importers and that tariff are an obstacle. There is also the problem of reciprocity. A little later, could you comment on possible reciprocity if we eliminate tariffs on some export products? Our exporters will not automatically see the same tariffs being eliminated. If you have the chance, I would like to perhaps get an answer to that later.

[*English*]

The Chair: Thank you.

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

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): I want to go to Imagine Canada first. I want you to give me a quick explanation of your third recommendation. Can you give me a better explanation of that?

Mr. Bruce MacDonald: As we look at the evolving nature of charities in this country and how they are going to earn or raise money, it's important that many of those might actually come from earned income streams. Charities will need access to some of the supports that small business in this country have as they evolve and change their business models. There will be donation models. There will be earned income models. In those supports that are in place for small business—there's IRAP, BDC—there are opportunities to assist that evolution as we become differently structured and funded in this country. We're looking to see if there's an opportunity to have access to those similar kinds of services.

Mr. Dave Van Kesteren: Mr. Cockfield, do you agree? This one puzzles me a bit.

Has anybody from academia looked at that and seen the feasibility of that?

Prof. Arthur Cockfield: I'm sorry, I misunderstood.

Mr. Dave Van Kesteren: The third recommendation, is that something that's workable? Are we starting to cross over into areas that...?

Prof. Arthur Cockfield: I'd hesitate to answer that, sir. I'm not entirely clear on this particular area. I'd perhaps pass that to one of my other colleagues, if I could.

Mr. Dave Van Kesteren: That's very fair. I'm confused on it, too.

Mr. Moffat.

Mr. Mike Moffat: I wish you had asked me first, because I'm going to pass it along as well. I've not looked at that particular item and could not comment on it intelligently.

Mr. Dave Van Kesteren: Okay. That makes me feel a little better.

I'll ask Nathan next.

I want the Credit Union to explain to me something which I think I understand. I'm going to say it, and you can say yes or no, because we need that for the record.

Banks in general need 9% of savings in order to lend against that. Am I right on that?

Mr. Eric Dillon: It's not yes or no; it's that I don't know what the banks' credential capital requirements are.

Mr. Dave Van Kesteren: Okay.

However, if they have access to the Bank of Canada, they could borrow from the Bank of Canada at whatever the going rate is if they need money. Is that correct? Are you able to do that?

Mr. Eric Dillon: We do not have an emergency lending agreement set up with the Bank of Canada. Liquidity is managed for the credit union systems provincially, as they are regulated....

Mr. Dave Van Kesteren: I understand that banks can borrow one from another as well. If they need a capital increase, they can borrow from a bank, and if they get $100, they can lend out another $1,000. Am I correct on this?

Mr. Eric Dillon: I think you may be commingling the issues of liquidity, which is money in and out, versus capital equity in the institutions.

Mr. Dave Van Kesteren: Yes. Is that correct?

Mr. Eric Dillon: For liquidity purposes, yes.

Mr. Dave Van Kesteren: But the credit unions are not able to do that same thing.

Mr. Eric Dillon: We do have liquidity structures between credit unions. What I would argue is that it doesn't solve our capital challenge, which is that we need to have sufficient level of earnings to grow capital to continue the sustainable business model we've enjoyed for 75 years, which is different from solving for short-term liquidity movement between two credit unions.

Mr. Dave Van Kesteren: Are you at somewhat of a disadvantage in regard to the major banks?

Mr. Eric Dillon: We are absolutely at a disadvantage. Our proposal argues to understand the unique structure of credit unions and to have tax policy that supports us building a robust, sustainable capital framework for credit unions.

Mr. Dave Van Kesteren: Thank you.

Professor Cockfield, you mentioned the United States, and Britain is prepared to do this but they haven't.

Are there any jurisdictions—I'm thinking possibly in emerging economies or possibly eastern European countries that haven't been entangled in the web of tax fiddling that the western cultures have—that we can point to and say that they're doing it and it's working?

● (1635)

Prof. Arthur Cockfield: Sometimes one hears about the Norwegian system where it's a complicated corporate tax system. It has effectively abolished the corporate tax and just focuses on what we call consumption taxation. That is touted by Robin Boadway, whom I mentioned earlier, and others as the most efficient system. It is significantly simpler than our own system.

Again, this Mowat Centre report similarly recommended what's called a rent-based corporate tax that would allow corporations to currently deduct all inputs like equipment and salaries. It would convert it effectively into a consumption tax. That's the way most economists and many tax law professors would like to see our system evolve.

There are some examples out there. As for other countries, China, for instance has been modernizing its income tax system over the last decade and it has become increasingly complex, increasingly like our own. I don't think that's necessarily a great example, but there are at least a few examples out there. There are other fundamental tax reform examples in Sri Lanka, in smaller countries, that would likely not be appropriate for Canada.

Mr. Dave Van Kesteren: Is it realistic to expect that to happen in today's society? We see governments so involved in the marketplace. We're doing things now that we wouldn't have dreamed of doing even back in the 1980s, as far as governance is concerned. Is that perhaps something that we've evolved to? I'm thinking in terms of government interference with the market. Increasingly we pick winners; we pick losers. We try not to but we encourage areas. We encourage areas like green energy. Those have tax ramifications. Is it realistic to really try to go back to those days when we've already opened Pandora's box?

The Chair: Just make a brief response, please.

Prof. Arthur Cockfield: Yes, I don't think it's realistic to go back to the War Measures Act of 1917, which a couple of the honourable members here have mentioned, but I do think that the late 1980s reform, broadening the base, even maybe bringing rates down, is feasible in my opinion, but it would really take a bipartisan government effort to pull it off, likely. It's not going to be easy.

The Chair: Thank you, Mr. Van Kesteren.

Mr. Rankin, you should have seven minutes.

Mr. Murray Rankin (Victoria, NDP): I want to build on what Mr. Van Kesteren has been talking about.

In particular, Professor Cockfield, you've written about corporate tax reform. Just now you talked about consumption tax. Initially you suggested that maybe if we had a British approach, an independent panel, we might finally get on with tax simplification, and fixing what Professor Moffat called gobbledygook and tax loopholes, citing Ronald Reagan.

Even the accountants have told us the same thing every year, and nothing gets done. I'm very skeptical about it. The government likes boutique tax credits because it gets to buy votes with that. I don't think it's a partisan thing; it has been around for years. Now it's on the corporate side, which, let's face it, is where a lot of the complexity of the Tax Act comes from. Drafters need to put these complicated rules down in black and white. That's the system we have, and it makes a lot of lawyers and accountants rich in doing so, which isn't necessarily a bad thing.

My point is, how can we possibly reform the corporate tax system?

To get to the question, Professor Cockfield, you've written that Canada's current corporate tax system is failing on a number of fronts. It discourages investment, hampers innovation and productivity by taxing the normal rate of capital, and increases the rate of bankruptcy, etc. etc.; it's very inefficient.

What is the alternative for the corporate side to simplify the Tax Act?

Prof. Arthur Cockfield: Well, I think you may be quoting from the Mowat report, actually authored by professors Tremblay and Boadway, but I was on the same panel and I agree with what they wrote. I came to believe in this fundamental reform, what's called a rent-based tax, but I'm not necessarily advocating any particular approach here today. I'm suggesting that this is an important thing the government needs to look very carefully at in an independent fashion. This would be more of a medium-term reform, whether it ends up as a rent-based tax, or some other base-broadening effort like the Tax Reform Act of 1986 in the U.S., or the 1987 approach here in Canada. I think we can bring the level of complexity down.

One of the problems, even if one moves away from corporate tax —and I think we've at least referenced this host of credits, for instance, for low-income Canadians; I can't recall them all: child tax credit, universal child tax credit benefit, the working income tax benefit, and there are at least a few others. Most people who toil in this area as researchers would say that's not necessarily helpful to low-income Canadians. It's extremely complex how it works in our province, with Ontario Works and so on. That could be simplified, and again, to help—

● (1640)

Mr. Murray Rankin: I appreciate that. I would obviously love to talk to you later, because right now time doesn't permit it, about the corporate side of that, because I think the corporate tax part is a much harder thing.

I just want to thank you, by the way, for all of your work, Professor Cockfield, on the international tax havens. Your scholarship and your actions have really been very helpful.

Today you said again that we're losing millions of dollars to the offshore. Do you have any fresh ideas about how we might invest those dollars to get those great returns?

Prof. Arthur Cockfield: I think the government's whistleblower program was a good idea. In the past, I've recommended measures like a dedicated office at the CRA that works with the justice department on an ongoing basis. Just as one example, the Auditor General, in chapter nine of his most recent report, looked at the Liechtenstein bank scandal where 182 Canadian families were identified as holding undisclosed offshore accounts. The CRA recommended two for prosecution and the justice department decided not to prosecute any. I'm on the record suggesting we've had zero tax prosecutions in this year. If you're a roofer and you cheat on your GST by $100, the government's going to come down on you with a hammer, if I may, but if you steal $100 million and put it in your offshore account, you can almost do that with impunity in our country.

Mr. Murray Rankin: It's absolutely scandalous.

Mr. MacDonald of Imagine Canada, time doesn't give me the opportunity to ask as many questions as I'd like to. Mr. Van Kesteren asked about your third recommendation. I'd like to ask about the second: the merchant fees on credit cards and how that affects, or should affect, charities.

Could you elaborate on that recommendation?

Mr. Bruce MacDonald: The bottom line is we'd like to have the ability for charities to realize more of the dollars that are donated when the transaction goes through a credit card. They're paying merchant fees, and if there's an opportunity to mirror what's happening in other jurisdictions where we're seeing a reduction in those fees for charities, ultimately the donor's dollars are now going to the mission and cause they would like to see them going to.

Mr. Murray Rankin: Okay.

Budget 2013, as you referenced, has a super credit. Is it too early to tell how well that's working?

