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Chair

Mrs. Deborah Schulte

Standing Committee on Environment and Sustainable Development

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● (0845)

[*English*]

The Chair (Mrs. Deborah Schulte (King—Vaughan, Lib.)): I call the meeting to order.

We are continuing with our evaluation of Bill C-323, an act to amend the Income Tax Act (rehabilitation of historic property).

I'd like to welcome some guests here today to give us some advice. From the PBO's office, we have Jean-Denis Fréchette, the parliamentary budget officer. Thank you very much for being with us.

We have Mark Mahabir. Thank you very much. You're the director of policy costing and general counsel.

We have Govindadeva Bernier. Thank you for being patient with my pronunciation.

Mr. Govindadeva Bernier (Financial Analyst, Office of the Parliamentary Budget Officer): No problem.

The Chair: He's a financial analyst with the PBO office.

We're going to turn the floor over to you, and then we'll have questions following your witness statements.

Thank you.

[*Translation*]

Mr. Jean-Denis Fréchette (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Madam Chair, Mr. Vice-Chair and members of the committee, thank you for inviting us to appear before you today.

[*English*]

It is the first time that a PBO team has been invited to appear before your committee. As per our legislative mandate, it is our role to support you in your parliamentary debate, and we always appreciate the opportunity to exchange directly with parliamentarians.

We hope that our costing analysis of Bill C-323 will be useful in your future discussion and for your report back to Parliament.

With your authorization, Madam Chair, I would like to ask my colleague Govindadeva—see, I have the same problem.

The Chair: I'm not surprised.

Mr. Jean-Denis Fréchette: That's why we call him Govinda. It's easier. This is your....

The Chair: It's my cue. Thank you.

Mr. Jean-Denis Fréchette: That's right. Govinda will walk the committee through the main findings of our report.

[*Translation*]

Thank you, Madam Chair.

Mr. Govindadeva Bernier: Thank you very much for your invitation.

As you know, on December 1, 2016, Peter Van Loan introduced a private member's bill, Bill C-323.

This bill would amend the Income Tax Act to create a 20% tax credit for expenses related to rehabilitating a historic property, and to create a tax deduction for the capital cost of property used in the course of such rehabilitation.

[*English*]

The Office of the Parliamentary Budget Officer based its analysis on data obtained from the Canadian Register of Historic Places pertaining to the number of eligible historic properties, and from Statistics Canada data on the average cost of home repairs and renovation.

We estimated that the annual cost of the credit will range from approximately $55 million to $67 million in the first five years, if the average cost of rehabilitation and the take-up rate of the credit are similar to projects that have been undertaken in the United States, where they have somewhat similar credit, but only for income-producing properties.

● (0850)

[*Translation*]

As Summary Table 1 shows, large-scale projects, which primarily involve commercial and industrial buildings that are somewhat similar to those eligible for the U.S. tax credit, are the major cost driver of the credit. Although there are fewer large-scale projects, they cost a lot more because their costs are substantially higher than smaller projects. This will have a more significant impact on the total cost of the credit.

[*English*]

While there are also costs associated with implementing the tax deduction for the capital cost of property used in the course of rehabilitation, PBO has deemed that these costs are not fiscally material. If you consult appendix D, in particular table D.2, you'll notice that these costs are below $10 million per year.

As a little note on that, there are two tables in appendix D, tables D.1 and D.2, because at first when we did the costing analysis, the way the bill was written, it was unclear whether the capital cost allowance would be on top of the credit or if the individual had to choose between one or the other. The first table applies if you have to choose between one or the other, while table D.2 applies if the CCA is on top of the credit. Mr. Van Loan's testimony last week made it clear that his intention was that the capital cost allowance would be on top of the credit for the 80% of costs remaining that are not covered by the 20% credit.

[*Translation*]

That's the end of our presentation.

We are ready to answer any questions you may have.

[*English*]

The Chair: We will start with Mr. Aldag.

Mr. John Aldag (Cloverdale—Langley City, Lib.): Thank you, and good morning.

The report was a very interesting read. I had a chance to review it again on the flight from Vancouver.

When I look at the numbers of $55 million to $67 million, I'm wondering if you looked at the cost as the bill was laid out. I suppose it would be beyond the scope of your duties to run any other analysis.

Where I'm going with this is that one of the notes you made on page 6 of the report is that in the States, their tax credit is available only to commercial and industrial buildings or residential buildings for leasing, so I'm wondering if there was any sort of analysis done on what it would look like in Canada if we were to use a bit of a tighter box than Mr. Van Loan has done and if an analysis would show that it would bring the cost down significantly or if that would be a negligible cost.

Did you have that kind of look, or did you just look at everything on the heritage register and the assumptions that you applied?

Mr. Govindadeva Bernier: We looked at everything on the register, but if you look at the summary table, you can see that we split the projects into two types, small scale and large scale. We assumed small-scale projects would be mostly for owner-occupied principal residences, while the large-scale projects would be mostly commercial and industrial buildings or large housing projects, which are the types of properties you would expect to be income-producing properties, the types of properties that would be eligible for the U.S. version of the credit.

If you want to limit the scope of the bill to these types of properties, then you could assume that cost of credit for large projects, which is the line before last, which is just a few million dollars lower, would be the approximate cost of the bill. The small projects, basically the owner-occupied houses, don't have a very significant impact on the total cost of the credit.

● (0855)

Mr. John Aldag: Would it be within the scope of the Parliamentary Budget Office to provide any commentary on value for this kind of initiative?

I think the dilemma that we have is knowing what the best investment is for the government to go with, a grants and contributions program or a tax incentive program. Was that part of the analysis that you looked at, or did you stay with just what was put out in the bill itself? That really is the dilemma that we have: finding the most effective way to support heritage in Canada.

Mr. Jean-Denis Fréchette: You're not the only one who has the dilemma. My answer is that we never make recommendations. We don't have commentary and so on, and we are really careful about that. We provide evidence and impartial, non-partisan analysis to all the members, and it's really up to the members to have the parliamentary debate. That's why I mentioned in my opening remarks that it's up to you now to come up with that.

I have one comment, and I don't want to take up too much of your time. This was a fishing expedition, really, because first we had to clear the list of all these projects because it wasn't clear what was there. We gave the example in the report of Ontario, because a project can be identified by a province or by a municipality, and then it will end up on the list of the federal government.

It was difficult. We had to clean up the list, number one. Number two, there was not much to go on, except for the U.S. experience, which is a little bit different, as Govinda mentioned, because it's for buildings that have revenue. In this case, it's not that. The parameters were a little bit different.

It was a really interesting project, but very difficult because of the lack of information. There was a lack of precise, accurate information.

Mr. John Aldag: Thank you.

In the analysis, there really seem to be two parts. One is the capital gains, and then there's the second piece, the.... There are two parts to it, as I understand, right?

Hon. Ed Fast (Abbotsford, CPC): Do you mean the accelerated capital cost allowance?

Mr. John Aldag: Yes, it's the capital cost allowance.

Again, from your perspective, are those two tied, or would there be a way of going forward by separating those out and maybe not moving on the capital cost allowance piece?

We don't have Mr. Van Loan here today to talk about why he went with both. From your perspective, though, could it be an either/or, or do they need to go together as a package?

Mr. Jean-Denis Fréchette: No, we presented both. As we said, our understanding was that the CCA was not on top of the credit. After that, we realized it was, so we added appendix D. It's only a $10 million difference per year over the period if you had the CCA. It's really up to this committee to decide whether it's for it or not.

The Chair: You mention that it's only $10 million, but $10 million is the amount we have today to help with heritage.

Mr. Jean-Denis Fréchette: Exactly. You are correct. I always talk about the total federal budget, so it's in that context.

The Chair: Fair enough.

Mr. John Aldag: Where am I at with time?

The Chair: You have one minute.

Mr. John Aldag: On page 7 in the analysis, you also talk about how you had grossed up the previous amount by a factor of 67%. That certainly caught my eye. It seemed to be a very large premium for heritage.

Would you be able to provide just a bit of commentary on that? I was surprised you assigned that kind of premium.

Mr. Govindadeva Bernier: As Jean-Denis mentioned earlier, there's not much information on this type of expense, so the best we had was a study in 2002 carried out by the State of Michigan. The study concluded that on new construction projects, 50% of the cost was materials and 50% was labour, as opposed to historic rehabilitation, where the labour part could go up to 70% of the total cost, while the materials stay at 30%.

