HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

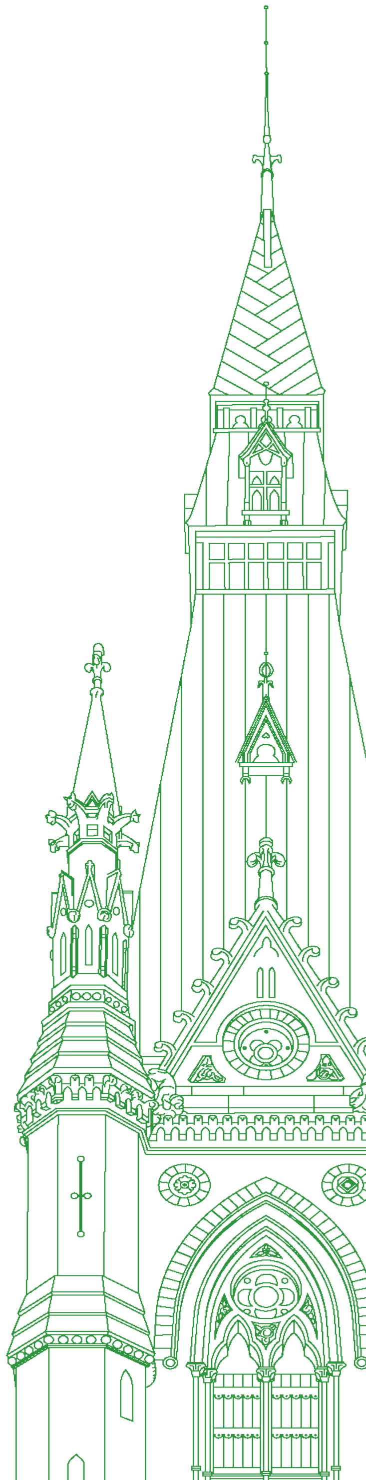
44th PARLIAMENT, 1st SESSION

Standing Committee on Finance

EVIDENCE

NUMBER 153

Tuesday, September 24, 2024



Chair: Mr. Peter Fonseca

Standing Committee on Finance

Tuesday, September 24, 2024

● (1545)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): I call this meeting to order. Welcome to meeting number 153 of the Standing Committee on Finance.

Today's meeting is taking place in a hybrid format. All witnesses have completed the required connection tests in advance of the meeting. I'd like to remind participants of the following points.

Please wait until I recognize you by name before speaking. All comments should be addressed through the chair. Members, please raise your hand if you wish to speak, whether you're participating in person or via Zoom. The clerk and I will manage the speaking order as best we can.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on June 13, 2024, the committee is resuming its study of the changes to capital gains and corresponding measures announced in budget 2024.

I would like to welcome our witnesses. With us today, as an individual, we have an adjunct professor of health policy at Simon Fraser University, Professor Steven Lewis. He is joining us via video conference. From the Canadian Cattle Association, we have the senior director of government relations and public affairs, Ms. Jennifer Babcock, as well as officer at large Jack Chaffe. From Canadians for Tax Fairness, we have Katrina Miller, who's the executive director there. From the Office of the Parliamentary Budget Officer, we have the Parliamentary Budget Officer with us, Yves Giroux. Joining Mr. Giroux is the director of budgetary analysis, Govindadeva Bernier.

You'll have up to five minutes to make your opening remarks. Then we'll proceed to the rounds of questions from the members.

Members, we are having some technical challenges with Kim Moody, who's also here as an individual. We're trying to fix those, so we'll put him at the end right now. Hopefully those challenges will be rectified.

I guess there are some connection issues with Katrina Miller for Canadians for Tax Fairness. She is trying to find a piece that will work with her computer or system, so that she's able to connect with us. Hopefully that happens.

With that, we're going to start with Steven Lewis, please, for up to five minutes.

Mr. Steven Lewis (Adjunct Professor of Health Policy, Simon Fraser University, As an Individual): Thank you, Mr. Chair. Thank you for this opportunity to present to the committee.

I'm a health policy analyst and health researcher. I have listened to two previous committee sessions and will try to avoid repeating arguments ably made before.

I will focus on how the capital gains inclusion rate changes will and will not affect self-employed incorporated professionals, such as doctors and independent consultants like me. The changes will cost us some money, as they should. I will explain why and address some of the claims about the adverse effects of the changes.

First, tax regimes are grounded in, and should reflect, explicit values. The changes are designed to raise revenues, and, importantly, to make the tax system fairer. They will modestly reduce income and wealth disparities by taking more money from higher-income people. The math is simple. If you oppose the changes, you oppose reducing income disparities, at least by this measure. I would emphasize how important it is for participants in these policy debates to disclose their values transparently.