Mr. Bruce MacDonald: With numbers, yes. I'm fairly new to Imagine. I was with an organization on the ground. We were promoting it. We were hearing good things from our local organizations in the field and there was a good awareness, so they're targeting young donors to be able to come into the sector.

Mr. Murray Rankin: On the stretch tax credit you rightly said we've heard a lot of from constituents. I've heard from the Victoria Foundation and I'm sure my colleagues have had similar entreaties from the sector. The idea is this stretch tax credit would change your behaviour because it only triggers the government's investment when you've changed over the preceding year.

Has there been any costing to see what the fiscal implications would be?

Mr. Bruce MacDonald: Yes. We estimate about a $234-million incentive and then another $170 million in that natural growth that's taking place. Overall, using the same formula that the finance department did on the super credit, it would be about $40 million a year.

Mr. Murray Rankin: Is that on top of the super credit?

Mr. Bruce MacDonald: No. I think that's just as per the stretch. I'd have to check on that and get back to you.

Mr. Murray Rankin: I see. Right.

How is the idea of a stretch credit going so far? How has that been perceived by your members? Does it seem to have legs?

Mr. Bruce MacDonald: Certainly the individuals we talked to are interested. Understand that one of the great things about the stretch tax credit is that it affects every community in the country, because there are charitable groups and organizations everywhere. Also, there's no barrier in terms of wealth, so any donor would get a benefit if they increased their gift. It truly is a national program.

Mr. Murray Rankin: Those who say it only helps the more affluent Canadians should understand that it would help anyone at any income level, as long as they have increases against which this would be relevant to write off. They have to have that level of income. Is that right?

● (1645)

Mr. Bruce MacDonald: It's for anybody who increases their gift over the previous year.

Mr. Murray Rankin: Right, thank you.

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

Mr. Adler, you should have seven minutes, please.

Mr. Mark Adler (York Centre, CPC): Thank you all for being here today. This is quite a fulsome discussion, and I have a number of questions for a number of you.

Mr. Moffat, earlier you had an exchange with Mr. Brison about EI. In your opinion, who owns the EI fund?

Mr. Mike Moffat: Who owns it?

Mr. Mark Adler: Yes, whose money is it?

Mr. Mike Moffat: As a business owner, I'm a little biased on that, but I think it should be run like an insurance fund, that it should be owned by all Canadians.

Mr. Mark Adler: It's owned by the people who pay into it.

Mr. Mike Moffat: Yes, exactly.

Mr. Mark Adler: Yes, employers and employees.

Mr. Mike Moffat: Yes.

Mr. Mark Adler: I was a little confused earlier when you said that you preferred the Liberal plan, which promises to have a moratorium for two years on the payment of EI, because it doesn't belong to the government to be able to do that. The Supreme Court ruled on it unanimously after the Liberals pillaged the EI fund for $50 billion between 1993 and 2006.

What the Liberals are proposing isn't even legal, so I was a little taken aback when you said you preferred their plan to a reduction that is approved by Parliament as proposed by our government.

Mr. Mike Moffat: I'm not a lawyer and specifically what I said was that my preference would be an overall reduction in EI.

Mr. Mark Adler: Yes, which is what we have proposed, about 15%.

Mr. Mike Moffat: No, they're both tax credits. Both of these involve paying EI to the government and then receiving a cheque at the end of the year based on your EI payments. This is not a reduction in payments. Corporations and their employees have to pay into these first and then receive a cheque later on.

Again, my preference would be to treat this as an insurance fund and not have any special programs around it and set the EI rates accordingly.

Mr. Mark Adler: Thank you.

Mr. MacDonald, say that we do provide for a stretch credit, have you done the math to figure out how much more money that would throw into the charitable sector?

Mr. Bruce MacDonald: I'm not an economist, but our chief economist's model looked at a range of scenarios concerning economic growth, income growth, people's responsiveness to tax credits, and the presence or absence of the stretch. We're conservatively estimating $234 million in additional gifts to charities.

Mr. Mark Adler: Okay, fair enough.

Is there not a potential problem that because you're front-end loading it, people may give at the outset, and then it may just level off as time moves on as opposed to people constantly giving?

Is that not a risk with the stretch?

Mr. Bruce MacDonald: I suppose theoretically that's the case. There are lots of Canadians who are new entrants into the marketplace. There are lots of Canadians for whom it will take time to get to a place where they will stretch their giving. We see this as a long-term program to help charities. I think it's going to take time to even really maximize this. I think it's a great idea.

Mr. Mark Adler: Okay.

Mr. Dillon, I have a couple of questions for you. As a result of your now having to pay at the same level as banks and other financial institutions, have any credit unions gone out of business in the last years?

Mr. Eric Dillon: Not to my knowledge, no.

Mr. Mark Adler: The credit unions typically have, if you took it on a per capita basis, higher costs than banks, because they operate in markets that aren't traditionally served by traditional financial institutions. Is that correct?

● (1650)

Mr. Eric Dillon: I would say that in the domestic retail banking that would be true, yes. It's hard for us to draw a comparison beyond that, because we're not engaged in the kinds of activities they are.

Mr. Mark Adler: Yes, and your capital that you would lend out—and you're very active on that front, I know—the capital you draw on is really retained earnings and that's it. There's nothing else. Is that right?

Mr. Eric Dillon: That's correct.

Again, in my credit union's case, 100% of our capital—99.4%, I believe—is actually retained earnings of the organization. Across Canada it's in the neighbourhood of 80%, whereas the banks' share of capital that comes from retained earnings is somewhere in the neighbourhood of 45%.

Mr. Mark Adler: Take the mortgage sector, for example. They are CMHC insured. Is that correct?

Mr. Eric Dillon: Yes, credit unions across Canada are CMHC-insured lenders.

Mr. Mark Adler: They were CMHC insured before the increase in taxes. Is that correct?

Mr. Eric Dillon: They were?

Mr. Mark Adler: Yes.

Okay.

So that was a nice benefit that you had, paying lower taxes but getting the same benefit as the banks, correct?

It's just a fact.

Mr. Eric Dillon: I don't know if that's a fair comparison.

Mr. Mark Adler: Fair enough.

Meridian, where I bank, has $9.6 billion in assets. It has gone up $3 billion in the last seven years. They have 250,000 members. Do you think an institution like that should be taxed the same as a smaller credit union? In other words, should there be a graduated scale, perhaps, in terms of how credit unions could be taxed, and not just lump them all into one category and say that they're all financial institutions, so let's tax them all at the same rate? Maybe the bigger ones should be taxed the way the banks are, and the smaller ones should not be.

The Chair: Provide a brief response, please.

Mr. Eric Dillon: Sure. I have two very quick points.

In my case, we manage $5 billion, which seems like a larger business. In the sphere of financial services we are one one-hundredth the size of the chartered banks. I think in the context of financial services, we are very much a small business. We've been trying to engage the minister's office in discussions about whether we should build a scalable model, whether there would be value in having something such as you've proposed, and we'd love to engage further with the minister on that conversation.

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

I'm going to take the final round as the chair.

I want to start off on the subject of tariffs.

Mr. Moffat, you raised the subject of tariffs. In the 2010 budget the government, with respect to tariff reductions on manufacturing inputs, machinery, and equipment, eliminated 1,500 tariffs between 2010 and 2015. I think that's what you were commending in your opening remarks. It has since moved to eliminate some of the tariffs on the retail side.

With respect to tariff reductions, what should we be looking at as a committee in terms of a priority going forward?

Mr. Mike Moffat: I think first of all that it's a fantastic track record to build on. Where I would begin is by looking at tariffs that have a very, very low effective rate. Again, I use the example of 0.08% for propylene copolymers. According to the WTO, there are a few dozen different tariffs with effective rates under 0.1%. I think those would be worth looking at first. You'd want to get all the details about it and figure out how that may change the structure of business and the structure of imports and exports; I suspect for most of them, not at all, but that would be where I would look first, where the government's really not collecting a lot of money, but there are large paperwork burdens.

The Chair: I appreciate that. Thank you for that.

On the second item, I just want to move to Professor Cockfield on the issue of the advisory panel.

I was a little surprised, and I don't know if I heard you correctly saying that the government has not acted on the recommendations. The government as I see here has acted on a whole series of recommendations from that panel, so perhaps I can share this with you and we can have a conversation about that off-line or by e-mail. The government has taken a number of steps to implement the panel recommendations. I just wanted to point that out for your benefit and for colleagues' benefit.

I like what you said about simplifying the taxes. I also like what you said about simplifying measures such as the working income tax benefit, which you supported, and the universal child care benefit. There's a way to do that. I'll add on to that point by asking if there is a way to simplify, some people call them boutique tax credits, things this government introduced, for instance, the registered disability savings plan, which makes a big difference for families who have a family member with a disability. It makes a big difference for them. Former governments have introduced RRSPs, RESPs, and you now have pooled registered pension plans and tax-free savings accounts.

I certainly take the point that a lot of middle-class Canadians look at these credits and get somewhat confused. Is there a way perhaps for the government to look at simplifying them all? They all serve a definite purpose, though: RDSPs are for persons with disabilities, and RESPs are for families who obviously want to have kids go to post-secondary institutions. Is there a way we can simplify or group some of these measures together so it's easier for Canadians to deal with?

● (1655)

Prof. Arthur Cockfield: Yes. I have a very quick response to your point about the advisory panel. I may have misspoken, but I meant to suggest the tax simplification proposals of the advisory panel have yet to be implemented. There were a number of recommendations implemented, but they had a couple of dozen recommendations, and the government, to my knowledge, hasn't implemented all of them.