We simply took the average cost based on the survey of household spending done by Statistics Canada, and we took half of the total amount that was spent and said that was for materials. Suppose that amount represents only 30%, rather than 50%, what would be the remaining 70%? That's how we came up with the factor of 67%.

It may seem a bit high, which is why in appendix B we provide multiple different scenarios. Obviously the cost of the credit is going to change relative to the different assumptions we make, so in appendices B and C, we present different hypotheses to show what the range of the credit could be if the cost changed.

● (0900)

The Chair: Go ahead, Mr. Sopuck.

Mr. Robert Sopuck (Dauphin—Swan River—Neepawa, CPC): Thank you, Chair.

We had the Department of Finance officials here last time. Basically, what happens when the officials come here—and I'm not saying it's you, necessarily—is that these kinds of initiatives usually get nickel-and-dimed to death. There's this little niggling problem, this and that. Because it doesn't quite fit with existing programs, the bureaucracy, by and large, takes either a very neutral or dim view. I see little enthusiasm for this initiative.

The problem is that heritage conservation is woefully inadequate in this country, and we must have some method. Largely, when it comes to the analysis, it's always, “Well, maybe not.” It's kind of frustrating for those of us who are politicians when we see heritage conservation getting short shrift right across the country.

Your analysis was basically only half an analysis. It wasn't in your terms of reference to look at the economic impact of these kinds of things. Apart from that reference to Michigan, did you do any analysis of the economic impact of this kind of expenditure?

Mr. Jean-Denis Fréchette: No, we did not. There's a difference between the departments and PBO. As you know, under our new legislative mandate, we do all these costings. It's a lot of work, and we have to sometimes take a longer time frame.

For your question, we didn't look at the economic impact for the reasons mentioned before. With the kind of information we had, this was really a fishing expedition. We developed our model based on what we thought was the best information and the evidence we had available.

Doing the economic impact would be a different story and a different project, and also a longer-term project to do.

Mr. Robert Sopuck: Again, as politicians our emphasis is on the sustainability of our communities, and a program like this, which is very small in terms of the entire federal budget, will have outsized economic impacts.

For example, I have a report from the State of Connecticut. Their tax credits in one year amount to $32 million, and that spurred $159 million worth of private investment.

Again, it's arguable that some of that private investment would have happened without the tax credit. Nevertheless, $32 million was spent and $159 million came out: 560 jobs, $28 million in wages, and taxes of $11 million. It seems to me that the State of Connecticut in this particular example got their money's worth.

Based on the numbers I gave, would you say that's a fair assessment of mine that they got their money's worth for that expenditure?

The Chair: I'm not sure that—

Mr. Jean-Denis Fréchette: It's a difficult answer, Madam Chair.

Mr. Robert Sopuck: We're paid to ask difficult questions.

Mr. Jean-Denis Fréchette: I believe your numbers. It's a fair question. Difficult questions are also fair questions.

Certainly, some states that have made these kinds of arrangements are probably right. I'm not disputing that. In this case, if you look at the take-up rate, it's pretty small. All the members here have stories in your ridings, I'm sure, where you know people who own buildings like that. They don't go for a 20% credit, just because it's maybe too low for the kind of investment and the return they will have.

Yes, the economic impact of $62 million in total, if we include the CCA, can be rather small. It's maybe not small in a riding sense, but in total in Canada, it may be very small.

● (0905)

Mr. Robert Sopuck: I appreciate the reference to labour as well. The studies we came across verify your comment about the high labour component in these restoration projects.

I'm going to read from a Manitoba study that happened to be in my constituency: “Restoration projects are also a boon to the labour force, being more labour intensive than new construction. Typically, labour represents 60-75% of project costs in a conservation project.”

Again, one of the risks that workers in all fields are facing is mechanization, automation, and so on. I think it would be prudent public policy, where possible, to encourage participation in the labour force. There's a training component here. Many of these restoration projects, especially in my area, are close to aboriginal communities, so there's another added benefit to this kind of expenditure.

Could you make a comment on that?

Mr. Mark Mahabir (Director of Policy and General Counsel, Office of the Parliamentary Budget Officer): We didn't really do any analysis on the secondary economic benefits of labour force participation or of increasing labour force participation.

As Govindadeva said, about half of the costs would be labour costs in a regular renovation, and for a historic renovation the labour costs are higher. That's really all the analysis we did in the report.

The Chair: You have one minute.

Mr. Robert Sopuck: In terms of the entire federal budget, which is in the neighbourhood of $300 billion—is that what our federal budget is?—quite honestly, $55 million to $60 million is a small amount of money compared to the actual federal budget.

Would you agree with that?

Mr. Jean-Denis Fréchette: I think I mentioned that, in the context of the total federal budget.

Mr. Robert Sopuck: Again, as politicians, when we look at the benefit of heritage conservation in terms of enhancing communities, gentrifying communities, and creating economic development and labour force participation, I've come to the conclusion that this will be money well spent, and I certainly hope this bill will pass.

Thank you, Madam Chair.

The Chair: Thank you.

Mr. Stetski is next.

Mr. Wayne Stetski (Kootenay—Columbia, NDP): Thank you for being with us today.

In the report, you list a number of issues with the Register of Historic Places, and I think Parks Canada has identified that the list is incomplete as well. How important is it that the register be updated and verified for moving forward with this legislation?

Mr. Govindadeva Bernier: Obviously if the aim of the legislation is to provide the credit only for properties that are listed on the register, definitely the register has to be updated for everybody who owns property that's already designated as heritage, whether under provincial or municipal jurisdiction.

Definitely the register needs to be updated, but there are some openings in the way the bill is worded such that even if the property is not already on the register, if it has received provincial or municipal designation, it could be considered eligible for the credit. It's not necessarily a problem going forward in the short term, but obviously at some point the register will probably have to be made more up to date.

Mr. Wayne Stetski: Your report focused only on those that were registered to date. Did you get any sense of the scale of how many might be eligible under municipal or provincial jurisdiction but aren't on the register?

Mr. Govindadeva Bernier: Actually, we tried to add those to the total number of properties, because as we mentioned, as of April 2017, there were 13,000 unique listings on the register, out of which approximately 6,000 or 7,000 were privately owned. For our total number of eligible properties, if we include owner-occupied residences, we arrive at a number that's close to 40,000. In order to get a better sense of the real cost of the credit, we tried to include most of the properties that were recognized under provincial or municipal legislation but weren't yet listed on the register. Obviously, as soon as the credit would be implemented, there would be a great incentive for these people to get their properties listed on the register.

Technically, what the website of the Canadian register says is that their purpose is to list every designated property, whether municipal, provincial, or federal, so we tried to include as many properties as possible, based on discussions we had with Parks Canada. They gave us a pretty good estimate of the total stock of historic properties.

● (0910)

Mr. Wayne Stetski: Thank you.

On page 9 of the report and in the chart you presented in your paper today, you note that “these results assume that the taxpayers claiming the credit have enough tax liability to use all the credit in the current year.”

Can you expand on that a little? Does it mean that the tax credit would be more available for wealthier businesses and individuals, but potentially unavailable or not able to be used by, say, seniors at a lower income bracket?

Mr. Mark Mahabir: Basically, the way the bill is worded, it allows a taxpayer to claim the full amount in the year that they make the expense, if they have taxable income to cover the full amount. As well, they can roll over that amount for the future 10 years, so the taxpayer can also claim the credit in a future tax year. Those people with lower incomes could claim the credit in a future year if they don't have adequate income in the year they make the expense.

Mr. Wayne Stetski: Thank you.

The Chair: You have time remaining. Are you done?

Mr. Wayne Stetski: Yes.

The Chair: Mr. Bossio is next.

Mr. Mike Bossio (Hastings—Lennox and Addington, Lib.): I looked at this report. Thank you very much for generating it, because it captured a lot of thoughts I've been having on the aspect of rural versus urban and small versus large.

My deep concern here, which really comes out in the numbers, is that, one, a lot of rural buildings are not even eligible for the funding. Two, when you look at the numbers for large projects versus small, they significantly outweigh each other. Three, when you look at the administrative aspects of a tax credit and being able to apply for the funds in the first place, the smaller projects or small rural communities don't have the resources, in most cases, to be able to even know how to apply or even find the funding in the first place.

My deep concern about the tax credit side versus a cost-sharing or grant program is that under a cost-sharing program you could more realistically target or focus the funding to ensure that there is a greater amount of sharing of the wealth, so to speak, through these programs between rural versus urban, large versus small. You'd also have greater control over the overall cost of the program because you'd have a fixed cost under a cost-sharing program versus a grant.