Second, all of us should avoid overstating the alleged impact of any single and relatively modest tax policy change. If any such measure could on its own either exacerbate or solve any of Canada's inequality, housing, productivity, infrastructure, innovation or other problems, there would be documented evidence by now. The tax code remains largely intact and still privileges people like me.

Capital gains remain more lightly taxed than earned income. For professionals, these gains accrue mainly from conventional investments. Few of us are venture capitalists rolling the dice on game-changing innovations. Our incentives are unchanged, and our actual tax rates will remain considerably lower than nominal rates. The system remains less progressive, in fact, than it is on paper.

Third, the measure, though positive, will not do much to address Canada's serious wealth concentration problem. The tax system still makes it easier for me to grow my wealth than an ordinary working person. I can keep some profits in my company indefinitely and pay only 10% to 12% off the top, depending on the province. I can invest the remainder, and until these assets are sold, their value grows untaxed. I can smooth out income over a number of years to reduce my annual tax bill. Some of my income will still be taxed lower than the income of a wage earner with no such options and predictably fewer capital gains.

Fourth, it has been argued that retained earnings in corporations are the retirement plans for professionals who don't have an employer or state-funded pension. Any prudent doctor or consultant like me has a powerful incentive to take enough money out of the company in income to maximize their annual RRSP contribution, currently about $32,000. The RRSP grows tax free until money is withdrawn and also generates about a $15,000 annual income tax refund. It is likewise simple common sense to maximize annual TFSA contributions. With conservative rates of return, over 30 to 35 years, these funds grow to several million dollars.

Fifth, if it is determined that, say, family physician incomes are too low to attract and retain full-time practitioners, the solution is to give them more money. For example, the B.C. government gave them a 54% increase as part of its November 2022 contract with Doctors of B.C. The tax system is a clumsy instrument for addressing a very particular problem.

Sixth, and perhaps most importantly, a fair tax system that eliminates some advantages for people like me and confers new benefits on lower-income people will do more to improve the health of the population than billions of new dollars poured into health care. Put simply, health status is better in countries with less income and wealth inequality. More equitable tax policy is excellent health policy.

That is why I support the capital gains tax policy changes, but they should just be the beginning of other changes that create more security and opportunities for lower-income people to realize their potential, increase their productivity, accumulate wealth and improve their health.

Thank you.

● (1550)

The Chair: Thank you, Professor Lewis.

We'll now move to Mr. Chaffe from the Canadian Cattle Association, please.

Mr. Jack Chaffe (Officer at Large, Canadian Cattle Association): Thank you for this opportunity to present on behalf of the Canadian Cattle Association, or CCA, in your study on changes to the capital gains measures as announced in budget 2024.

My name is Jack Chaffe. I am the co-chair of domestic agriculture with CCA and past president of the Beef Farmers of Ontario. Along with my family, I own and operate a beef feedlot in southwestern Ontario.

CCA is the national organization representing Canada's 60,000 beef producers. The Canadian beef cattle industry is a significant driver of our economy and a global leader in sustainability, contributing $21.8 billion to Canada's GDP and supporting approximately 350,000 full-time equivalent jobs. A prosperous and thriving beef industry generates considerable economic, environmental and social opportunities and benefits to Canada.

CCA has been extensively engaged in discussions on changes to the capital gains since it was first announced last spring in the federal budget. Before we get into the specific measures announced, I need to emphasize that the current capital gains measure that includes intergenerational transfers of beef operations within families is critical. CCA is concerned that the recent changes to the capital gains tax will increase the requirement to sell off pieces of farms when they change hands. We need to ensure that the federal government does not jeopardize the current tax policy that allows the intergenerational transfer of beef operations within families.

In general, the lack of meaningful consultation time in advance of the announced changes is concerning. Beef producers have not had time to assess the changes and how they will impact their family operations. Each operation is unique. It has been difficult to quantify the changes in our sector on the whole without the proper consultation time.

We need to consider the impacts of the inclusion rate despite the changes announced on August 12. While we were pleased to see the changes to lifetime exemptions, other amendments to the measures are counter to those announced under Bill C-208 and its amendments in budget 2023. By increasing the capital gains inclusion rate, the federal government risks weakening the provisions under Bill C-208 that facilitate smoother intergenerational farm transfers to those younger producers.

The majority of Canadian farms operate under a family operation, but each farm is unique in its operational structure. To address the vast differences between those structures, producers need greater clarity regarding the changes between August 12 and those announced in budget 2024. The changes announced in the budget were done without consultation, which creates confusion for farmers whose operations are built on years of tax advice.

In addition to producers, tax advisers and accountants also require more time to assess the changes and how they will affect the families across Canada. Specifically, there are unanswered questions about whether farms qualify under the Canadian entrepreneurs' incentive, as an example. Although we are able to receive tax advice from our advisers, we need more guidance and clarification from the federal government on who qualifies for those incentives.