With respect to your other issue, you're absolutely correct that most credits serve different purposes, but I'm speaking more directly to, and I think there are at least four, the universal child care benefit, the child tax credit, the WITB which I mentioned, and I think one other. They directly try to help low-income families. Those are the ones that could be rationalized and simplified and made more accessible to Canadians.

Another point is that many low-income families don't file returns. They don't get the GST/HST refundable tax credit, for instance. The IRS at one point—and it's persisting to this day—started what's called the VTA program, the volunteer tax assistance program. That was an institutional mechanism. I used to be a faculty director of one of these VTA programs, where it would take volunteer law students and they would process returns for low-income Americans, in this case. We don't have anything like that, and that's a real problem because so many vulnerable Canadians simply don't have the wherewithal to file a return; hence they don't get at least the refundable tax benefits that they otherwise would be entitled to. They typically don't pay any income tax; hence they don't file a return, and they may or may not be aware that they're entitled to these benefits.

Again, rationalize the ones targeting low-income Canadians, and maybe also promote some institutional support through the CRA.

The Chair: Thank you for that. I will share with you the documentation with respect to the advisory panel.

Mr. Cockerline, perhaps I could get you to respond on a simplification point, and then in the time I have remaining, one of your recommendations is to look at moving the age of conversion from RRSPs to RRIFs. As you know, the government moved it from 69 to 71 years of age. You're proposing that or that the mandatory withdrawal amount be lowered. If you had to choose between one of those two, which one would you advise this committee to look at? Did you want to comment on simplification of some of the tax credit options, especially for putting money away for various purposes?

Dr. Jon Cockerline: Mr. Chair, I'll start with the simplification question first. Across the proposals I have in my remarks today is a common theme that we are raising, and that is creating neutrality for financial products and allowing Canadians who save not to be overly taxed in one product relative to another, or one type of program relative to another.

From that point of view, what we are asking for is simplification of commonality of tax treatment. We talked about three specific areas with the reform of registered plans, the—

The Chair: I'm going to run out of time here. I do want you to address my final question on which one you prefer, so if you would just wrap up, that would be great.

Dr. Jon Cockerline: Sure. From the point of simplification we believe that is a way of simplifying the tax plan.

On the RRIF withdrawals, we're addressing the concern that seniors will outlive their savings because there has been a tremendous increase in life expectancy since these rules were put into place. We believe the time has come to increase or reduce the mandatory minimums for these plans. I think either approach, as long as it did reduce the likelihood of seniors outliving their savings, would be fine. If I were asked to choose one or the other, I think the mandatory minimum would be the one to address.

● (1700)

The Chair: That's what I was hoping you were going to say.

Thank you very much. I want to thank all of our panellists on this first panel.

Colleagues, we will suspend for a couple of minutes before the next panel.

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(Pause)

●

● (1705)

The Chair: If I can ask our guests and colleagues to take their seats, please.

We are resuming meeting No. 50 of the Standing Committee on Finance, continuing our discussions on the pre-budget consultations, 2014.

I want to thank all of our guests on our second panel for being here.

[*Translation*]

We have Ms. Brigitte Alepin with us again. Welcome.

[*English*]

We have Jennifer Robson, assistant professor from Carleton University. Welcome.

We have two professors from Carleton. We have Professor Frances Woolley. Welcome to the committee as well.

For the Conference for Advanced Life Underwriting we have Mr. Clay Gillespie. Welcome.

And from the Institute of Marriage and Family Canada we have the executive director, Ms. Andrea Mrozek.

Thank you all for being with us today.

You will each have up to five minutes for an opening statement.

[*Translation*]

Ms. Alepin, you can begin your presentation. You have five minutes.

Ms. Brigitte Alepin (Tax Expert, Agora Fiscalité, As an Individual): Ladies and gentlemen of the Parliament of Canada, distinguished members of the Standing Committee on Finance, Ms. Gilliland, Ms. Lafrance, thank you for this invitation.

I have been invited to participate in the pre-budget consultations on how to improve Canada's taxation system. I am going to limit myself to two proposals that I feel are the most important.

The first deals with private charitable foundations. I know that you have in your iPads a table on private charitable foundations. Could you please refer to it, because it briefly sums up what I am going to tell you about private charitable foundations.

The table shows the example of a private charitable foundation whose founder makes an initial donation of $100 million. In the first year, the founder receives a tax credit of $50 million. I am talking simply about private charitable foundations. For the foundation's entire life, there is taxable income, but it is not taxed because of its status. If you make a donation of $100 million, you can estimate the income to be about $5 million annually.

Under current rules, the tax system requires a private foundation to spend only $3.5 million annually on charitable purposes, that is, 3.5% of the capital after expenses. In real life, the amount is often well under 3.5%. In our example, we will say $3.5 million.

I would like to use the table to draw your attention to the fact that the tax deal that Canadian taxpayers have with private foundations does not serve Canadians well. We just have to look at the initial tax saving, $50 million in this case. If a foundation pays no tax on a hypothetical income of $5 million and it spends only $3.5 million per year, it could take for ever for the deal to benefit Canadians. Canadians gain nothing from a system like that. This is the most important point, given that we are looking for money to balance the country's books.

With private foundations, the deal is clearly a bad one for the country's coffers. If you have followed the table, you can see that easily. Private charitable foundations are also an affront to democracy. Why? Because the law allows the deal since foundations are allowed to last for ever. For reasons beyond me, major founders want to have perpetual foundations. Perpetual foundations are an affront to democracy because, over time, they become more powerful than international organizations or governments elected to take care of public matters. The best example of this I can give is the Bill and Melinda Gates Foundation in the United States. It has assets of up to $33 billion, while the World Health Organization's assets are only $1.5 billion.

I would like to bring up one more quick point. There is a fear that competition over taxation between countries and companies may become destructive. There is the also the danger of what is called “the race to the bottom”. I have been looking at that issue for a number of years. I conducted a research project for Harvard University on how to adapt our tax systems to globalization.

I feel that the best way to help my country prepare for the looming threat of the race to the bottom is to organize a major conference that I am calling the TAXCoop Conference. That is what we are doing in Quebec at the moment.

● (1710)

In the context of the pre-budget consultations, I would like to propose working with the Canadian government to organize a conference like that. The Government of Canada still has a good reputation on taxes internationally and I would be proud to be able to contribute.

The Chair: Thank you very much for your presentation.

[*English*]

Next we'll go to Ms. Robson, please.

Professor Jennifer Robson (Assistant Professor, Kroeger College, Carleton University, As an Individual): Thank you, Mr. Chair and members of the committee, for your invitation.

I am an assistant professor of political management at Kroeger College, Carleton University. My remarks today reflect my views based on my research on social policy and household financial behaviour.

I'm going to touch on two areas of my research very briefly, household savings and financial literacy, and I'll make a very brief nod to the topic of income splitting. What binds this list of topics together really is a central message to you that our personal income tax system is a powerful but incredibly complicated tool for achieving policy aims. Getting it right is really hard.

The system sometimes leads to some surprising and bizarre outcomes, even some outcomes that are hidden right in plain sight. The system is confusing even to experts, and there's clearly more work to be done to ensure that Canadian taxpayers can navigate it to comply with the rules and to access the benefits that are triggered by a tax return.

Finally, any structural changes must be viewed with caution to make sure that we're clear on the policy aim and that we're choosing the best instrument rather than just the best strategic politics.

I'll say more, briefly, on each of these points.

First, and surprising, our income tax system now includes, by my count, four different registered instruments, RRSPs, RESPs, RDSPs, TFSAs, all designed to help working-age adults save up money for various purposes. We should add to this list, by the way, the total exemption of equity in primary residences. It's now the single largest asset held by the majority of working-age Canadians.

When home equity is included, fully half, more than 50%, of the assets owned by the wealthiest households in Canada are now largely sheltered from taxation in this array of registered instruments. This preferential tax treatment no doubt generates important benefits, but it comes at significant fiscal cost. In fact, the total cost of expenditures on these forms of household savings is of an order of magnitude of about 5% of federal budgetary spending.

The overwhelming majority of that tax expenditure is flowing to the already comfortable and the reasonably well off. It seems a bizarre way to run progressive taxation. If we want to help Canadians save and build productive assets we can and should be doing far more for the small savers and low- and modest-wealth households.

On the second point, the need for navigation, two-thirds of Canadian tax filers now rely on a paid tax preparer to file their return. The available research suggests that while paying for tax filing services leads to higher refunds, it also leads to more errors. The government has already taken some steps in addressing this that I think are quite laudable. The CRA is making progress in developing a regulatory framework for the for-profit tax filing services. The financial literacy leader will be coming forward next year with her national strategy on financial literacy, but we already know, of course, that financial literacy is not a magic bullet for tax compliance, for accessing benefits, or for insuring household financial security.

I hope that you'll also consider ways to support the capacity of the hundreds of non-profit and volunteer tax filing services in this country. These are groups like Entraide budgétaire here in Ottawa. They are part of the Financial Literacy Action Network Ottawa. Last year Entraide budgétaire filed tax returns for 2,200 low-income Ottawans. Through those tax returns they were able to access $1.3 million in benefits like the working income tax benefit, the child tax benefit, and the guaranteed income supplement. In fact, CRA now administers 42 different federal benefits and monitors compliance of another 85 provincial benefits, all through the tax system.

Groups like Entraide budgétaire are doing yeomen's work in helping low-income Canadians file their returns. I think CRA is right to leave the non-profit and voluntary tax filing services out of their new regulatory framework, but if we care about compliance, about accuracy, and most of all, about getting tax refunds and benefits into the hands of Canadians, then we also need to ensure that non-profit tax preparers also have the capacity to keep up with demand.

Those benefits, by the way, that are accessed through the tax system are usually based on family rather than on individual income so that we target scarce public dollars to the households that need them most, which brings me to my final point about making structural changes.