I'd like you to comment on that aspect of it.

Mr. Govindadeva Bernier: Obviously using a tax credit rather than a grant doesn't give you any control over the cost, because you have no idea what the take-up of the credit will be. Since a credit is not capped, it could be higher than what we predicted, but it's very hard to predict the take-up.

The tax credit is available to anyone who has taxable income. As we mentioned, if you have no tax liability, then the credit is not worth anything to you, which means that not-for-profit organizations, for example, will not get any benefit from a tax credit.

What is the best way to address the problem of historic rehabilitation? That question is in your hands. We did not stipulate that.

Mr. Jean-Denis Fréchette: Can I ask Mark to comment on this?

Mr. Mark Mahabir: There's nothing stopping politicians or the House from having both.

You can have both a tax credit and a cost-sharing program. Because the tax credit is harmonized with any government subsidy that is received by the taxpayer, the credit would account for any additional expenses by the taxpayer outside of the cost-sharing program.

● (0915)

Mr. Mike Bossio: Once again, my concern is that under a tax credit type of system, typically it's the more well-heeled in large urban centres that take advantage of it. We don't know that a lot of these projects wouldn't go ahead of their own accord, or that just enough grant money could actually incentivize them to go ahead with these programs.

My greater concern here is that in most cases, the small and rural projects are the ones that get left behind.

I see that you're nodding in agreement with that statement, so I'm going to pass the rest of my time over to MP Mark Gerretsen.

Thank you very much, gentlemen.

Mr. Mark Gerretsen (Kingston and the Islands, Lib.): Thank you.

Mr. Fréchette, you guys are experts in tax policy, not as it relates to heritage, correct?

Mr. Jean-Denis Fréchette: That's correct.

Mr. Mark Gerretsen: Okay. Do we have similar tax credits that exist?

Mr. Jean-Denis Fréchette: The U.S. is the model that we used, but it's not similar.

Did you mean exactly similar?

Mr. Mark Gerretsen: No, no; do we have other examples in Canada where we provide tax credits? I don't mean for heritage specifically—just generally speaking.

Mr. Mark Mahabir: There are multiple personal tax credits for charitable donations, medical expenses. There are various tax credits in the Income Tax Act.

Mr. Mark Gerretsen: Then it definitely wouldn't be setting a precedent.

Mr. Mark Mahabir: No.

Mr. Mark Gerretsen: Okay.

Following up on Mr. Bossio's last comment, can you give us some insight into the difference in the behaviour within the market of a tax credit versus a grant? Does one particularly add to spurring more spinoff effects?

Mr. Jean-Denis Fréchette: I would say it depends on the level of the grant versus the level of the credit, or, as Mark said, the accumulation of both.

Mr. Mark Gerretsen: Do you know—?

Mr. Jean-Denis Fréchette: Going back to your question on what a grant would be that would be an incentive in addition to this 20%, the difficulty with a grant is to have a take-up rate of higher than what we have seen in the literature. That would be the difficulty. Of course, if you put a grant of, I don't know, 50% of the value of a building, of course everybody will go after the grant.

Mr. Mark Gerretsen: You're saying that if the grant is higher, it will have greater impact.

Mr. Jean-Denis Fréchette: If it is high enough, yes.

Mr. Mark Gerretsen: What's high enough?

Mr. Jean-Denis Fréchette: I don't know.

Mr. Mark Gerretsen: Well, that's extremely important to understand.

Can you give us a sense of how high the tax credit has to be, or whether there is a threshold to the tax credit?

Mr. Govindadeva Bernier: As a reference point, the take-up rate in the U.S. was close to 0.5% for income-producing properties. Depending on the years, 50% to 60% of these projects also received state credits, because multiple states also have their own credit. In that case, on top of the 20% they received at the federal level, there was also a certain percentage of tax credit at the state level.

Obviously the higher the total tax credit or the total tax incentive, the higher the take-up is going to be and the higher chance of actually seeing historic rehabilitation.

What would be the right amount? We have no—

Mr. Mark Gerretsen: It's hard to say.

Mr. Govindadeva Bernier: It's hard to say, and there's not really enough data to come to an answer.

The Chair: Okay. Thank you.

Go ahead, Mr. Godin.

[*Translation*]

Mr. Joël Godin (Portneuf—Jacques-Cartier, CPC): Thank you, Madam Chair.

Gentlemen, thank you for being here this morning.

We are here to find solutions that will enable developers, residents and organizations to restore buildings. Everyone agrees: conserving buildings in Canada is a problem.

In your report, you mentioned that you have not gone so far as to consider whether the costs of the tax credit would be offset by tax revenue back to the government.

I think we have to look at the big picture. You say that the annual cost of the credit would range from $55 million to $67 million in the first five years of the program, but you still have to consider the benefits of the tax credit, which will generate additional money.

If you take into account only the outflow of money, I understand your analysis, but you have to look at the tax credit as a whole and consider the positive effect it will have not only on the communities and society, but also on the economy. That's why you are here this morning.

I'm asking the question, but I very much doubt that you will be able to answer this morning. Are you able to show us the final economic impact of the program?

The United States says the final impact will be around $1.20 or $1.25. That's a surplus for the government. Of course, if we look at the program at its source only, it costs $55 million to $67 million, but beyond that, could you give us the tools to make it possible to say that this program is viable and positive?

● (0920)

Mr. Jean-Denis Fréchette: Thank you for your question.

I would like to make a comment before I give the floor to my colleague Mr. Bernier.

You are right that we have not looked at this because it was not part of our framework of analysis. When we do the cost analysis of a bill like this, it's basically the cost of the 20% tax credit and the capital cost allowance, if there is one.

Are we able to give you the necessary tools? Keep in mind that the word “unable” is not in our vocabulary. We can look at the situation, but I cannot tell you when you would have the answer. You will understand that we do a lot of analyses like that. We can take your request into consideration and see what the $62 million might mean in terms of jobs.

Calculating in an aggregated way is relatively easy, but it will be more difficult to do a calculation based on the constituencies where the projects are, or based on the inaccurate list we have.

Mr. Govindadeva Bernier: If I may, I'd like to give you an idea.

Let's say the cost of the tax credit is $60 million. Since this amount represents 20% of eligible expenditures, we can assume that expenditures will be approximately $300 million. If we add a few ineligible expenses, the total amount is $350 million a year in rehabilitation expenses. We can assume that at least two-thirds of this amount, or $200 million, are labour costs. The big question is whether the $200 million would have been spent without the tax credit. This is also what the Department of Finance told you last week.

To answer the question, we would have to know what the expenses in addition to the tax credit would be, expenses that would not otherwise have occurred. If the tax credit did not exist, that money might be spent elsewhere in the economy and it would still generate jobs in other sectors.

Mr. Joël Godin: I would like to come back to the answer the people from the Department of Finance gave.

I was not very happy with their comments. As a result of the analysis of the program adopted by the United States, Mr. LeBlanc mentioned that there would be no rehabilitation projects without a tax credit. This comment was based on his personal interpretation, and I thought it was a bit clumsy for him to say that. Between zero and one hundred, there is a world of difference. In any event, we are not here to put Mr. LeBlanc on trial.

From your answer, I understand that, at the end of the day, this tax credit would have a positive impact on the economy. According to your very simple and realistic calculations, a percentage of 20% of eligible expenditures for a given project means that at least 80% of the expenditures would be injected into the economy. Also, other fees are not considered in the eligibility review.

Let me ask a technical question. You said that historic buildings generate revenue. Is it revenue for the government or for owners and developers?

Mr. Govindadeva Bernier: We were talking about the revenue generated for owners or developers, not for the government.

Mr. Joël Godin: Okay.

Earlier, you talked about measures to control the credit, which is clearly very difficult. You open up a credit and there is no maximum value; we cannot control whether the credit is granted, allowed or denied. However, there is a control by default.

I am sure you will agree with me that the control measure will happen on its own because, in terms of taxation, the—

● (0925)

[*English*]

The Chair: You're trying to ignore me, I know, and I'm trying to be decent and cut in at the right time.

[*Translation*]

Mr. Joël Godin: I heard you, but I did not want to hear it.

[*English*]

The Chair: You do try, but we are going to have more questioning.

Mr. Amos is next.

Mr. William Amos (Pontiac, Lib.): I will allow my learned colleague, Mr. Gerretsen, to start.

Mr. Mark Gerretsen: Thank you, Mr. Amos. I appreciate that.

Just in follow up to a previous question I asked about other tax credits that exist within our system, is it regular for the majority of them to be capped?