Regarding the timing of the proposal, the consultation period lasted only three weeks and during a busy time for the farmers. We therefore need more time to accurately analyze the impacts to our producers across Canada. Our sector is at risk of losing a significant portion of the workforce, as farmers may retire without viable succession plans. This also places Canada's rural economy at risk of declining. We need to ensure that government policies do not unintentionally contribute to the decline of agricultural production in Canada.

Thank you for your time. I would be happy to answer any questions that may come.

● (1555)

The Chair: Thank you, Mr. Chaffe.

Now we'll hear from Kim Moody, from Moodys LLP tax advisers, speaking as an individual.

Go ahead, please.

Mr. Kim G. C. Moody (Moodys LLP Tax Advisors, As an Individual): Good afternoon, committee members.

My name is Kim Moody. I'm a fellow of the chartered accountants of Alberta. I have a very long history of serving the Canadian tax profession with a variety of significant leadership positions. I'm also a prolific writer and speaker on taxation matters, including writing a weekly column in the Financial Post.

Today, I'd like to briefly comment on three key matters regarding these proposals. The first is the policy underpinning the capital gains inclusion rate increase. Canada has a long and interesting history on the taxation of capital gains, and one can have respectful debates on whether the inclusion rate for capital gains should be 50%, two-thirds, 75% or even 100%. Given Canada's historical debate and treatment on this, put me on record as an advocate for a low inclusion rate, like 50%, since that lower inclusion rate provides incentive and acknowledgement of a key issue that most people experience when they originally invest capital to generate such gains. That key differentiator is risk.

It takes guts to buy land, to build a building and to rent it out, to buy a farm, to start a business or to buy a business. Most Canadians are not wired to accept that risk, so why is this important?

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): I have a point of order, Mr. Chair.

The Chair: Go ahead, Mr. Ste-Marie.

Mr. Gabriel Ste-Marie: The interpreters are telling us that the sound quality is not good enough for them to interpret.

[*English*]

The Chair: We will reconnect with Mr. Moody off-line and try to get that rectified, but we cannot continue if the quality of the sound is not good for the interpreters.

We will now move to the Office of the Parliamentary Budget Officer. We have the PBO with us.

Yves Giroux, go ahead, please.

[*Translation*]

Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Thank you, Mr. Chair.

Members of the committee, thank you for the invitation to appear before you today. We are pleased to discuss our analysis related to your study of the changes to the capital gains inclusion rate and corresponding measures announced in budget 2024.

With me today I have Mr. Govindadeva Bernier, director of budgetary analysis.

Consistent with the Parliamentary Budget Officer's mandate to provide independent, non-partisan analysis to Parliament, my office released our cost estimate on August 1.

[*English*]

As you are aware, budget 2024 introduced an increase in the capital gains inclusion rate from one-half to two-thirds for corporations and trusts, and from—

The Chair: I'm getting some interpretation coming through my earpiece. Is anybody else? It's French. I don't know what happened there. It's the wrong channel.

Go ahead, Mr. Giroux.

Mr. Yves Giroux: As you're aware, budget 2024 introduced an increase in the capital gains inclusion rate from one-half to two-thirds for corporations and trusts, and from one-half to two-thirds on the portion of capital gains realized in the year that exceeds $250,000 for individuals.

This policy would apply to capital gains realized on or after June 25 of this year. Based on our analysis, we estimate that these changes will increase income tax revenues by $17.4 billion over the next five years. Using a data linkage between corporate income tax returns and personal income tax returns, my office also plans to conduct additional analysis to estimate how many individuals will be affected by these changes over time, either directly or indirectly, through a corporation they own. We also plan to estimate how many unique individuals would be affected at least once over a certain number of years.

We would be pleased to respond to any questions you may have regarding our analysis or other PBO work.

Thank you.

● (1600)

The Chair: Thank you, Mr. Giroux.

I think we're still working on Mr. Moody, so that's still a work-in-progress, and the same thing for Ms. Katrina Miller.

We are now going to move to members' questions. If we do rectify those connection issues, then we will bring them back to give their statements or to finish off their statements, and then get back to members' questions.

Right now, we're starting with the first round. Each party will have up to six minutes to ask questions.

We're beginning with MP Morantz for the first six minutes.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair.

I had been hoping to direct my questions to Mr. Moody, but we have other great witnesses here as well, so I'll get right into it.

The Chair: MP Morantz, I'm sorry to interrupt, but you can pose your questions and then those answers can come in writing, if you'd like.

Mr. Marty Morantz: It's better to have a conversation, Mr. Chair, but perhaps some other time.

In any event, Mr. Moody has made some excellent points and criticisms of the move by the government to increase the inclusion rate, so hopefully we'll be able to get him on before the end of the meeting so that he can tell my Liberal colleagues on the committee why it's such a bad idea.