There has been debate again about whether we should also base taxation on family rather than on individual income. Others on the panel have spoken and will be speaking to this point in depth. I'll just say very briefly that I would welcome the chance to say more on this during the question period. For now, I would like to note that if the policy goal is to provide support to families with children—families which, by the way, come in all kinds of shapes and sizes—then there are many other more efficient and effective options available to you. As proposed, income splitting will do quite a lot for single-earner couple families who are already comfortable, and essentially nothing for the many single-earner couple households who are already in the lowest tax bracket, all the while taking billions out of the fiscal framework.

Whatever the government decides to do in the next budget, a fundamental shift in our tax regime like changing the basis of taxation should not be done lightly, quietly, or without widespread agreement that the costs are acceptable to the Canadian public as a whole.

I would say that administrative intricacies matter to implementation and need to be thought through and fully explored ahead of time.

● (1715)

Fuzzy promises that end up in practices benefiting a very few families who need little help will, I would say, not make for either good policy or politics.

Thank you very much for your time.

The Chair: Okay, thank you for your presentation.

We'll now go to Professor Woolley, please.

Dr. Frances Woolley (Professor, Associate Dean, Carleton University, As an Individual): Thank you, Mr. Chair and members of the committee, for inviting me to speak to you today.

The first message for you is don't cut taxes. Although the federal budget is close to balance, the federal government still has substantial debt. Moreover, there are serious fiscal challenges on the horizon. Provincial finances, particularly those of Ontario and Quebec, are in poor shape. The population is aging. More income is coming from capital, and capital income is hard to tax. There are other threats, like international tax planning, which also could potentially erode the tax base.

So the first message is don't cut taxes.

The second message is if the federal government does wish to deliver tax relief, it should look to increasing efficiency, or equity, or both. Income splitting does neither.

Generally speaking, the most efficient tax system is one with a broad tax base and a low tax rate. Income splitting reduces efficiency because it raises the effective marginal tax rate faced by secondary earners, by which I mean the lower-earning of the two spouses. If an at-home spouse decides to enter the labour force, some of the tax savings achieved by income splitting will be lost. The loss of tax savings raises the at-home spouse's effective marginal tax rate. Yes, it reduces the primary earner's marginal tax rate, but primary earners tend to have inelastic labour supplies. What that means is basically they work regardless.

Income splitting reduces the marginal tax rates of people who aren't very sensitive to tax changes—that's the primary breadwinner—and it increases the marginal tax rates of people who are sensitive to changes in tax rates, and that's secondary earners. Basically, income splitting has efficiency costs.

Income splitting also doesn't increase equity. Most of the benefits go to higher-income families. It doesn't recognize the work-related expenses borne by a two-earner household and it ignores the value of household production. At a given money income, a dual-earner family has a lower standard of living than a family with an at-home spouse. I oppose income splitting precisely because I believe household production is valuable.

Caring for the kids at home doesn't necessarily mean mom at home, dad at work anymore. Canada's parks are filled with grandparents pushing strollers. Families juggle schedules so that one parent can be home with the kids at all times. The at-home parent at playgroup is likely working nights or weekends to pay the mortgage.

Income splitting is a bad idea. But if the federal government is looking to cut taxes, more support for families with children is a good idea.

In the 1960s, my mother's family allowance cheque paid for a week's groceries. In 2011, the median Canadian two-parent family had an income of just over $90,000. Their Canada child tax benefit probably doesn't come close to paying for a week's groceries.

The Harper government has already gone some way to providing greater tax recognition for the costs of children through the introduction of the universal child care benefit and through the introduction of the non-refundable child amount credit. I support both those policies, but they're overlaid upon a CCTB system that has good things, but also bad things.

First, because the CCTB is clawed back as the family's net income increases, it doesn't provide generous support for a typical two-parent family in one of Canada's major cities. Basically, if you're a two-parent family in Vancouver or Toronto and you're earning enough to pay a mortgage, you're probably going to get very little support through the Canada child tax benefit.

Secondly, CCTB clawbacks increase the marginal tax rates faced by parents of children. As I said, efficiency up, marginal tax rates down.

Third, the CCTB is based on net family income. The income calculation is the same for a two-parent or a one-parent family. This can create a non-trivial marriage penalty for low-income individuals.

Basically, the best way to support families with children is to give money to families with children. I would advocate doing so through a new program that combines the best features of the CCTB and UCCB and supported Canadian families.

Thank you for your time.

● (1720)

The Chair: Thank you very much for your presentation.

We'll go to Mr. Gillespie, please.

Mr. Clay Gillespie (Member, Board of Directors, Conference for Advanced Life Underwriting): Thank you, Mr. Chair and committee members, for the opportunity to appear before you today.

My name is Clay Gillespie. I'm currently a member of the CALU board of directors. CALU and our sister organization Advocis represent approximately 11,000 insurance and financial advisers who in turn provide financial advice to millions of Canadians.

Joining me today is CALU's president, Kevin Wark. I may call on him to answer some of your more detailed questions relating to our long-term capital proposal.

CALU is advancing two recommendations that we believe will improve Canada's taxation regime and perhaps more importantly will assist Canadians as they retire and enter their ever-extending retirement years. The boomer generation has had and will continue to have a significant socio-economic impact in Canada. Notably, the first boomers turned 65 years of age in 2011. Over the next 20 years this group will expand the number of Canadians above the age of 65 to 23% of the population.

As Canadians retire and age, two of their greatest concerns are receiving quality health care and the possibility of outliving their personal savings. CALU's two proposals are focused on encouraging Canadians to be more financially self-sufficient during their retirement years and thereby reducing their reliance on public programs and institutions for support.

Our first proposal relates to the registered retirement income funds, or RRIFs. Owners of RRSPs are required to either annuitize or transfer the funds into a RRIF by the end of the year in which they turn 71. If a RRIF is selected, a minimum amount must be withdrawn on an annual basis. For example, at age 71, 7.38% of the RRIF balance must be withdrawn; this increases to 20% by age 94.

The RRIF minimum formula was put in place in the early 1990s, when long-term interest rates were in the range of 8% and average life expectancy was approximately 80 years. Since then, interest rates have declined dramatically, while life expectancies continue to increase.

Insurance companies have recognized these dramatic changes in the pricing of annuities. For example, in 1992 a 71-year-old male with $100,000 in an RRSP could purchase a life annuity and receive $10,000 a year, guaranteed to age 90. Today, the same person would only receive $6,000 a year in annuity payments, a 40% decrease; however, the RRIF minimum formula remains unchanged.

CALU is therefore recommending that the RRIF minimum rules be modified to help Canadians retain more of their savings and protect them from longevity risk.

I would now like to turn to our second recommendation. As noted, a significant portion of the Canadian population is moving into their retirement years. As this group ages, the likelihood of their requiring long-term care increases exponentially.

The C.D. Howe Institute recently released a report that estimates that the total cost of long-term care will more than double, to $140 billion, over the next 20 years. The logical question to ask is, who will bear this additional cost? The C.D. Howe report concluded that the provinces will need to shift more of the cost to those who can afford to pay. This will be an additional financial burden during retirement that most Canadians are not currently planning for.

We believe that long-term care insurance can play an important role in helping address this funding gap. Long-term care insurance provides a cash allowance to individuals who are unable to perform certain activities of daily living, such as bathing and eating. Greater ownership of this type of insurance coverage is critical to help manage private costs associated with long-term care services.

CALU believes that the time to deal with this issue is now. Further, we believe that the federal government needs to take a leadership position in preparing Canadians for what lies ahead. How? By educating Canadians about their financial obligations relating to long-term care services, by working with the provinces to develop a more unified approach to determine who qualifies for subsidized access, and by ensuring that the tax rules encourage more Canadians to own individual long-term care insurance.

I thank you for your time and attention. We would be pleased to respond to any questions you might have in relation to our submission.

● (1725)

The Chair: Thank you for your presentation.

We'll now hear from Ms. Mrozek, please.

Ms. Andrea Mrozek (Executive Director, Institute of Marriage and Family Canada): Thank you, Mr. Chair, for the opportunity to take part in the 2014 pre-budget consultation process.

My name is Andrea Mrozek. I'm the executive director of the Institute of Marriage and Family Canada. In 2016 we will celebrate 10 years of creating, compiling, and respectfully presenting research, with an eye to helping families flourish so that Canada will likewise flourish.

Sadly, Canadian families are struggling today. Canadians have about a 40% chance of divorce before their 30th wedding anniversary. We see increasing rates of single-parent families who are more likely to be poor. We see increasing rates of common-law families, which are unions that are more likely to break up. We see a decreasing marriage rate and a birth rate that is below replacement, so we have reason for concern. Behind those family statistics of course is a great deal of emotional pain for people. We examine this research with an eye to diminishing suffering. Tax reform is one way to help families. Our research leads us to recommend the following.

Firstly, eradicate an existing inequality by introducing family taxation, also known as income splitting. Income splitting establishes horizontal equity or tax fairness among families. It ensures that families who look the same and make the same amount of money are also taxed the same, regardless of how they earn that money. Families balance budgets not as individuals but together. Sharing is a good thing and is a hallmark of strong families. It is to be encouraged by tax policy

A healthy majority of Canadians, from every political party, recognize the current unfairness. For instance, 65% of Conservative supporters, 55% of New Democrat supporters, and 54% of Liberal supporters all agree that income splitting makes sense. It is sanctioned by the pre-eminent Canadian economist, Dr. Jack Mintz, and it has been enacted without controversy in an array of countries like the Czech Republic, Germany, and France.

Certainly, the main reason to establish income splitting is for tax fairness. Still, almost half of all Canadian families with children under 18 right now would receive a tax cut. For example, if it were implemented only federally, a secondary school teacher in Manitoba would save 28% on his or her tax bill. For a further example, an accountant in Saskatchewan would save 25% with income splitting. I believe we cannot look down upon those savings for average, middle-income Canadians, which would only increase if income splitting were offered provincially.