Mr. Mark Mahabir: There are a few credits that are capped, or there is a threshold above which the credit is given, such as the refundable medical expense tax credit. In that case, if you have expenses over a certain amount, you can claim the credit.

Concerning credits on which there is annual cap or a total cap, I can think of the SR and ED expense tax credit, or maybe there are some credits available to the mining sector.

Mr. Mark Gerretsen: From what you're saying, it seems that they're on the low side.

Mr. Mark Mahabir: Yes.

Mr. Mark Gerretsen: Was that a yes?

Mr. Mark Mahabir: Usually there is no cap. It's based on taxable income.

Mr. Mark Gerretsen: Usually there is no tax. Okay, that's great. Thanks.

Mr. Wiebe, the manager of heritage policy and government relations for the National Trust for Canada, was here on September 28. He said that a tax credit would generate more government revenue than what it would cost. He further said that refundable tax credits would be more effective and offer more predictability than a grant program.

Would you say that you agree with that?

Mr. Jean-Denis Fréchette: We would have to look at the impact of the grant, as I mentioned before.

Mr. Mark Gerretsen: You haven't done that.

Mr. Jean-Denis Fréchette: No.

Mr. Mark Gerretsen: Can you say if you have ever looked at the impacts of grants?

Mr. Jean-Denis Fréchette: Do you mean in other reports?

Mr. Mark Gerretsen: Yes. I'm not drilling down specifically with respect to this particular proposal, but just generally speaking.

Mr. Jean-Denis Fréchette: No, I cannot recall any analysis of that sort—

Mr. Mark Gerretsen: Okay.

Mr. Jean-Denis Fréchette: —in my time.

Mr. Mark Gerretsen: Then can you tell me, Mr. Fréchette, what you see as the main differences between what can be accomplished through a tax credit and what can be accomplished through a grant? I know this question has been batted around a bunch, but I'm really trying to get to what can be accomplished in the two scenarios.

I have about a minute before I have to turn it back to Mr. Amos.

Mr. Mark Mahabir: The eligibility for a tax credit may be lower than the eligibility for a grant or a cost-sharing program because the tax credit is administered by CRA. Everyone automatically applies, and they check a box. In a grant program, there may be a higher cost or a higher burden on the individual applying to that program to add the proper paperwork.

Mr. Jean-Denis Fréchette: But a grant is attractive.

Mr. Mark Gerretsen: Mr. Amos...?

Mr. William Amos: If you want to continue, go on.

Mr. Mark Gerretsen: Okay.

Mr. Bossio...?

Voices: Oh, oh!

Mr. Mike Bossio: Thank you so much.

Once again, this has been very beneficial, because I didn't realize just how disadvantaged rural areas were until I started looking at the different tables and the amounts.

Your table around food supply shows that none of them are eligible. Grain elevators in Saskatchewan and Manitoba are not eligible. It's the same for fisheries sites, horticultural facilities, hunting and resource harvesting sites.

It's the same under “Religion, Ritual and Funeral”, aboriginal ritual sites, aboriginal sacred sites, missions, and religious facilities and institutions. Then you look under water transport at landing points or lighthouses, and then even buried sites, exposed sites, and underwater sites. These are all rural areas, for the most part, that are not eligible under this program at all.

Not only are we going to be disadvantaged because we're not as well-heeled.... Just look at the lighthouses. A number of years ago when we started shutting down lighthouses and communities were scrambling to try to find money to keep these lighthouses open, most of them ended up not being allowed to be open.

My real concerns, once again, are that, one, we need to change this so that more of these rural sites become eligible; and two, because of the inability of rural communities to raise the kind of money that it takes to rehabilitate these sites, we need some form of targeted or focused method to be able to say, “Okay, this portion is going to go specifically to rural” so that we have that ability.

● (0930)

The Chair: Is there a question?

Mr. Mike Bossio: The question is this. Once again, looking at your report here, would you not agree that based on the data that's here, rural is really disadvantaged in this program?

Mr. Jean-Denis Fréchette: Just to be clear, they are excluded from the list that you mentioned. You're right. However, most of them.... You mentioned the elevators and so on. They are generating revenues, and that's why they are excluded. It's not because they are in rural areas.

You are probably right that some rural buildings and projects are excluded even though they are not listed under projects generating revenue, but on the list you mentioned are projects that are generating revenues, and they are excluded from this bill.

The Chair: You have 20 seconds. Go ahead, if you just want to chime in.

Mr. Mark Mahabir: I have a quick response.

One of the assumptions we made in our analysis was that the taxpayer would actually have taxable income. If they are a not-for-profit entity, a crown, a government, or a municipality, they would not be included in our analysis, because they are not paying taxes.

The Chair: Yes, it's a challenge.

Thank you very much.

Mr. Fast, go ahead.

Hon. Ed Fast: Thank you very much.

This is very helpful testimony. I just find it regrettable that we don't have the other side of the equation, which is the national economic benefits and the additional tax revenues that would be driven by this tax credit.

When I look at the analysis that was done for the American program by Rutgers University and the National Park Service, it's very clear. They list the number of jobs per person-years, the income, the output, the GDP, and the taxes generated at all levels of government. That was a comprehensive analysis. It's pretty obvious that there is a very significant boost to the economy and to tax revenues as a result of their program.

Mr. Bossio talked about this perhaps being a wealth-sharing program. That's the term he used, “sharing of the wealth”. I just want to remind—

Mr. Mike Bossio: Cost sharing....

Hon. Ed Fast: No, you used the term “wealth sharing”.

Mr. Mike Bossio: Sorry; I meant to say “cost sharing”.

Hon. Ed Fast: If you meant cost sharing, that's quite different. This is not a wealth-sharing program.

This is one tool in a larger tool kit. The bill does not propose in any way to eliminate the cost-sharing program that is already in existence. What this is doing is just providing another tool to incent the private sector to invest in historic sites and preserve them, with a little help from the government, whether they are layering the ACCA on top of the tax credit, on top of perhaps some cost sharing—

The Chair: Can I suggest that this is probably a really good discussion that we are going to get into when we get down to the report level?

Mr. Mark Gerretsen: While the floor is his, he can do what he wants.

The Chair: It is, but I'm thinking that he has—

Hon. Ed Fast: I agree. I have a question.

The Chair: Yes, exactly. I think it's a really good discussion, and we are going to have it when we are discussing....

Hon. Ed Fast: I am just correcting the record here, from our perspective, because I get the very distinct sense, Madam Chair, that the government members of this committee are starting to climb down from their support for this bill.

Mr. Mike Bossio: We never did support it.

Mr. William Amos: Never supported it.

Hon. Ed Fast: That's disappointing.

I want to ask this.

Is it a fair assumption to make, Mr. Fréchette, that the analysis done in the United States on their national tax credit program, which suggests that significant economic benefits are generated by their tax credit program, and also increased tax revenues, is an assumption that is safe to make by this committee?

Mr. Jean-Denis Fréchette: It is an assumption—assumptions being assumptions.

The other thing I would add to your question is that it's also, for this committee, about the value that you put on heritage buildings. It is really a political question that you have to ask yourselves: do you want to protect these buildings and invest in these buildings? This is the bottom line, no matter what the economic impact.

The economic impact is important, but based on our analysis, as I said, it's rather small. The credit is a small value in the cost. It's really about the value that you put on these buildings. Generating no revenues is the important point, if you want to extend that.

I come from a place where churches are disappearing one after another. Is it something that you want to invest in or not? It is really up to this committee to decide that.

● (0935)

Hon. Ed Fast: It's also fair to say that the proposed tax credit program would not really benefit those of little means. For example, if someone doesn't have a lot of annual income, this program isn't going to benefit them much. Is that correct?

Mr. Jean-Denis Fréchette: Correct.

The Chair: Mr. Fisher, you are next, if you have questions.

Mr. Darren Fisher (Dartmouth—Cole Harbour, Lib.): Thank you, Madam Chair.

I just wanted to piggyback on something Mr. Gerretsen said when he was talking about grants versus tax credits. Mark and Jean-Denis both spoke about the differences. One difference between a tax credit and a grant would be that groups without an income, like a non-profit or a charity, would benefit or be able to apply to a grants system, but wouldn't be able to benefit or apply through the tax credit, correct? Groups that would be in charge of facilities—churches, historical buildings—are ineligible.

A voice: Yes.

Mr. Darren Fisher: Perfect. Thank you.