Now, Mr. Chaffe, I listened to your comments with interest. When somebody enters the agricultural industry, whether it's to farm, to raise cattle or to raise hogs for the pork industry, when they make that investment, they're taking a risk—are they not?

Mr. Jack Chaffe: Yes, it's a severe risk. Most of the time, people don't get into agriculture unless it's through a family operation.

Mr. Marty Morantz: I'm not in that industry, but I remember very clearly—it was probably 20 years ago or so—when the BSE crisis took place in the cattle industry and the whole industry was shut down. People in that industry lost a lot of money. Some of them lost their herds. Some of them lost their businesses. There were bankruptcies declared.

Is that not correct?

Mr. Jack Chaffe: Yes. The fallout from BSE is still upon us under some of the regulations we're dealing with.

Mr. Marty Morantz: One of the arguments I keep hearing my colleagues in the other parties say is, “Well, it's not fair that regular income earned through wages is taxed the same way as earnings through capital gains.” There's a reason for that, and consecutive Canadian governments have always recognized that reason. It's that we want people in our society to take risks and be rewarded for those risks, not punished for taking them.

You must know, for example, younger-generation farmers. Would they, for example, consider not making the types of investments they might have otherwise made had the inclusion rate stayed at 50%? In other words, if they took that risk and were successful, half of their gain would have been without tax.

Mr. Jack Chaffe: I would say that, in any business, it would be a concern, especially for a younger person, because a lot of the money you make in agriculture you would reinvest back into land, buildings and machinery to create income. To have that tax inclusion raised to the two-thirds level takes away part of the drive to take those risks.

Mr. Marty Morantz: Mr. Giroux, I want to ask you a couple of questions.

You said you're going to be doing an analysis of how many people will be affected. I realize you don't have the results of that analysis here, but I thought I'd ask you about the types of areas you're going to explore. The Liberals have said that only 0.13% of Canadians are affected by the increase in the inclusion rate. We've heard testimony from many people at this committee who are not in the 0.13%, including Larry the plumber from my home province of Manitoba, who laughed when I asked him if he was in the 0.13%. He is clearly affected by this change.

Are there not other areas where people could be drawn in? For example, corporations don't get that $250,000 threshold. Would it not have to be hundreds of thousands of people?

● (1605)

Mr. Yves Giroux: Yes, the number of individuals and corporations affected is in the thousands.

To go back to the first part of your question, the analysis we will undertake, once we can link the data, will look at whether these dozens of thousands of people affected will just be affected by a one-off event in their lifetime, or whether there will be multiple occurrences throughout the taxpayer's life.

Mr. Marty Morantz: Thank you.

I think you mentioned that you'll also be looking at indirect effects. For example, there are millions of shareholders in publicly traded corporations across the country. Many of them realize capital gains, if not every year, then often in the course of their business over the years.

Will you be looking at that, as well?

Mr. Govindadeva Bernier (Director, Budgetary Analysis, Office of the Parliamentary Budget Officer): Thank you for the question.

We will be looking at how many corporations are affected either every year or once across a number of years. However, obviously, for publicly traded corporations, we won't be able to link it to the shareholders. We're going to have that link specifically for private corporations.

Mr. Marty Morantz: That's okay.

What about, for example, the Canada pension plan? It is invested in corporations. Does it not also realize capital gains?

Mr. Yves Giroux: Yes. Any corporations that the CPP or any other pension plan has invested in would be subject to the capital gains inclusion rate.

Mr. Marty Morantz: Is it possible that the Canada pension plan will be adversely affected by this change?

Mr. Yves Giroux: I would say it's more than possible. It's very likely, given that the CPPIB invests in publicly traded corporations that are Canadian.

Mr. Marty Morantz: Thank you.

The Chair: Thank you, Mr. Morantz.

Now we'll go to MP Thompson.

Ms. Joanne Thompson (St. John's East, Lib.): Thank you, Mr. Chair.

I'm going to direct my questions to Mr. Lewis.

Welcome to committee. Thank you for following this committee for the last number of meetings.

I want to just comment on a couple of the points you made in your opening comments, starting with the impact of capital gains on income inequality and tax inequality and income disparity in the country. Something we've fallen into, I think, in this committee and in some of the conversations around the capital gains adjustment is really overstating the impact that this very modest tax change is having.

With that in mind, some professionals—and you have probably heard this in other testimony or other meetings here—incorporate to obtain generous tax and liability benefits. Those could be doctors, plumbers or certainly, as you have indicated, independent consultants. We've heard from some MPs that these changes will kill economic growth and job creation. What is your response to this?

I know you referenced some of this very clearly in your opening comments, but I'd like you to restate it, if you wouldn't mind, for the record.