Secondly, we recommend increasing the money parents receive directly, whether through the UCCB, the CCTB, or another vehicle. While we would prefer that the tax code be used to leave money in the hands of parents in the first place, a second consideration would be to increase the universal child care benefit, increase the child care tax benefit, or take other measures. We believe that money in a parent's pocket or in a family's pocket is what allows them to make the best choices according to their family's diverse and specific needs.

Finally, we do recommend against the use of tax dollars to create a national day care program. And it is with regret that I realize this comes about two weeks too late for the honourable members of the New Democratic Party. State-funded day care, we believe, is extraordinarily expensive to do well. The costs go only one way—up—as we have seen in Quebec. Neither does state-funded day care account for different family situations across the country. It doesn't help people who do shifts. Some families go to extraordinary lengths to tag-team care between parents. If national day care begins, those families may find other benefits cancelled to pay for the one program that they do not choose to use.

Importantly, across partly lines, across gender, and across income levels, 76% of Canadians believe that the best place for a child under six is at home with a parent.

It is our concern that national day care might become a national boondoggle as the federal government struggles to provide that which we believe ought to be the purview of sources closer to home.

We have a number of resources available on income splitting and day care, and I would be very happy to take questions afterwards.

● (1730)

Thank you very much.

The Chair: Thank you for your presentation.

We begin members' questions with Mr. Cullen for seven minutes.

Mr. Nathan Cullen: Thank you, Mr. Chair.

Thank you to all our witnesses for being here today.

I'm going to focus a bit on income splitting, because it seemed to touch a number of the pieces of testimony from our witnesses today.

The PBO recently indicated that they anticipate the next federal budget to be in the order of somewhere around $10 billion, and that seems to be in line with many other estimates that we see. Income splitting, if we believe in the one taxpayer model, which we all do and the current government does as well, will be in the order of a $5-billion program, give or take, between the feds and the provinces.

What was interesting in the PBO report was that the actual surplus—that is, not one-time assets that are being sold, or taking from the EI fund. I'm not sure what Mr. Adler called it....

What did the Liberals do?

Mr. Mark Adler: Pillage.

Mr. Nathan Cullen: So one-time pillaging from the EI fund and selling off government assets. The actual surplus is somewhere in the order of $4 billion. The PBO estimates in two years the structural surplus could be somewhere in the order of $100 million. It's a very expensive program. It is estimated to help 14% of Canadians, and skews to the wealthier portion of those Canadians.

To Ms. Robson to start with, what does income splitting, as it is being currently discussed by government representation, do for single-parent families?

Prof. Jennifer Robson: I think the short answer to that is probably nothing. If you don't have anyone to split your income with, then you get no benefit out of income splitting.

I'm not exactly sure where the estimate of 14% of households might benefit comes from.

Mr. Nathan Cullen: The left-wing think tank, C.D. Howe, came up with that number.

Prof. Jennifer Robson: There are about 9.4 million families of two or more people. Of those, about 672,000 are single male earners, and they have a median income of about $40,000. Income splitting won't do anything for them either, because they're already in the lower tax bracket. There is nowhere further for them to go.

It's not only that it doesn't do anything for single-parent families, it's also that it doesn't do an awful lot for the families who may only have a single earner but two parents and are the ones who are actually struggling.

● (1735)

Mr. Nathan Cullen: How about for parents, say, in the middle-class bracket but earning similar amounts of money, somewhere in the same tax bracket range? How does income splitting benefit those families?

Prof. Jennifer Robson: If you compare and contrast, for example, a family with two income earners, both making $40,000 for a combined family income of about $80,000, income splitting leads to about a $5,000 federal—federal alone—tax cut for them. This is my back-of-the-envelope calculation.

Mr. Nathan Cullen: For the couple making $40,000 each?

Prof. Jennifer Robson: For the couple making $40,000— Sorry, for a one-income earner family—

Mr. Nathan Cullen: My question was for the first example that you used of a couple, each making $40,000 to $50,000.

Prof. Jennifer Robson: They get nothing out of income splitting either because they're already both in the lowest tax bracket. But if you compare to one-income earners making $80,000, they would benefit.

Mr. Nathan Cullen: So the—and I hate this term—"traditional household" where you have one spouse either earning a great deal more than the other, or a household in which there is no income being earned by one and an income being earned by the second, that's the target of this tax measure.

Prof. Jennifer Robson: Even within that target, you have to have sufficient taxable income for that earner to be able to drop a bracket or more.

Mr. Nathan Cullen: So if there is only one earner, that earner has to be earning quite a bit in order to realize—

Prof. Jennifer Robson: Yes.

Mr. Nathan Cullen: —and the more you earn, the better the benefit goes. Is that not correct?

Prof. Jennifer Robson: Yes.

Mr. Nathan Cullen: So for someone making $150,000 to $200,000, as some folks in Parliament or in Cabinet do, and the other making nothing staying at home, the higher you go up the scale, the greater the benefit.

Prof. Jennifer Robson: Yes, because of the way that our progressive income tax system works.

Mr. Nathan Cullen: That's fascinating.

A number of developed OECD countries are seeking to increase productivity and to increase particularly women's participation in the workforce. This is particularly identified for those countries that don't have a large or a growing natural growth population. Some countries are spending inordinate amounts of money in order to do that.

This is to Ms. Woolley, or to you, Ms. Robson, if you have information on this. What has the experience been like with just the child care program that's been brought into Quebec with respect to women's participation in the work force?

Prof. Jennifer Robson: I think perhaps I'll turn to Frances.

Dr. Frances Woolley: Basically, anything that reduces the cost of child care will increase female labour force participation. That's a very, very robust finding.

I should also say that there are two issues; one is the cost of child care, the other is the availability of child care. Both dimensions affect labour force participation.

Mr. Nathan Cullen: And labour force participation is one of those indicators that we use to describe the health and robustness of an economy?

Dr. Frances Woolley: You framed the question in terms of economic growth and so on. When there are more people working the national income will be higher.

Mr. Nathan Cullen: I want to come back to income splitting for a moment. Ms. Woolley, in one of the pieces you submitted to committee—and I'm going to quote you back here—

> [...] economists agree: tax reductions should deliver improvements in equity, or efficiency, or both. Income splitting does neither.

Can you break that statement down a little bit for me, please?

Dr. Frances Woolley: When you're looking at efficiency, really you're looking at the marginal tax rates. Income splitting does raises the marginal tax rate faced by the lower-income spouse. What we know is lower-income spouses are most likely to be women, and women are more responsive. They are more sensitive to changes in the tax rates so their labour supply is more easily distorted, and that's where there are efficiency costs.

I know Jack Mintz is in favour of income splitting, but he really is pretty much a lone voice among economists.

Mr. Nathan Cullen: Very quickly to understand what that sensitivity is, your suggestion is if it becomes more incentivizing to be out of the workforce than in, the secondary income earner, the lower-income earner is more likely to be sensitive to that change.

Dr. Frances Woolley: Well, sure, as soon as the second earner goes into the workforce, those tax savings from income splitting are lost, and so that raises the effective tax rate. When you have higher tax rates you have efficiency costs.

The Chair: Thank you.

Thank you, Mr. Cullen.

We'll go to Mr. Keddy, please.

● (1740)

Mr. Gerald Keddy: Thank you, Mr. Chairman.

Welcome to our witnesses.

To Ms. Alepin, thank you very much for explaining your graph because that was a one-page that we all had, and were trying to interpret so that's much appreciated.

I have to compliment you on your quote “Bill Gates, pay your taxes just like the rest of us”. Quite frankly we've seen tax avoidance from far too many major companies and corporations across the country. But it's a huge responsibility to try to build a system by taking the system that's already in place and trying to mould it so that it's more responsive to the needs and the changes that Canadians expect to see.

When you look at fairness in the tax system, closing the loopholes, strengthening tax enforcement, and you take some of the larger corporations, and in particular your graphs on the charities, how do you propose changing that system to make it more responsive and, quite frankly, more fair for all Canadians?

[*Translation*]

Ms. Brigitte Alepin: That, of course, is a very good question.

In terms of private foundations, it is easy. I think the simplest way, and in fact there is one, is to impose additional obligations on private foundations in the charitable sector. Right now, we cannot really say that these foundations are charities because they do not spend more than they make. As a result, the initial capital is always intact. That is true for most foundations. Studies show that they raise about 4% each year as a charity, and that covers their operating expenses.

Overall, Canadian private foundations are probably designed to be permanent. That is the crux of the problem. We must support private foundations and charitable work, but we must ensure that it is good for Canadians.

In my view, the simplest way to correct the situation is to increase the charity rate every year. Right now, the rate is 3.5%. In the U.S., it is 5%. Studies show that it could be easily set at 8%. An amount of $25 billion is tied up in private foundations. A lot of money is therefore reinvested every year.

Do I have time to answer the question about multinationals?

[*English*]

Mr. Gerald Keddy: No, I'm going to switch. Thank you.

You're talking about $25 billion of non-tax revenue sitting in foundations in Canada today. That's a huge amount of money.

One of the other issues you talked a lot about is tax evasion and tax fairness, international tax evasion and tax avoidance. Again, the whole principle of tax evasion is a difficult number to equate. Those taxes have been evaded, because people have broken the law to hide that money.

One of the things we have seen that's working is the voluntary disclosure program. Although it is criticized by some, the voluntary disclosure program has really brought people out of the closet, quite frankly. They went from 1,200 in 2006-07 to 5,200 in 2013-14, and this year so far 6,700 people have voluntarily disclosed. That's nearly 12,000 individuals and companies hiding money offshore.

How do you account for that, how do you qualify that, and how do you continue to build on that record?