Mr. Fréchette, you said this is basically a fishing trip. I appreciate that. I understand that most of these questions are fishing trips as well, given you've provided us with lots of alternatives based on different rates of return, CCA, and take-up rates. Did you think about what it might look like if this bill merely tried to copy what the American one did, just on income properties? Do you have any sense of what that cost might be for the government if we just stuck, like the Americans did, with income?

Again, I apologize that this is just making you speculate, but is it half?

Mr. Govindadeva Bernier: As we mentioned earlier, we asked a similar question. Table 1 shows how we break down the cost of the credit between small and large projects. What would be similar to the American credit would be the large projects. Basically, we expect the large projects to be mostly income-producing properties.

As you can see, most of the credit cost is on large projects. Based on the numbers we had, the owner-occupied residences aren't going to cost that much to rehabilitate compared to large commercial or industrial buildings. If you just stick with the line for the cost of the credit for large projects, you can see we're around $49 million to $50-something million.

Mr. Darren Fisher: Yes, so you're still at the 75% to 80% cost of the whole project.

Mr. Govindadeva Bernier: Yes, it would be.

Mr. Darren Fisher: Okay. I'm going to finish off quickly and then go to Mr. Gerretsen.

Someone made the comment—maybe it was Mr. Fast, I'm not sure—that we have to decide whether we want to invest in heritage. I think everyone around this table understands there's a desire to invest in heritage. One thing I've not really gotten a hold of yet is, can't you do that by grant and by tax credit? I have not been told yet what this exact situation would look like if it were a grant. Other than the few differences we've talked about, could we not come up with a grant process that would work exactly the same as this? It would have a cap, whereas what concerns me sometimes with the bill is that there's no cap, or perhaps you can just put a cap on the private member's bill—I don't know. That's where I'm failing to get a sense of why we can't just look at it as a grant instead of a tax credit.

Mr. Jean-Denis Fréchette: I'm sitting in the middle here. It seems that there are grants here and tax credits on the other side, so I am in a difficult position.

Mr. Darren Fisher: I apologize if I'm just asking you to speculate, but—

Mr. Jean-Denis Fréchette: No, that's okay. It's a difficult answer for me to give you.

As I said, you can have a mix of the two. Mark described how that might look. It is certainly an option you can consider for your report, if you do a report on this.

There's an advantage for one and an advantage for the other. As for the two, it's going to cost more money if you do both grants and tax credits—that's basically it. It's a political question.

Mr. Mark Gerretsen: Mr. Bernier, I'm following up on one of your last comments. Although the amount that an individual person might receive, globally speaking, as a homeowner is relatively low, would you agree that it would still be relatively large in terms of their budget for their individual project? It could have a significant impact on their project.

● (0940)

Mr. Govindadeva Bernier: Well, it could reduce the cost by up to 20%.

Mr. Mark Gerretsen: If it's $100,000, it's $20,000. On that scale...I wanted to make sure we're clear on that.

The other thing is, following up on the conversation about rural properties and notwithstanding Mr. Bossio's comments that there are a number of exclusions, would you agree that more rural individuals would have the opportunity to pick up on a tax credit like this, because the number of grants might be limited? It's not even more rural, but more people, generally speaking, would have the opportunity to jump onto this, because they wouldn't have to go through that application process.

Mr. Mark Mahabir: Yes, the tax credit applies to everyone if they have a property listed on the register, whereas the grant program would have monetary requirements and thresholds and other eligibility requirements.

Mr. Mark Gerretsen: If there were a small business, such as a restaurant in Napanee or something like that, that was deemed to be historic, that individual could just go ahead with the tax credit with no need to worry about the grant process.

Mr. Mark Mahabir: The other thing I would add is—

Mr. Mark Gerretsen: Is that a yes or no?

Mr. Mark Mahabir: Yes, but they would need funding for the expenses, of course.

Mr. Mark Gerretsen: Thank you.

The Chair: We're down to Mr. Stetski.

Mr. Wayne Stetski: Thank you.

Large-scale heritage projects are certainly important. In my riding of Kootenay—Columbia, though, when this bill first came forward, I was thinking of my heritage homeowners trying to make sure that they can retain the heritage characteristic of their private dwellings. The American example that we've used did not include those small homeowners.

In terms of your research, did you come across any reason that they didn't? Is there some other mechanism for individual homeowners in the United States to get some benefit from doing the right thing for heritage?

Mr. Govindadeva Bernier: We didn't find any particular measure for homeowners in the United States, although there were multiple state and municipal initiatives that could be either grants or tax credits. We didn't do a complete review of what was available in the United States because that was outside the scope of this project.

Mr. Wayne Stetski: In your research, did you come across any other potential benefits for heritage homeowners in Canada currently, in terms of being able to apply for funding?

Mr. Govindadeva Bernier: Perhaps I could add to your previous question also.

The Americans might have limited it to income-producing properties possibly as a way of capping the costs, since there is a much higher stock of historic properties in the U.S. than in Canada. They have over a million recognized historic structures in the U.S. Here the number, as we mentioned, is somewhere between 20,000 and 60,000 historic structures. That could be a rationale for their decision to stick with income-producing properties.

As to Canada, again, there are probably multiple municipal or even provincial initiatives. We didn't have the time to do a complete search jurisdiction by jurisdiction of the incentives available, as it was somewhat outside the scope of this report. We were just trying to cost the measure per se.

Mr. Wayne Stetski: Did you not come across any other federal initiatives to support individual heritage homeowners in your review?

Mr. Govindadeva Bernier: The only other federal initiative that I'm aware of is the cost-sharing program that's managed by Parks Canada, but this one is targeted for not-for-profit organizations.

On the tax credit, obviously you need to have taxable income to claim it, which not-for-profit organizations usually don't. On the other side, the cost-sharing program is specifically targeting not-for-profit organizations.

● (0945)

Mr. Wayne Stetski: Mr. Fréchette, would you comment?

Mr. Jean-Denis Fréchette: When we did this report, I always asked myself this question: what is the profile of the homeowners of these kinds of heritage buildings who are using it for their dwelling and so on, as opposed to the commercial ones? I think it could be very interesting to have the kind of profile; we don't have it.

I can look in my own area, at the Kingsmere estate, for example. People certainly have higher incomes if they live in the Kingsmere estate. It is expensive to live there. We can expect that they probably have more fiscal room than other people who are just going back to rural areas and buying a heritage house. We have stories of people who cannot afford these houses, as you know, in your various ridings.

It would be interesting to see that. It would be interesting to have the profile of the people who can enjoy having the 20% credit, and not just because they don't have the fiscal room but also because they perhaps made a bad choice in buying a building that they knew would cost a lot of money.

The Chair: We are at the end of our full round. We did say we would go until 10 o'clock. I am at the pleasure of the committee on whether we want to do one more quick round or whether we want to suspend and bring up our next guest.

Mr. Mark Gerretsen: I think we've beaten them up enough.

The Chair: Okay. Everybody is good with this.

Thank you very much. It was really nice to be able to drill in a bit on the report that you gave us. Thanks for coming in front of us and weathering our questions.

I'll suspend now for about five minutes and bring up our next guest. Thank you.

● (0945)

(Pause)

● (0955)

The Chair: I want to get started with the second stage for today. I would like to welcome Leonard Farber to the table. Thank you very much for coming and joining us.

I understand that you are a senior adviser for Norton Rose Fulbright Canada. However, you have some past history with the PBO. You're going to share with us some information about yourself, and then we'll get into questioning.

Thank you, and welcome.

Mr. Leonard Farber (Senior Advisor, Norton Rose Fulbright Canada, As an Individual): Thank you, Madam Chair and members of the committee, for having me here this morning. It was a bit of a last-minute notice, but I'm delighted to be here.

The Chair: Thank you.

Mr. Leonard Farber: Yes, I am presently a senior adviser at Norton Rose Fulbright, which is a major international law firm. In my previous life, from the end of 2005 backwards, I was the general director for tax policy legislation in the Department of Finance. As such, I have a history of having worked with Professor Christina Cameron and others in developing the policy on heritage property. We were trying to deal with the fact that there were no real guidelines around how one can provide tax incentives for built heritage in Canada.

In my opinion, there has historically been a view that built heritage is a very important element of Canadian culture and that we should do something to preserve it. In that context, we worked closely together over the years to develop guidelines for this purpose, and those are now in place. Basically, we decided to have professional groups designate what a heritage property is. You cannot just provide criteria in the Income Tax Act to deal with heritage property, because heritage property is very different in various provinces across the country. In some provinces, a heritage property may be something in excess of a hundred years old, while in others a property well below a hundred years old could receive a heritage designation.