Mr. Steven Lewis: I see no mechanism whereby that tax change will have any impact on job creation. I will lose money. I will pay some more money because of this. None of my incentives have changed. They're still there. If I want to make more money, I will work harder to make more money. This capital gains inclusion increase will essentially add about a third—from 25% to say 33%—of what I will pay on money that is gained through capital gains by the retained earnings in my company. It will not affect any decision about whether I hire somebody or a research assistant or something, because I would be spiting myself to let it affect those decisions.

As far as investments in new kinds of industries go, what happens to our money? In other words, what happens to the wealth that people like me accumulate in our companies? Maybe one or two people put their money in local entrepreneurs and take a flyer on a daring investment, but that's not what most of us do. We buy stocks, bond securities and standard kinds of investments.

If we make money on those, the money we make on those is still taxed less than the money we make by the sweat of our brow working, and it's the same for salaried people. In the case of self-employed professionals with private corporations, frankly, I don't think anything we do has anything to do with creating new jobs. I just don't think that's how it works.

● (1610)

Ms. Joanne Thompson: Thank you.

I realize that you referenced some of this in your opening comments, but I'd like to give you an opportunity to go a little deeper. We know that in Canada 100% of Canadian employment income is subject to tax, whereas 50% of capital gains, up to $250,000, was included in that income. Now, with the changes we're proposing, we're bumping this up to two-thirds of any capital gains exceeding $250,000.

Could you comment on who has benefited from this preferential treatment of capital gains in Canada and then give us any other information to try to dispel some of the comments that have been made?

Mr. Steven Lewis: In general, the people who benefit from this favourable treatment are people who have enough money to invest in securities, land and other kinds of investments, or, frankly, in cottages and lakefront property that has a chance of growing. A lot of that, again, is not very risky.

I actually also have family land in southeastern Saskatchewan. I know Mr. Moody will address this later. It is not a risky proposition to have farmland in Canada. It's been going up at an enormous rate—10%, 12%, 15% or 20% a year—for many years in my province, and this creates enormous capital gains. If you're only taxed on half of that, those people who have land will get richer quicker.

The long and the short of it is, on a personal level—never mind if you have a corporation—if you have enough invested that you make $250,000 a year more in capital gains, you're getting an incredible bargain with the exemption. The whole bargain you had before.... If you made a million dollars in capital gains by investing in crypto, then you would be taxed at a maximum of 25%. Now that break is reduced, but you still have $250,000 of capital gain on which you will pay a maximum of 25%, which is a tremendous tax advantage.

While none of us celebrates having to pay more money, this is not a particularly enormous blow to your income prospects. It will be some, but to say that this is somehow reducing people to a precarious state, if you're a doctor, a lawyer or a consultant like me, strikes me as a major overstatement.

The Chair: Thank you, MP Thompson.

Now we'll go to MP Ste-Marie, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

First of all, I see that Ms. Miller has joined us. Secondly, I wonder if Mr. Moody's technical problems were resolved. Obviously, it's very important that we be able to hear the presentations of all the organizations we invited today.

[*English*]

The Chair: MP Ste-Marie, it's a good point. I don't know about Mr. Moody, but I do know that we have Ms. Katrina Miller with us now.

If you would like, before we conclude the first round, we can allow Ms. Miller to do her opening remarks, if you'd like to hear those. Then we can also see if Mr. Moody's equipment is fixed.

[*Translation*]

Mr. Gabriel Ste-Marie: Yes, that would be perfect. We can hear from our witnesses and then I will ask my questions.

The Chair: Very well, thank you.

[*English*]

Ms. Miller, please, let's see how everything works. You have five minutes if everything does work well.

Ms. Katrina Miller (Executive Director, Canadians for Tax Fairness): Thank you so much for your patience. You have my apologies for my tardiness to this meeting.

Thank you for the privilege of speaking with you today about the changes to the capital gains taxation and how these changes might help our country move—

● (1615)

The Chair: I am going to interrupt, Ms. Miller.

Raise your boom to just between your nose and your lips.

Okay. Continue.

Ms. Katrina Miller: I'm here to talk about how the changes to capital gains taxation can help move us toward a more equitable and affordable society.

I'll be focusing my comments on recent research that we've done regarding how large corporations, particularly those in the finance and real estate sectors, are increasingly cashing in on capital gains because of this tax break and why allowing them to do so is actually harming our path toward an affordable Canada.

We've appeared in front of this committee before to present our research on how the profit margins amongst corporations across many sectors have been growing over the years—quite astoundingly during the pandemic and after the pandemic. During that time, their productive investment has basically stalled out. At the same time, their overall tax rate has fallen. That's because of tax breaks like capital gains and the fact that they're taking greater advantage of those tax breaks, as well as avoidance measures that they're putting into place.

In fact, we've shown that in 2022, Canada missed out on $30 billion of public revenue that could have gone directly to investments in health care, education and housing, which are the kinds of investments that make life more affordable for your average Canadian family.