[*Translation*]

Ms. Brigitte Alepin: The voluntary disclosure program is a good program, although it can be improved in some ways. I am pleased that the federal and provincial governments are doing something along these lines.

To go even further down the road of detaxing Canadian multinationals, I will say this. Right now, there is a global movement because there are a number of problems. I think the OECD is doing quite an amazing job with its BEPS project. Some aspects need to be improved, but, overall, taxing revenue at its source is a great idea. Setting up the system is going well.

Whether in Canada or abroad, the shortcoming is that we are not addressing the race to the bottom issue. We seem to think that countries will act differently from what economic theory teaches us. The theory is that, when we are in the ideal competitive position, we can make decisions that do not benefit us overall.

Tax rates in Canada are still adequate for multinationals as well as small and medium-sized businesses. We are not like Ireland where the rate is 12% or the U.S. where the rate is 35%. In Canada, tax rates are adequate and our way of doing things seems to work. In fact, tax rates have been significantly reduced in the past 10 years.

What country will lead the race to the bottom in tax rates next? Our position might be less favourable then. Canada needs to address this problem.

● (1745)

[*English*]

Mr. Gerald Keddy: Thank you.

I don't have time for questions, but just a comment on the voluntary disclosure program—

The Chair: You have 10 seconds.

Mr. Gerald Keddy: It should be said that although the penalties are waived, the interest is charged, and the back taxes are paid. I think that's why the program works.

The Chair: Thank you, Mr. Keddy.

We'll go to Mr. Brison, please.

Hon. Scott Brison: Mr. Gillespie, are you saying there's a risk of seniors outliving their savings if we don't change the RRIF rules?

Mr. Clay Gillespie: The current RRIF rules do not allow you to start with an income that you can increase over time without that age of 71 causing you grief. If you keep it at the RRIF minimum, it increases at 71. Then the income starts going down because you keep taking a bigger percentage of a little pie. So that age 71 just doesn't allow for that level of income over time.

Hon. Scott Brison: Thank you very much.

Given that we were told it costs less for seniors to stay in their own homes, or to help seniors to stay in their own homes, than for them to go to nursing homes or long-term care facilities, as an example, could long-term care insurance save governments money by helping people afford private caregiving in their own homes and staying in their own homes for a longer period?

Mr. Clay Gillespie: That's the whole idea behind long-term care insurance. It's to allow people to give a choice of where they want to go, to be able to afford what they want to do, and to not rely on the government to do it for them.

Hon. Scott Brison: And there would be real fiscal benefits for cash-strapped provinces.

Mr. Clay Gillespie: Well, any time somebody is at home, paying for it themselves, they're not going to have to pay for it in a hospital or in some kind of long-term care facility.

Hon. Scott Brison: Thank you very much.

Ms. Mrozek, your organization believes that society benefits from people living in supportive married unions?

Ms. Andrea Mrozek: Society benefits from marriage, yes.

Hon. Scott Brison: Yes. Why were you opposed to same-sex marriage, if society benefits?

Ms. Andrea Mrozek: I was not present for that debate. I've been at the Institute of Marriage and Family Canada for eight years. The debate around same-sex marriage predates that. I would be happy to discuss that with you, but this particular gathering is to discuss taxes and income splitting.

Hon. Scott Brison: Did you write an article supporting the banning of same-sex marriage via constitutional amendment in three U.S. states?

Ms. Andrea Mrozek: Did I write it?

Hon. Scott Brison: Yes.

Ms. Andrea Mrozek: No, I did not.

Hon. Scott Brison: Did your organization urge Canada to reject a UN declaration opposing the criminalization of homosexuality?

Ms. Andrea Mrozek: No.

Hon. Scott Brison: It didn't?

Ms. Andrea Mrozek: No, it did not.

Mr. Richard Harris (Cariboo—Prince George, CPC): A point of order, Mr. Chair.

● (1750)

The Chair: Mr. Harris, please.

Mr. Richard Harris: Mr. Chair, this is the finance committee. I think we're here to discuss the financial health of our country. I'm sure Mr. Brison has some individual points he'd like to get across, but he might want to tailor his questioning of the witnesses a little bit more to the issue at hand.

Thank you.

The Chair: Thank you, Mr. Harris.

As we know, colleagues, relevance is interpreted fairly broadly by speakers.

I think that's testing the bounds of relevance, Mr. Brison. That may be a valid public policy debate, but let's go back to pre-budget consultations.

Hon. Scott Brison: Perhaps we should test income splitting with gay married couples who have eight-month-old twin daughters just to see if it works in terms of equity. Maybe Ms. Mrozek would support that; I'm not certain, based her organization's past.

In any case, Ms. Robson, you wrote a recent column suggesting that NDP child care would let very high-income parents pay the least for child care. Now, that seems like an odd result of public policy, but would you expand on that?

Prof. Jennifer Robson: First of all, I'd like to say that I am pleased that child care is back in terms of public policy debate. I think that's an important step in the right direction.

I think what concerns me is that if we try to overlay a universal flat fee system on top of the existing universal child care benefit, which has some concerning aspects to it—I can say more on that in a moment—as well as the existing child care expenses deduction, again, if you compare and contrast what families at different taxable income levels would end up paying, the combined effect of all of those moving parts essentially means that, yes, the higher-income family gets the far better break and ends up actually being able to claim a much more valuable deduction. So their child care costs are actually quite a bit lower.

Hon. Scott Brison: Thank you.

In terms of income splitting, Ms. Woolley, is there a real risk of subordinating the secondary income, or the lower-income worker? You could have a higher-income earner, a tax lawyer, as an example, and then the lower income in the union could be doing something really important for society, like running an NGO. Is it possible that we would actually subordinate some really important and valuable and meaningful work being done by the people in the family who just happen to be paid less, and as a result there's a risk, in terms of productivity but also in terms of societal benefit, to income splitting?

Dr. Frances Woolley: To the question that the person running the NGO is now encouraged to step down from that position, yes, absolutely; I think this is why economists are concerned with efficiency. You're distorting people's choices, and you lose benefits when this happens. You start interfering with the choices people make, and that's generally not a good thing.

Hon. Scott Brison: You expressed some concerns about the child tax benefit, but many believe that the child tax benefit was hugely beneficial for low-income Canadians. Is there a way to address the marginal tax rate issue in terms of the clawback?

Also, should we be looking at increasing significantly the working income tax benefit and the child tax benefit and, at the same time, addressing some clawback issues to benefit the people who need it most? Is that one of the most progressive directions we could take?

Dr. Frances Woolley: Yes. I would say that if you look at the poverty rates of families with children, there is no doubt the Canada child tax benefit has been part of really quite a remarkable reduction in poverty among families with children in this country.

But there is certainly room for reducing the marginal tax rates faced by families with children. I think about my niece, who is about to have a baby. She's a pharmacy tech. Her husband's a nurse. They're in Vancouver. I'm sure their household income is well over $100,000 a year, but it is pretty hard for them to get by, and they're going to get very little from the Canada child tax benefit. I think that thinking about those marginal tax rates would help families like that.

The Chair: Thank you very much.

Thank you, Mr. Brison.

We'll go to Mr. Allen, please.

Mr. Mike Allen: Thank you very much, Mr. Chair.

Thank you to our witnesses for being here.

I want to get feedback from Ms. Mrozek and Ms. Woolley on this first question. It's associated with the UCCB and the child tax benefit.

Ms. Mrozek, I'd like to ask you a question again. Could you repeat the percentages from the different parties in support of income splitting? I think you said it was 63% for the Conservatives. How many Liberals and how many NDP...?

● (1755)

Ms. Andrea Mrozek: For Conservative supporters, it was 65%, for the NDP, 55%, and for the Liberals, 54%.

Mr. Mike Allen: Okay. So 54% of the people who support Mr. Brison support income splitting.

Ms. Andrea Mrozek: True enough.

Mr. Mike Allen: Okay. Thank you for clarifying that.

You talked about increasing the UCCB and potentially enhancing the CCTB. Ms. Woolley, you talked about this as well. Is there a way that you thought of for possibly combining those two things in order to simplify things? We've been talking about the simplification of our tax system and everything else, both at the last panel and at this panel a bit.

Would you two have a comment on that? Or do you see them as being two disparate things that we should keep separate?

Dr. Frances Woolley: Yes, if I were a government that was committed to providing tax relief to hard-working Canadian families, that's what I would look to do. I would look to take the CCTB and the UCCB and roll them together, address some of the concerns with marginal tax rates, and address some of the other concerns, like the marriage penalty at the lower-income end, for example, with the CCTB.

Mr. Mike Allen: Ms. Mrozek, do you have a comment?

Ms. Andrea Mrozek: I'll speak in the broader sense of allowing families the freedom to choose what they want to do with the money they have in their pockets. On whether that's best achieved by rolling those into one, I would leave those questions for civil servants to address; they are much better versed in these things. The principle, though, remains: we think those are good tools to use. Also, they provide parents with greater leverage because they'll have more money.

Mr. Mike Allen: Okay.

Ms. Woolley, we might not agree on a number of things, but I think we do agree on this one: paying down the debt, and I think a certain amount.... When we look at the surpluses that potentially will be generated over the next five to six years, there's always the argument about whether you spend a little on new services or new programs, or a little on tax relief, or you pay down the debt.

Since you were one of the only ones on the panel who commented on paying down the debt, do you have a percentage that you would apply based on, let's say, a $6-billion surplus? What percentage would you have as debt repayment?

Dr. Frances Woolley: I don't know. I'm really not fit to answer that question.

Mr. Mike Allen: But you would think a portion would be reasonable to pay down the debt?

Dr. Frances Woolley: Yes. I would for sure.

Mr. Mike Allen: Thank you.