We developed the notion that there would be a provincial registry, as well as a national registry in Parks Canada, which I think is still very much involved in that registry.

I looked at the bill last night, and it's clear that through this private member's bill there's an intention to provide tax incentives to encourage the restoration of those heritage properties on the registry.

Income tax incentives, whether they are tax credits or whether they are through depreciation or capital cost allowance, are important incentives, but are only available to those with taxable incomes. If you're not generating a taxable income and therefore income taxes, no matter how generous the tax incentives are, they will not be of any use in the current year that you're doing whatever it is you're doing.

One of the first things I noticed about the bill was that no element of refundability of the tax credit was being proposed. I say that because without that element of refundability, it will not be generally available to all those who may be interested. I would suggest that this is very important. That element in the first instance could make funds available immediately to help support a budget. It could also enable whoever is developing a property to use those funds, along with all the other mechanisms listed in this bill, as an aid in the cost of renovating.

It is also likely to be something that's bankable. I would refer you to the credits for scientific research and experimental development, all of which are refundable.

● (1000)

They help in establishing a cash flow requirement to aid in having taxpayers do the kinds of things that these incentives are designed to achieve. I think that's one very important element.

Another thing that struck me about the bill is there's a delineation of the rehabilitation expenses that would be eligible for the credit. Given that this is the Standing Committee on Environment and Sustainable Development, I think it's important to point out that there's a golden opportunity to marry issues of rehabilitation of historic properties with environmental and clean energy and sustainable development that would be applicable to built heritage.

While you delineated the kinds of construction costs and other ancillary costs that would be relevant in having an architect who would be the professional who certifies the kind of expenses that would be important to know where these tax credits go, I would argue that it's also very important to deal with those kinds of issues that are important in built properties, existing properties, in making them energy efficient and relevant to the time frame we're in.

The examples that come to mind are things like windows that have high-quality energy efficiency, insulation, air conditioning equipment, roofing materials. There's a host of different things. The reason I raise that point is that on a one-off basis, those particular expenditure items might be regarded as deductible in the year incurred. The problem is there's no certainty to that, and developers and owners of these properties that are going to enter into analyses of the merits of doing something need certainty in knowing which expenses are going to be relevant to deductibility and which ones will only be capitalized into the cost of the property and only depreciated over time.

I would suggest that this is a very important issue. It's an issue on which I've had some experience in dealing with CRA in the last number of years. CRA has been developing a folio, which in my younger day we used to call an interpretation bulletin. These are bulletins they put out and revise from time to time to express their opinions about various items. This particular folio deals with what is a capital property and what is an expenditure.

While they've picked up examples like the windows that I was talking about earlier, the bulletin unfortunately ends with a caveat that every expenditure has to be looked at on its merits and judged accordingly. Therefore, there's no certainty.

I would argue that this may be an opportunity to deal with both certifying heritage properties for tax credits as well as ensuring that those properties, which would clearly be properties that would need to undergo those kinds of expenditures for energy efficiency, may very well be included in that mix.

That, Madam Chair, is my opening comment. I'm certainly prepared to take questions.

● (1005)

The Chair: Thank you very much.

We'd like to start with Mr. Gerretsen.

Mr. Mark Gerretsen: Thank you, Madam Chair.

Thank you, Mr. Farber, for being here today.

I understand you have a great deal of experience, having previously been with Finance Canada, and that you are definitely an expert when it comes to tax policy.

The Chair: No.

Mr. Mark Gerretsen: You weren't.

One of the things I'm really interested in understanding better is the behaviour of a grant versus a tax credit, and when that would translate into economic stimulus or into use by the organization or individual using it. Can you tell us about the difference in behaviour between the two? Does one, for example, provide more economic stimulus?

Mr. Leonard Farber: Well, generally speaking, I would argue that at the end of the day, assuming taxability of the particular investor or developer involved, the dollar amounts could very well be the same. The question is about the quickness of delivery and the administration of the program. Clearly when you put criteria into the Income Tax Act, it's self-determining. Somebody would read the criteria, would assess whether or not he is eligible for it, and once he knew he was eligible, he would just go ahead and do it.

A grant program is an administrative program that's administered by a particular department—in the case at hand, likely Parks Canada —for which there would be criteria, for which there would be an appropriation, and for which somebody who was interested in availing themselves of a particular grant would put forward a proposal for eligibility, which would have to be analyzed and maybe have conditions attached to it.

Mr. Mark Gerretsen: Sometimes you have to spend money to do that, to put the proposal together.

Mr. Leonard Farber: Well, time is money as well, and when things take time before approval is given, it's not as interesting as a self-assessment when you know you have a project that will meet the criteria that are listed and you're ready to go.

Mr. Mark Gerretsen: Are you then saying that people are more likely to jump on a tax credit than to apply for a grant? I don't want to put words in your mouth; I just want to understand exactly what you're saying. Is that correct?

Mr. Leonard Farber: Yes. I would say that provided it's a refundable grant, which is basically equivalent at the bottom line to a grant, then yes, because it's easier access.

Mr. Mark Gerretsen: There have been some discussions about the fact that since a not-for-profit doesn't have an income to report, it would be excluded in this case. I imagine that this is the case for many different scenarios. Would you say that to effectively make sure that all aspects are covered so that you are proactive and so that you are trying to stimulate investment, and at the same time you're trying to take care of those who aren't going to qualify, as I just mentioned, that it would be prudent to have two streams, a tax incentive and grants?

Mr. Leonard Farber: I think the answer to that is definitely yes, because if we think about it, there are three types of ownership of properties. There are properties that would be in the commercial mainstream, which would be owned by investors, developers, and so on, and those properties would be renovated to maintain the heritage character, and would likely either be used in some kind of commercial activity on the owner's behalf or be used for rental purposes. If they were used for rental purposes, there would be certain income tax rules applicable to them, which might constrain the ability to claim capital cost allowance. Tax credits would certainly help there.

There's home ownership, which in the context of the tax system is not something that is owned unless it's being renovated for rental purposes, in which case it would be the same. There may be other residential buildings that are not used for rental, but you may want to encourage them as well.

Then there's the non-profit sector, and there's the government sector, which owns a lot of heritage properties from coast to coast for, which the tax system—

● (1010)

Mr. Mark Gerretsen: It wouldn't apply.

Mr. Leonard Farber: —does nothing.

Mr. Mark Gerretsen: Thus, a grant would help them.

I have only a minute left, but I want to ask something quickly.

There has also been some discussion about whether or not this is available only for the rich or for people who have more means. I'm from Kingston, and we have a lot of historic properties in the downtown core specifically. One of the problems we're having is that it's tough to get younger families to move into the downtown area because of the costs of maintaining a lot of these houses that are quite old. Would you say that an incentive program like this would assist more families and would encourage people to purchase these houses when they're looking at them?

Mr. Leonard Farber: Well, if they're going to be used for rental purposes, then yes, it's an incentive. If they're going to be used for personal purposes, then you'll need to have a grant approach in order to help them. For the kind of heritage property that in the main we're talking about, when you look at Kingston in particular, there are some beautiful big old buildings that could certainly use it.

To the extent that developers are encouraged to acquire and renovate, you're not looking at the top 1% or 3%. These are business people who have a desire to see built heritage renovated and used in a commercial context. One thing that's sad is when developers come in and are encouraged to tear down and start from scratch. To the extent that there are incentives to maintain a facade, to maintain the heritage qualities of particular buildings, that can only be beneficial.

The Chair: Thank you very much.

Go ahead, Mr. Fast.

Hon. Ed Fast: Mr. Farber, are you familiar with the National Trust for Canada, the organization whose vision is to promote the protection and preservation of “places that matter”?

Mr. Leonard Farber: I know of it. I'm not as familiar with it as you would be.

Hon. Ed Fast: They are very much involved in raising awareness in Canada and promoting the preservation of historic sites. They made a statement supporting this legislation, referring to the tax credit and the accelerated capital cost allowance:

> These two tax measures would transform the economic fundamentals for renewing historic places. In the process would create more skilled jobs and generate less carbon than new construction.

I'm using that quote because it talks about using less carbon—in other words, the environmental objectives that you addressed: energy efficiency and restoring these buildings in such a way that they will use less energy. Beyond that, we have the inherent carbon that is within those wood-frame structures, or even concrete or masonry structures, that allows us to continue to use them rather than demolish them and take the debris and put it into a landfill.

Would you agree that the environmental objectives of this tax credit program in and of themselves should provide this committee —this being the environment committee—with serious thought about supporting this bill?