Today, I'm here to present information from a report we just released yesterday, in fact, about how capital gains and the tax breaks associated with them are hurting our attempts to make housing more affordable in Canada.

In 2023, average rents rose by 8%, while our wages rose an average of 5%. During that time, Canada's real estate sector walked away with $50 billion in profits. That's 40% higher than their prepandemic record.

Financialized landlords—those are real estate investment trusts or private equity funds—are playing an ever-greater role in our housing market. The sector now owns about one-quarter of all purpose-built rental stock. They are the majority purchaser for these properties on the market right now. These financial companies seek out assets that offer the greatest returns. Our capital gains tax break has sweetened the pot considerably for them.

Since the Chrétien government lowered the inclusion rate for capital from 75% to 50% in 2000, we've seen an 860% increase in profit made through capital gains in the real estate sector. These companies are quite clear in their publicly available financial documents that their motivation is to increase rents as much as the market will bear in order to increase ongoing returns and also the value of the property at point of sale. As I mentioned, asset sales are becoming an increasing source of profit.

In 2022 alone, Canada's largest seven residential REITs distributed $100 million of tax-free capital gains directly to investors. In this context, the government's move to increase the inclusion rate to two-thirds is obviously welcomed.

However, the tax incentive for capital gains still remains under these rules. There's still a third that remains tax free. Combine that with the continued corporate tax breaks that we have for REITs in our system and our tax system is still adding fuel to the growing financialization of housing and, with it, to our rental affordability crisis.

Therefore, the Canadians for Tax Fairness recommends a full inclusion of inflation-adjusted capital gains in taxable income, especially for the finance, insurance and real estate sectors. These large corporations should not get tax breaks for owning land that appreciates in value without productive investment into that property.

In addition, the government should rescind the corporate tax breaks for REITs, acknowledging that their role in our housing market is driving, to some extent, our rental affordability crisis. Removing the tax breaks that make it so attractive for financial firms to buy up rental housing, use it as an asset instead of treating it as a home and raise rent simply to increase the asset's value is an important step to making housing affordable in Canada.

The public revenue that we can gain from removing these harmful tax breaks, which will be well over $1 billion annually, could be directly funnelled into building the non-market housing that Canada needs right now in order to make our overall housing stock more affordable.

That's it for my comments at this moment. I look forward to your questions.

● (1620)

The Chair: Thank you, Ms. Miller.

Just before going back to Mr. Ste-Marie, we're going to try with Mr. Moody, please.

He is not ready to go.

MP Ste-Marie, now is your time for questions, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Greetings to all my colleagues.

I would like to thank all the witnesses for joining us today, and for their very useful presentations.

Obviously, we don't yet have the text of the bill. There was a second notice of ways and means motion yesterday, which we are currently considering. I look forward to seeing the bill so that we can analyze the soundness of this proposed tax policy.

Currently, millionaires and billionaires have a lower tax rate than the middle class in general. That must be corrected; it's a matter of tax fairness. We fully agree on that principle. However, we have many concerns about small-scale savers in the middle class who could be affected by the measure when they are not the ones being targeted. Let's take the example of a middle-class person who decides, for retirement income, to buy a multiplex and resell it when they retire. That person could be affected by this measure, whereas people in the middle class are not the ones being targeted.

My questions are for Mr. Giroux and Mr. Bernier.

I look forward to seeing your next study, which you presented briefly. I want you to know that I am particularly concerned about people who will declare a gain only on an ad hoc basis, as you said. The Corporation des propriétaires immobiliers du Québec, or CORPIQ, tells us that 82% of triplex, quadruplex or quintuplex owners are in Quebec. So we would like special attention to be paid to that. We would also like you to provide, in the breakdown of your data, the cases that involve the sale of a secondary residence or an estate.

First of all, Mr. Giroux and Mr. Bernier, have you had time to look at the new notice of ways and means motion? If so, were there any elements that drew your attention, in terms of the ways and means motion that was passed last June?

Mr. Yves Giroux: We haven't had a chance yet to look carefully at the new notice of ways and means motion to see if it fully complies with the previous notice and with what was announced in the budget. We will therefore take the time we need to make sure that it is consistent or to point out any discrepancy there may be.

We also took careful note of your suggestions regarding subsequent analysis, particularly as to whether capital gains are realized on a one-time or recurring basis. Based on our experience, we can easily guess that, in the case of low or medium value capital gains, it is recurring. As Mr. Lewis mentioned, there are people who report capital gains as a result of mutual fund or equity transactions. Of greater interest to us are capital gains of $250,000 or more, which will be subject to the higher inclusion rate for individuals.

Mr. Gabriel Ste-Marie: As I understand it, a middle-class person who owns a multiplex, such as a fourplex, and sells it, cannot spread the capital gain over several years for tax purposes. It has to be reported for the year the building was sold. In that case, under the current act, it is not possible to spread the capital gain over a number of years.