Mr. Gillespie, I have a couple of questions for you. When you talk about the RRIF rules, how would you see that working? I think the chair in the last panel talked about the change in the age or a change in the rates. Do you see a preferred method to go about doing it that would be more beneficial to our seniors? Also, if you look at changing that profile, is there any concern about seniors maybe withdrawing too much and then being left in a predicament?

Mr. Clay Gillespie: Our belief is that you should lower the percentage withdrawal that has to come from the RRIF and make it consistent through the life of owning the RRIF. Now the formula for under 70 is dramatically different from the age of 71. I have never quite figured out what was magical about the age of 71 but the percentage is a problem.

We believe there has to be some way of updating the percentage to make it more in line with what's going on in today's economic environment.

Mr. Mike Allen: How often would you see reviewing the formula for that?

Mr. Clay Gillespie: It matters which formula you choose, and we went through this and decided there are probably three different ways you can solve this problem.

The first way is just to update the formula to something like one over 95 minus your age and maxing out at 15%, and that would solve the problem today, but it wouldn't solve the problem tomorrow. So you'd want to update that at least every five years.

Another option we believe is possible, the second way, is an indexed annuity option whereby you just use annuity rates every year to set the payout for the year. Of course, annuity rates change with life expectancy and interest rates, so that would never have to be adjusted other than changing the number every year.

The third way is a dynamic RRIF model whereby the payment you have to take out is a combination of your capital payment and then you have an earnings component on there, because we believe there are two different types of RRIF investors: the GIC-type investors and the market-based investors. We're trying to figure the best way to equate both of them.

● (1800)

Mr. Mike Allen: On your recommendation with respect to the long-term care insurance, you offer two options there.

Is there a preferred option?

And the second question that goes along with that is about providers of this insurance. Is the market of providers broad enough for long-term care insurance, especially when so much of this is part of provincial responsibility? And to the point that was made before, it would be great and we want to keep people in their own homes and that would be fantastic, but a lot of us have our seniors' homes and we have other things. So a lot of people are using those provincial services. How broad is the insurance market for long-term care?

Mr. Clay Gillespie: I'll answer that question first. We know there are insurance providers that aren't going into the market the way it's structured currently and would go into the market if it were more dynamic. So if there were some kind of tax incentive to allow the purchase of a long-term care product, you would see an enhancement to the market, in our opinion.

As for which of the two solutions—and you didn't ask me that for the RRIF interestingly—but as for the long-term care, we think both have merit but the second one would seem a little easier to administer and that's taking the withdrawal out of the RRSP and using that to pay for long-term care.

The Chair: Thank you.

Thank you, Mr. Allen.

Colleagues, I'm suggesting we go to five-minute rounds.

[*Translation*]

Mr. Caron, go ahead.

Mr. Guy Caron: Thank you very much, Mr. Chair.

Ms. Alepin, you talked about two recommendations. Let me start with the second one.

You didn’t have time to elaborate, but you talked about a race to the bottom in terms of taxation. That brings to mind the recent news about the takeover of Tim Hortons by Burger King. In that case, there was a lot of talk about tax inversion. Some economists even said that Canada’s corporate tax rate was getting close to the tax havens.

Is that what you were trying to get at? Could you comment on that announcement and the impact it will have on the Canadian and international tax landscape?

Ms. Brigitte Alepin: Thank you for your question.

In 2004, when I started looking at how tax systems were adapting to globalization, Canada had not taken a position yet. Canada had not yet shown what type of tax competitor it would become. I must say that I am a little surprised to see Canada react that way to tax competition.

The fact is that Canada has become a major tax competitor for the United States in terms of statutory rates. The competition is even stronger when it comes to effective tax rates. I personally had the opportunity to work on the records of multinationals to see what tax rate they were actually paying. Some multinationals were subject to tax inversion.

In Ireland, they now talk about the “double Irish with a Dutch sandwich”. Here in Canada, we talk about a “Canadian Club”. We propose tax inversion to a multinational, followed by a transfer of profits to a tax haven country with which Canada has signed tax information exchange agreements. That is all followed by the profitable use of R and D systems. So it is true that Canada has a surprising attitude. I did not realize Canada had to use its tax system that way to attract capital.

If Canada does not want to have to further reduce what is already close to zero for some multinationals and if it wants to remain competitive, I would say one thing. Perhaps it is time to discuss the possibility of everyone further reducing tax rates, either statutory or effective.

● (1805)

Mr. Guy Caron: Let me ask you a question about that.

How does the takeover of Tim Hortons by Burger King benefit Canada in terms of tax competition?

Ms. Brigitte Alepin: It may simply be publicity to tell the world that Canada has become one of the top destinations for U.S. tax inversions, just like Ireland, Switzerland and the Bahamas. As such, it does not create a lot of jobs. It is more a journal entry transaction than anything else.

Mr. Guy Caron: Thank you.

I would now like to go back to the issue of foundations.

As you said previously, we are talking about large foundations, which are often family foundations. You and other economists are of the opinion that these are tax shelters in the sense that they become perpetual foundations given that they spend only what they make. Basically, this also becomes a way for these major donors to keep the family’s assets and heritage in the family by removing it from the inheritance issue.

Could you comment on that?

Ms. Brigitte Alepin: Yes, and to explain it, let me give you an example. I will try to make you understand how completely distorted the system has become.

For instance, Canadians could use all the tax mechanisms Canada has to start up a multinational. During the lifespan of the multinational, their effective tax rates will be very low. When they want to sell their shares, say for $2 billion, they could decide to invest $1 billion in a private foundation. As a result, they would pay no taxes because of the tax credit. In addition, when they retire, they would become a major—

The Chair: Thank you, Ms. Alepin.

My thanks also go to Mr. Caron.

[*English*]

We'll go to Mr. Van Kesteren next, for five minutes, please.

Mr. Dave Van Kesteren: Thank you, Chair.

Thank you all for coming this afternoon.

I want to follow up, if I could, with Madam Alepin.

Mr. Keddy was talking about the volunteer disclosure program. We all know that there are people who avoid taxes. And we should clarify that avoidance is legal; it's when evasion takes place through illegal measures.... So that's a good clarification.

Our government has been involved with a number of programs—aggressive programs—to stop evasion and even avoidance. We've closed these loopholes.

Is it safe to say that these measures are the reason so many have come forward who would normally maybe hide in the bushes? Is that a safe analysis?

[*Translation*]

Ms. Brigitte Alepin: As I said earlier, in the past, we have noticed that little things in the voluntary disclosure program could be improved. Overall, the program works very well and it is important to reach out to taxpayers who have used tax avoidance. Attracting them in this way is smart. This system has been used in other countries.

Here is the problem. While we are looking for these taxpayers or catching them in Canada, we are also allowing multinationals to do the same thing in tax havens legally. That does not hold water.

[*English*]

Mr. Dave Van Kesteren: I'll tell you what I'm a little more concerned about, because this is a practical application. Increasingly the auto industry, for instance—and I won't name any companies—have come to us. They're not concerned so much about.... Although I think they like our corporate rate, that's not the reason they're flooding into the country. They're threatening to leave the country if we don't do what other jurisdictions are doing, which is basically to pay them to come.

Extortion: isn't that more of a concern than lower corporate tax?

● (1810)

[*Translation*]

Ms. Brigitte Alepin: Yes, that should concern us more. You are saying that we might need to give them some candy to come to Canada. That's all true. That is why, at the end of the day, once we have gone through all the stages in detaxing multinationals and finished talking about the tax competition that might become destructive, we will have to do something about this competition and the use of tax gifts to attract capital. If we do that, other countries will eventually do it too. I think that is the key issue that needs to be addressed. You are right, but ultimately, at some point, countries will have to agree on the extent to which they want to do that. That is the initiative I am proposing.

In England, as you know, the tax rate has been recently reduced and British tax authorities are already afraid that other countries are overtaking them and that they will have to lower the rate some more. Unless we ultimately want corporate taxes to disappear, we must do something to—

[*English*]

Mr. Dave Van Kesteren: But you recognize that we have a looming problem in this country. It's not so much our lower corporate rate. The problem is that other jurisdictions—the United States, Mexico, I'll say, to speak specifically—are enticing companies to come, and they're virtually bribing them to come.

Wouldn't you agree that this is more of a problem than our lower corporate rate? I guess I want an answer, yes or no, whether that's true.

[*Translation*]

Ms. Brigitte Alepin: Right now, this is a problem in Quebec, Canada and elsewhere in the world. I see the problem, but it is an international problem now. When we made the first tax cut announcements 10 years ago, we were all proud, because we thought Canada was going to be the most tax-competitive country in the world. Now, we are worried about other countries' response. At some stage, some of us will have to get ahead of the issue in order to make more progress on the key issue of tax competition between countries because it has become destructive.

[*English*]

The Chair: *Merci*.

Thank you very much, Mr. Van Kesteren.

We'll go to Mr. Rankin, please.

Mr. Murray Rankin: Thank you, Chair, and thank you to all the witnesses.

I wish I had more time. I just want to make a comment.

I really appreciate, Ms. Alepin, your suggestion of a conference. I think that's an excellent way of moving this forward. I'll just say that I hope the government takes you up on that suggestion.

Professor Robson, you talked in your remarks about a disparity between the paid tax preparers, whose services two-thirds of us seem to be needing, as compared with the non-profit tax preparers. It seemed to me you were suggesting there was a disparity or that we were disadvantaging the non-profit ones.

Could you elaborate on that?

Prof. Jennifer Robson: The full-profit tax preparers will be brought into CRA's new compliance scheme, a new regulatory mechanism. I think the agency is doing the right thing in focusing on education. Monitoring the performance of those paid tax preparers and providing those additional kinds of remedial services by way of information or education is a good thing.