Mr. Leonard Farber: That was why, when I started my opening comments, my first inclination was that this was an opportunity to marry certain environmental aspects with the heritage aspects. These heritage buildings will have to undergo, or should be undergoing, those kinds of environmentally sensitive, energy-efficient mechanisms to bring them into this century. In doing that, for government, even though there's a cost associated with any tax proposal that is put forward, at the end of the day, the benefits of doing that—in terms of employment in the context of the renovation, and in terms of the GST and HST that will be generated out of the materials that come forward—will likely make this a very stimulative kind of thing. A lot of buildings would be eligible for it. I think this would be very helpful in that context.

I do think the bill needs a little more extension to the kind of energy conservation mechanisms that you just referred to, but in that context, I believe it would be very beneficial.

● (1015)

Hon. Ed Fast: You suggested that the tax credit be made refundable. Is that correct?

Mr. Leonard Farber: Yes.

Hon. Ed Fast: You would agree that making it refundable increases the number of properties and individuals who would receive the benefit of the tax credit?

Mr. Leonard Farber: It doesn't increase the absolute number of properties that would be on the national register or the provincial register, but it may very well encourage more people who own properties and who are not in an economic position to do the kinds of things we want them to do, through this bill, to be able to do them, because the eligible expenditures they would be incurring that are subject to this investment tax credit would be refundable.

Oftentimes these kinds of mechanisms are bankable. You can take your eligibility to the bank and fund it accordingly. It would be a very stimulative kind of instrument for people to take advantage of.

Hon. Ed Fast: I agree with you there. Making it refundable, though, means a potentially larger hit to the fiscal framework for the government. Is that not correct?

Mr. Leonard Farber: Well, it would be a larger hit by virtue of more taxpayers taking advantage of it. It would not be a larger hit in tax expenditure terms if we assume equal numbers access the program. Whether it's over time or immediate, the value of it would be the same. It would just be more encouraging because it would be a line item on their budget right away.

Hon. Ed Fast: There's already a cost-sharing program for preserving historic sites in Canada. This would be another tool that would be used to incent the private sector to invest in historic sites preservation. I'm assuming that as a principle, you support it.

Mr. Leonard Farber: Yes, I do support that, because at the end of the day, whatever assistance is available, whether through a tax credit mechanism or a refundable mechanism or through other provincial or federal government grants, it reduces the cost base of that particular asset, both for depreciation purposes as well as any capital gains that may arise upon ultimate sale.

Things like that are accounted for in the tax system for determining either recaptured depreciation or capital gains upon sale. In that respect, the combination of incentives stimulates the activity more than it would otherwise be stimulated.

The Chair: Thank you very much.

Mr. Stetski is next.

Mr. Wayne Stetski: Thank you.

In my riding of Kootenay—Columbia, which is located in southeastern B.C., we have a few commercial heritage properties, but by far what we have are homeowners who wanted to live in a heritage home and want to try to maintain that heritage value. It's very much a personal home ownership situation. These are basically middle-class people making middle-class incomes, but they have an appreciation for and want to maintain heritage.

Given your experience with taxes, what do you think is the best way to make sure they can continue to benefit from living in a heritage home but keep up its heritage values? Does Bill C-323 move us in the right direction, and if not, how can it be improved?

Let's go back to the first question, home ownership.

● (1020)

Mr. Leonard Farber: There's nothing in Bill C-323 that would affect home ownership, because these are tax measures, and tax credits in particular, as well as accelerated capital cost allowance, which is only relevant for people who are earning income from property or using that property in their business. Home ownership, which is a non-income tax event, the disposition of which gives rise to the principal residence exemption, is not impacted by that.

In my view, the only way one can stimulate the kinds of results that this bill is looking for in the commercial area is through a grant mechanism, either provincial or federal, whereby similar criteria for heritage quality is used as the basis for stimulating those renovations when home ownership is involved. The tax system can't do that.

Mr. Wayne Stetski: If an owner paid $400,000 for a heritage home in Cranbrook, for example, and wanted to do some improvements while retaining the heritage value, what's the best way to encourage that?

Mr. Leonard Farber: The best way to encourage that is through a grant system. The same kinds of criteria that denote heritage quality in this bill would be used to deliver a grant.

I say that because a tax credit is not relevant for them, since there's no income from the property to be offset by a tax credit.

Mr. Wayne Stetski: In your view, Bill C-323 primarily helps larger commercial heritage properties.

Mr. Leonard Farber: Not necessarily larger, but it would help any heritage property that would incur the kind of rehabilitation expenses that you delineate here that is used for commercial purposes. Rental would be considered commercial as well. You can think of things in the restaurant business or residential rental, whether it's in Kingston or elsewhere, but it is that kind of milieu.

Mr. Wayne Stetski: Okay.

Just to be specific and to build on your experience from the past, you said three types of heritage property. I'm interested in what you think is the best way to encourage heritage preservation going forward for each of those three categories of heritage property. You said commercial, home ownership—which we've talked about a little bit here—and then non-profit. How do we best encourage heritage continuation and appreciation going forward, when you break it down to those three types of properties?

Mr. Leonard Farber: I think Bill C-323 certainly addresses any issues in the commercial context. For any buildings that are used for commercial purposes, rental purposes, or anything that generates a stream of income that is taxable, and against which one can claim investment tax credits or refundable investment tax credits, as well as depreciation or capital cost allowance, the bill is very helpful and workable in the commercial context.

For home ownership, I believe a grant mechanism to stimulate that kind of work is what would deliver the necessary results and a similar mechanism for non-profit organizations or charities that have heritage properties that would be important to renovate. We need a mechanism that gets them the capital that they would need in order to do the kind of work that this bill foresees, in terms of heritage property. That's the way to deliver that.

Mr. Wayne Stetski: You're saying grants for non-profits, then?

Mr. Leonard Farber: I beg your pardon?

Mr. Wayne Stetski: You're saying grants, rather than tax, for non-profits?

Mr. Leonard Farber: It would be grants for those kinds of investments or for those kinds of entities that are not taxable.

● (1025)

The Chair: Thank you. That's great.

Go ahead, Mr. Aldag.

Mr. John Aldag: Bill is going next.

The Chair: Okay. Your turn, Mr. Amos.

Mr. William Amos: Thank you, Mr. Farber, for the presentation. I share my colleague's pleasure at having an expert in taxation with us today.

I'd like to explore the issues around equity in the context of heritage conservation.

We've been through a process of evaluating tax credits across the board with our government, such as a public transit tax credit, supports tax credits, etc. The opposition wants to criticize our government for having dialed these back. My understanding is that the real issue with tax credits is that it's those who can most afford to use them who will use them. Therefore, the most socio-economically advantaged Canadians, and quite often those who were already going to do something, will be the ones who garner the most benefit. However, those who are least socio-economically endowed don't have that opportunity, cannot take advantage of the credits, and end up no further ahead than where they were at the beginning.

I don't want to bring you down any path other than just.... Can you please explore the equity considerations around a tax credit approach to heritage conservation?

Mr. Leonard Farber: The examples you point out are the kinds of tax credit mechanisms that governments over the years, on either side of the House, have put in place in order to benefit certain kinds of activities. There were tax credits for fitness, bus passes, mechanics' tools. It's as long as your arm. They come and go.

In my view, when I was in government, I can assure you these were not recommendations coming out of the department. These were political imperatives that were put forward and implemented into the Income Tax Act.

Oftentimes, once measures like that end up in the Income Tax Act, they're very difficult to get rid of. They complicate the system. There are always questions about the fairness, as you pointed out, for those who maybe least need it. They're not for large amounts of money, but they're designed to encourage people to get into that area. I'm not a big fan of those kinds of credits.

For scientific research and experimental development, for example, there are two tiers of credits. There are credits for small business corporations, which get refundable credits because small business corporations don't have as easy an access to financing. There's refundability there, whereas large corporations or public corporations don't get refundability. There are different rate structures.

The idea there is to encourage scientific research. The tax expenditure associated with it is one of the higher tax expenditures in all the measures in the Income Tax Act. They have had a stimulative effect. In my view, they have been well founded.

However, some of the more minor ones you would describe as not necessarily economically motivated. They're designed to get people to do certain things. They're not very expensive. As I said, they do complicate the system.

What we're talking about here, in my view, doesn't fall into the same realm as the examples you put forward. This is not for the average family to make use, as in the case of their child going to go to a ballet class or a fitness class or anything of that nature. This is designed to stimulate the preservation of built heritage in the country. You and I would not avail ourselves of this tax incentive— or I should speak for myself, not you; I would not avail myself of this tax incentive, because I either don't have the means or I may not have the interest. I'm not in that area.