To your knowledge, am I interpreting the current tax laws correctly?

Mr. Yves Giroux: In most cases, that's correct. However, it is possible to share the property with a spouse or with children, for example, and then multiply by the number of people in question the exemption or the lower inclusion rate that applies to the first $250,000 of capital gains.

You can always set up a business structure that spreads the gains from the sale over time, but that would be more complex. There would obviously be a transaction fee associated with those arrangements, so it would be less likely in the case of an apartment building or a few apartment buildings.

● (1625)

Mr. Gabriel Ste-Marie: Thank you, that's very clear.

In the study you published, you presented the estimated amounts. You don't mention, though, the number of individuals or corporations that are covered by the measures.

Have you calculated that number? If so, is it comparable to the figures presented by the government?

Mr. Govindadeva Bernier: In the case of individuals, capital gains are certainly quite volatile. If we look at the historical data since 2011, we see that the number of individuals who may have been affected fluctuates. That number was generally around 20,000 to 30,000 at the beginning of the decade. As we approached 2020, it was around the number indicated in the budget, which is 40,000. The year 2021 was particularly active in terms of capital gains: I believe nearly 80,000 people with capital gains would have been above the $250,000 threshold. The fact remains that the number fluctuates considerably from year to year, and we don't yet know whether it's the same people every year.

In the case of corporations, again, it fluctuates a great deal. I think the government had mentioned that about 300,000 corporations a year have capital gains. Not all of them are necessarily taxable, however. Although they did realize capital gains, they may have suffered losses or carried over previous losses to the current year.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

If we can, with your indulgence, MP Davies, we'll try Mr. Moody again.

You may commence.

Mr. Kim G. C. Moody: Good afternoon, committee members.

My name is Kim Moody. I'm a fellow of the Chartered Professional Accountants of Alberta and the founder of Moodys Tax and Moodys Private Client, a significant boutique advisory firm in Canada. I have a very long history of serving the Canadian tax profession with a variety of significant leadership positions. I'm also a prolific writer and speaker on taxation matters, including writing a weekly column on taxation for the Financial Post.

Today, I want to talk to you on three key matters regarding these proposals.

The first is the policy underpinning the capital gains inclusion rate proposal. Canada has a long and interesting history on the taxation of capital gains, and one can have a respectful debate on whether the inclusion rate for capital gains should be 50%, two-thirds, 75% or even, as some on this panel have advocated, 100%. However, put me on record as an advocate for a low inclusion rate, like 50%, since that lower inclusion rate provides incentive and acknowledgement of a key issue that most people experience when they originally invest capital to generate such gains.

That key differentiator is risk. It takes guts to buy land, to build a building and to rent it out, to buy a farm or to start or buy a business. Most Canadians are not wired to accept that risk, unlike some who think that investing is risk free. It is not. This is important because the ones who can hang on and make something out of their risky venture usually have spinoff benefits for a large number of Canadians. Canada needs to encourage the creation of more entrepreneurs and investment in our country, and a lower capital gains inclusion rate is one of those policy tools that has historically helped with that.

This proposal is a simple tax grab, no more, no less. At a time when Canada has significant productivity challenges, the last thing we need to do is send signals to Canadians and to others that Canada is not the place to encourage entrepreneurship and/or invest their capital.

The other significant policy concern I have is that individuals are afforded a $250,000 annual threshold at the 50% inclusion rate, whereas most trusts and all corporations are not. That proposal blows a hole in the policy of integration, which has been a core principle of Canadian tax for decades and decades. In other words, taxpayers should be neutral, from a taxation perspective, as to where their investment dollars are placed when comparing various legal alternatives. Now, however, taxpayers will be encouraged to realize capital gains personally so as to be afforded the $250,000 threshold, and this will, of course, cause distortions that are simply not good.

Number two is the disingenuous messaging surrounding this proposal. By now, it is well known that the famous so-called “statistic” that this measure would only apply to 0.13% of Canadians, which appeared in the budget documents, is simply false and disingenuous. It still shocks me that a simple and misleading so-called “statistic” would be put forward by a government to try to justify its proposal.

When faced with criticism on that, the pivot was to say that the increase was necessary to deal with intergenerational fairness. The Prime Minister also advertised a new slogan in a cutesy but misleading video where he called it the “capital gains advantage”. Then, of course, there was the pivoting by the finance minister with her famous “higher fences” comment.

These are examples of horrible politics trying to justify poor policy. Like many Canadians, I find it divisive, misleading and disgusting. As I stated earlier, one can have a respectful debate on whether an inclusion rate is a good policy, but to denigrate that subject into divisive politics is disappointing, to say the least.