My concern is that the only way, right now, that the agency is able to support the community volunteer tax programs is through the CVITP. Approximately 10, 15, maybe even 20 years ago, we used to provide funding to organizations to run those. Now we provide a little bit of information, and I'm concerned that if we're not finding ways to ensure that they have staff capacity, training, education, then as the tax system evolves and moves, are we protecting their capacity to serve the highest-needs clients?

Mr. Murray Rankin: In something you've written that was referred to me, you mentioned, and I'm going to quote you, "...the UCCB sends gobs of money to parents who don't need it and has the weird effect, for a childcare policy, of encouraging women to work less." Could you elaborate on that?

Prof. Jennifer Robson: That's based on research done by Tammy Schirle, who has found that for the families who are receiving the UCCB, it actually leads to a decline in the workforce participation of women in those families. I think there's some fuzziness about that particular program, frankly. Is it intended to essentially be a cash transfer to families, in which case there are a lot of different ways to skin that cat? Is it a way to actually help people pay for child care services so that they can go to paid employment?

One of the other weird things that happens with the UCCB, in addition to giving it to, frankly, the wealthy bankers' wives, is this. Because it's taxable income, it looks as though it's probably actually reducing people's access to subsidized child care because it's included in the assessment of family income.

● (1815)

Mr. Murray Rankin: I see. Thank you.

Professor Woolley, you made a comment that I just thought cried out for some elaboration. You talked about the CCTB, the child care tax benefit, creating "a non-trivial marriage penalty". Could you explain what you meant?

Dr. Frances Woolley: Basically, if you have a single parent who's earning $30,000 a year, and they have a relationship and they fall in love with somebody else who's also earning $30,000 a year, when they form a family, when they go from being a single parent with a net income of $30,000 to a two-parent family with a net income of $60,000, the loss of the Canada child tax benefit is actually close to $500 a month. It's quite a lot, and that's something that concerns me. I think if there's an opportunity to preserve the strength of the CCTB while addressing that. That would be something to think about.

Mr. Murray Rankin: I wanted to thank you for referencing grandparents in your very powerful critique of the regressive income splitting policy that seems to be the flavour of the month for the government. In a riding full of grandparents, I know exactly what you're talking about. I thought that was a very reasonable thing to say.

I'll go back to Professor Robson, if I may, for the very small amount of time that I have remaining. You said that we could tax on the basis of families versus, the way we currently do, on the basis of individuals. I think if I understood you correctly, you were positing that as a theoretical possibility. Is there such a program in other parts of the world where families are taxed as units as opposed to individuals?

Prof. Jennifer Robson: There are jurisdictions. I think one of the other witnesses named a few. I'll speak very briefly about two very short examples.

The Chair: Very briefly.

Prof. Jennifer Robson: France has had family taxation; however, they also have a very different approach to taxation. They tax capital, they tax wealth, they pay families to have a parent stay at home for five years. They have female labour force participation that is 10% lower than here in Canada.

In the U.S., they give people the option. Do they want to opt to be taxed as families or taxed as individuals?

What you see, at least in the most recent tax data, is a pretty clear relationship that higher-income individuals choose to file jointly. Why? Because they get more bang for their buck out of it.

The Chair: Thank you.

Thank you, Mr. Rankin.

Mr. Adler, please, for your round.

Mr. Mark Adler: Thank you, Chair.

Thank you, all, for being here this afternoon.

We never really have enough time to explore in full detail all the topics that we would like here, but I would like to begin. I know everybody around the table would certainly agree with the fact that our government has a strong record of combatting international tax evasion, and getting tough on tax cheats. In fact, from 2006 to March 31 of this year, the CRA has audited over 8,600 international tax cases, identifying over $5.6 billion in additional taxes that are now being collected. Moreover, the economic action plan of 2013 introduced a number of new measures dedicated to offshore compliance activities, and an investment of $30 million over five years in support of their implementation. Economic action plan 2014 has introduced even more. In fact, since 2006, our government has introduced over 85 measures to improve the integrity of our tax system. It's to the NDP and Liberal discredit that they voted against every single one of these measures.

My question for Ms. Alepin, would you not agree that that is a step in the right direction?

[*Translation*]

Ms. Brigitte Alepin: Yes, it is a step in the right direction. However, I would like to make two comments about this issue, although I made one of them earlier.

I find that the tax system is sending a mixed message. On the one hand, the investigative measures are extremely tough and restrictive for taxpayers who use tax havens. On the other hand, we have a tax system in place that allows multinationals to use tax havens legally. That is my first comment.

I also have trouble understanding something. Right now, multinationals are in fact able to do business in tax havens without paying taxes anywhere. They pay no taxes in tax havens or in Canada. In this case, how is the government handling the fact that the system has become unfair for the country's small and medium-sized businesses? I cannot figure that out. We hear that this is a step in the right direction, but setting up a tax system for multinationals is no such step. Multinationals actually pay less tax than small and medium-sized businesses.

When I started my career in taxation, that was not the case. Small and medium-sized businesses used to pay much less tax than multinationals.

● (1820)

[*English*]

Mr. Mark Adler: Thank you.

Ms. Robson, I'm just curious, earlier you had indicated that the child tax benefit pays individuals money and you mentioned that wives of bank presidents don't need that. That's a little disparaging, because not everyone in this country is the wife of a bank president.

When we introduced that program, one of the senior Liberals said that people were just going to take that money to buy more beer and popcorn. Is that a comment that you would agree with, or you would say that's just a silly thing to say?

The Chair: One minute.

Prof. Jennifer Robson: So if I just sit here in silence....

To be clear, I think the reference to the wealthy bankers' wives is kind of a historical one in terms of the policy debate around how we support families in this country. It's one that goes back to the mid-1990s, talking about how we had a system of universal child allowances and there were criticisms about that. So it's really more of a historical reference.

With regards to the comments made by one particular individual, I don't think we actually know how families are using the UCCB. I can't comment on how families use it.

Mr. Mark Adler: Okay, thank you, fair enough.

Ms. Woolley, just quickly, you wrote a paper in 2000 called *Control over Money in Marriage.* Would the debate today in terms of income splitting have changed your conclusions in that paper at all?

The Chair: Okay, just very briefly, Professor Woolley.

Dr. Frances Woolley: No.

The Chair: Okay, thank you for that brief response.

Mr. Harris, there's one more five-minute round. I understand you have a question or two?

Mr. Richard Harris: All right.

Thank you, panel.

I just want to be clear. In my mind there's a clear difference between what we would call tax evasion or tax avoidance and tax benefits and tax allowances. One is bad; the other is good.

I always believed that, if Canadians were to do all of the things that they should do to try to earn a good living such as get an education, work hard, and handle their money in a prudent fashion, and if they make a good life for themselves, to the extent that the chances were very slim that they would ever be dependent on the government, maybe they should have some sort of a reward, a small reward, to do that. That's what we call tax breaks, tax breaks for Canadians.

Now over the last eight years our government has lowered the average tax to Canadian families by, I think, about $3,600 a year. I would suggest that the average Canadian middle-class family does not put that $3,600 a year into a sock somewhere every year and just let it sit there. They put it back into the economy because they buy things. That's good for the economy. As a matter of fact, just at the bottom line, for every dollar in tax breaks that the federal government gives to a Canadian family, they reap 5¢ just at the basic level on every dollar that's put back into the economy. It only has to turn over 20 times in the economy, which could happen in a day, and the government has that dollar back. That's good for the economy.

If some panellists here today think that tax breaks for Canadian families or for working Canadians are not necessarily a good thing, I would like to argue that they are a very good thing and that we should do whatever we can to support them. It doesn't stay in a sock; it gets put back into the economy.

I just have one question.

Mr. Gillespie, you talked about individual long-term care insurance. I think that's a great idea. I think that anyone who is willing to put money into a program like that so that they relieve the government of supporting them when they're in their senior years should maybe get some sort of reward, such as a tax allowance, on the premiums that they pay because, at the end of the day, the government is going to come out far better than if they didn't do that.

Is that a good suggestion?

● (1825)

Mr. Clay Gillespie: That would be our opinion also.

Mr. Richard Harris: Okay.

Thank you, Mr. Chair.

The Chair: Thanks for that.

Thank you very much, Mr. Harris.

I only have a couple of minutes unfortunately, so I don't think I'll have any chance for a question. Perhaps I can make a couple of comments and have people respond.

First of all, I appreciate CALU's recommendations. I think they've very healthy in terms of the policy debate.

Second, Professor Woolley, I know you had more in your opening presentation. Your third concern was about the CCTB system in terms of when the government should look at addressing. I've got about a minute here if you want to expand on what your third concern is and how we should address it. The first concern is the clawback, the second is marginal rate. Do you want to expand on the third concern? I was going to get into the income splitting debate, but I don't think I'll have time to do that.

Professor Woolley.

Dr. Frances Woolley: The marriage penalty?

The Chair: Yes. Your third concern is it's based on net family income. Can you just expand on that?

Dr. Frances Woolley: If somebody who's a single parent is in a new relationship, unless they're in a new relationship with somebody who has no income, they're going to lose. If they move in together or get married, they will lose quite substantial amounts of CCTB. The numbers are large for low-income people because, if you're talking about a single parent with an income of $20,000 or $30,000, around that range, the marginal tax-back rates on CCTB are really quite high. Marrying somebody who has an income of $30,000 also would cause quite a big loss in benefits.

The Chair: The income calculation is the same for two-parent and one-parent families, so you're saying to change that aspect, right?

Dr. Frances Woolley: Yes.

With the WITB, it's not like that. If the CCTB looked liked more like the WITB, the problem wouldn't be so big.

The Chair: Okay, I appreciate that.

I want to thank you all for being with us here this afternoon and early evening. Thank you for contributing to our pre-budget consultation debate.

Merci beaucoup.

This meeting is adjourned.