However, for those people who are giving this consideration, it will be a stimulative kind of thing. They would have thought of it, but the economics didn't make any sense. When there's a tax credit or an accelerated capital cost allowance and there are taxable entities or taxable individuals, this is something that they would take into account in their budgeting to see whether it makes economic sense. Oftentimes, this is the line in the budget that may be the determining factor in making this a go or not.

● (1030)

The Chair: Go ahead, Mr. Godin.

[*Translation*]

Mr. Joël Godin: Thank you, Madam Chair.

Mr. Joël Godin: Your presentation this morning is interesting. In fact, you are talking about a duality, the tax credit and the grant.

The tax credit does not apply to not-for-profit organizations, but you have to think about maintaining the grants, and I do not think one is preventing the other. You say that the tax credit is more complicated than the grant and it makes the process more cumbersome. I don't think this is a reason for not being receptive to a tax credit.

You mentioned the children's fitness tax credit. The advantage of a tax credit is that parents, in the case of a child tax credit, must invest in society by taking concrete action to ensure that the money circulates, to allow for collective sharing and to allow other organizations to earn money. It's sort of the same principle.

Earlier, my colleague opposite mentioned that a tax credit favours the wealthy. However, I am from Quebec and I will give you the concrete example of the energy efficiency tax credit that the Government of Quebec grants for window repairs, for example. Not only the wealthy benefit from this tax credit, but anyone who owns a home. Sooner or later, they have no choice, they have to repair their homes, as time leaves its mark. That is why it is unrealistic to say that tax credits benefit only the wealthy.

I am the member for Portneuf-Jacques-Cartier. My riding is made up of three types of regions: urban, resort and rural. I share my colleague Mike Bossio's specific concern about investment in the regions.

What could we add to this bill to allow people in the regions—I am going to say rural regions, but this is not meant to be pejorative, far from it—like those of the major centres, to have access to this credit? What could be improved in the current bill to allow the credits to be distributed, or to encourage people in the rural sector to use the credit?

[*English*]

Mr. Leonard Farber: What's particularly valuable about a tax credit program is that it doesn't discriminate between urban or rural. It's a uniform program. Whoever wants or needs to access it, providing they can meet the rehabilitation expense criteria and it's certified, no matter where in the country that is, it would be available for them. There's no discrimination here, which I think is a very valuable aspect of it.

I want to touch for a moment on your point, and it was raised earlier, about a tax credit potentially being of more interest to the so-called rich.

The fact of the matter is that a tax credit is more beneficial to lower-income people than it is to the rich, because the tax credit is calculated at a percentage of the expenditures. Therefore, if you're in a lower tax bracket, that tax credit is worth more to you than it is to the rich, because it's dollar for dollar. If the so-called rich are paying at a top marginal rate of 53.5% in Ontario, or a little less in Quebec, that impact is not as much as it is for somebody who might be, let's assume for the moment, at the 20% marginal rate. If it's a 20% tax credit based on expenditures, it could potentially wipe out their tax liability. It's actually worth more there, so I don't see any basis for arguing that this would be a mechanism that is of greater benefit to the wealthy.

On one other point you made—and if I suggested it, I didn't mean to—is there is no more complexity in a tax credit than there is an a grant type of program. When I referred to complexity, I was referring more to the proliferation of tax credits for various activities that complicate the Income Tax Act. When I first started out in tax policy as a young man with pitch-black hair, the Income Tax Act was maybe half an inch thick. Thank god for iPhones and computers today, because when I go to meetings out of town, I can't take the Income Tax Act with me. It's literally that thick, with all the regulations. It's that thick because of the proliferation of different mechanisms added into the act.

As I said earlier, once something is there, it's oftentimes very difficult to take it away, because there is now a constituency that relies on it, and they argue very strongly that it should not be taken away. That was the context I was talking about in terms of complexity.

● (1035)

The Chair: We have one more possibility for questioning.

Go ahead, Mr. Bossio.

Mr. Mike Bossio: Mr. Farber, thank you very much. This has been very enlightening. I agree that our tax act right now is far too complex, and we don't need to add further to the complexity.

When I look at the cost-sharing or grant side versus the tax credit side, I'll tell you right up front that my focus is very much on the rural side of things and individuals who are maybe not as wealthy being able to take advantage of it. Do you not agree that with a grant process or cost-sharing process versus a tax credit process or mechanism, there is greater control to target or focus investments into the rural versus urban, or large versus small, and a greater control of cost?

Mr. Leonard Farber: In general terms I would agree with that, but that's both a plus and a minus. What I've seen with grant programs over the years in various applications is that just at the point in time when an application for something very relevant comes up, the appropriation has been totally used. Therefore, you have to wait for the following year, if it's extended. As well, it has to be funded either year to year or whatever the appropriation mechanism is.

A tax mechanism is something that gets into the Income Tax Act and is a permanent feature unless it's repealed or sunsetted in some manner, but these are not the kinds of mechanisms that you would necessarily sunset unless the incentive was designed to stimulate action in a particular period of time. For example, if you wanted very quick action on rehabilitation of heritage properties from coast to coast, one might consider a tax credit that would say it commences on such a date and it ends two years or three years from now. Those people who are then interested have to take action fairly quickly. It has those kinds of benefits.

● (1040)

Mr. Mike Bossio: I know you've said that the great thing about a tax credit is that there's no discrimination between urban, rural, small, or large, in that it's open to everyone, but I would argue that the reality on the ground may be different.

For example, I live in a big old house in a rural setting. When the energy efficiency grants became available, there were a number of individuals out there promoting them, because they stood to benefit. You become far more aware of these things. I did install ground-source heat, insulation, windows, and all the rest of it to take advantage of those opportunities when they arose. If it had been a tax credit type of vehicle, I may not have been as aware that it existed.

I guess I'm arguing that those who are wealthier and have individuals on their staff looking for these opportunities to benefit their properties and others have a greater degree of involvement in these programs than do those who come from smaller communities and don't have the wherewithal, or are from smaller businesses that don't have the resources to take advantage of things.

Would you agree, then, that in reality it does or could benefit wealthier individuals in urban centres versus those in small rural centres who may not be as wealthy? Anecdotally...?

Mr. Leonard Farber: It's very difficult to argue with the premise generally, but those people who have these kinds of properties and are interested in doing something generally find out about these kinds of mechanisms, to the extent that there are tax credits in the system or grants available. I mean, government does have a habit of promoting those kinds of mechanisms, because they're there for a reason.

Oftentimes municipalities promote these kinds of things because they're interested in built heritage within their communities as well, so I think people do become aware of them and will take advantage of them. To what degree is very hard to speculate on, other than anecdotally, and possibly those people of more means make themselves more knowledgeable. I don't know.

Mr. Mike Bossio: There's a final aspect to this. The previous witness put together a chart for us that outlined those who would benefit and those who would not. Of course, as you note, there is the not-for-profit sector, the government sector, and others.

Once again, a lot of those types of properties exist in a rural setting. The commercial properties, such as offices, office buildings, banks, stock exchanges, and wholesale establishments and structures like that, are typically based more in urban settings than they are on small rural main streets. My deep concern is that all of these projects would be automatically ineligible under this system, so in and of itself it acts as a discriminatory type of credit. It isn't even applicable to the vast majority of rural areas. They're ineligible for this program.

Mr. Leonard Farber: The only thing I would say to that—somebody said it earlier—is that one does not exclude the other.

This is a bill that starts a process, and you have to start somewhere. You can't always accommodate everything, but you can use other mechanisms to stimulate exactly what you're talking about. One will not exclude the other, and going with one under a bill like this will start the process going for the kinds of built heritage that would be eligible. Working towards a broader stimulative approach through a grant mechanism will certainly help homeowners and other built heritage that is not in the commercial mainstream.

● (1045)

Mr. Mike Bossio: Thank you.

The Chair: Mr. Farber, thank you very much for coming today. I know it was short notice. I can't tell you how grateful I am that you took the time to come here and share your obviously extensive knowledge.

Obviously we're drilling down into the different tools and whether some are better than others. I think you've made it clear that there are pluses and minuses to all of them, and that different groups are going to benefit from the different tools.

Thank you very much from me and from the team here, the committee.

We will be back at the table this coming Thursday. We have our report coming out today, so we'll be tackling the report on Thursday.

Thank you. The meeting is adjourned.