Third, and last, is the implementation of the proposal. Setting aside my strong dissent to this capital gains increase, I now will consider whether this proposal is well thought out and implemented. It is clear the capital gains inclusion rate proposal in the 2024 budget was half-baked. No draft legislation was available on budget day, with that proposal to be effective roughly 10 weeks later on June 25. On June 10, the imperfect first batch of draft legislation was released and, as expected, was very technically complex.

Given the complexity, this clearly was not enough time to advise Canadians on their affairs, since the effective date would come into effect almost immediately. The second batch was released on August 12, and it's imperfect. Late yesterday, the third batch was released, and of course most Canadians have not had the chance to review it yet.

Canadians should expect detailed draft legislation to accompany significant tax policy changes and proposals. One important fix the government could do would be to redirect some of the huge amount of money that has been allocated to the Canada Revenue Agency in recent years to the Department of Finance's tax legislation division—even a small amount of it to go there—because there are a small number of hard-working bureaucrats in that division who are expected to carry a very heavy load to properly draft this important legislation. Extra resources allocated to them would be a positive step in the right direction.

● (1630)

The second implementation concern is the fact that the only way for Canadian taxpayers to avoid retrospective taxation on their accrued gains up until June 25 was to trigger actual gains on their assets. The government budgeted for Canadians to do this. Think about that for even two seconds. In order to avoid—

The Chair: Mr. Moody, I am going to interrupt you. The sound is still not working. We've had to stop the interpretation. We'll see if that can be rectified. I don't know, but we'll see what we can do.

On that, we're going to go to MP Davies, please, for six minutes.

Mr. Don Davies (Vancouver Kingsway, NDP): Thank you, Mr. Chair.

Thank you to all the witnesses for being here.

Mr. Giroux, I'll begin with you. Budget 2024 noted:

> ...28.5 million Canadians are not expected to have any capital gains income, and 3 million are expected to earn capital gains below the $250,000 annual threshold. Only 0.13 per cent of Canadians with an average income of $1.4 million are expected to pay more personal income tax on their capital gains in any given year.

In your view, is this a reasonable estimate of the number of Canadians impacted by the capital gains inclusion measures announced in the budget?

Mr. Yves Giroux: That seems to be a reasonable assessment of the number of Canadians directly affected by the capital gains inclusion rate. There are others who will be indirectly impacted. An example is when these corporations that are subjected to higher inclusion rates have lower dividends or profits to redistribute to their owners. However, the direct impact seems to be in line with what we have estimated ourselves.

Mr. Don Davies: I think those numbers are about individuals, not corporations. Is that correct?

Mr. Yves Giroux: Yes.

Mr. Don Davies: Approximately how many Canadians does the PBO estimate will declare over $250,000 in capital gains in any year in their lives?

Mr. Yves Giroux: We haven't done that study yet. That's why we want to do the linkages to see whether the 0.13% is made up of the same individuals or individuals coming back in these statistics over time, or if these are just one-offs.

In any given year, though, as Govindadeva indicated earlier, it fluctuates quite heavily. However, an average would be 40,000 to 50,000 individuals.

Mr. Don Davies: The budget also announced the Canadian entrepreneurs' incentive, which will “reduce the inclusion rate to 33.3 per cent on a lifetime maximum of $2 million in eligible capital gains.” The budget says:

> Entrepreneurs with eligible capital gains of up to $6.25 million will be better off under these changes. In practice, these numbers will likely be higher to reflect the inflation adjustment for the lifetime capital gains exemption and the ability to spread capital gains over multiple years.

Do you agree with that statement?

● (1635)

Mr. Yves Giroux: The statement is factual. It's looking at the difference in income tax paid with and without the higher inclusion rates and the fact that the entrepreneurs' incentive will increase, I think, by $200,000 per year until 2035. It's mathematically accurate.

Mr. Don Davies: If I'm a risk-taking entrepreneur in Canada, it's only if I make over $6.25 million in capital gains that I may have to pay more.

Mr. Yves Giroux: That's once the entrepreneur's incentive is fully phased in.

Mr. Don Davies: Right. Okay. Thank you.

Now, I'll go to Ms. Miller. On May 13, Canadians for Tax Fairness published a report on productivity, which reads:

> Against the backdrop of a Bank of Canada declared productivity emergency, economists, lobbyists, and corporate executives alike have decried the proposed change under the assertion that any tax increase on capital income will inevitably harm productivity by discouraging investment and innovation. These claims have been made without any evidence to support them, and yet, they have received broad media coverage. However, it is foolish to take the old trope that taxation hurts productivity as an article of faith when that data tells a different story.

Can you please tell us about that data and why you published that statement?

Ms. Katrina Miller: Sure. I appreciate the question.

We looked at our labour productivity, which is often how we view productivity in developed economies, and how that played out over the longitudinal set of data of our capital gains inclusion rates when they bounced from having no capital gains to 50% and 75%, and back down to 50%. What we found was that there was just absolutely no correlation whatsoever between the rate of capital gains taxation and our productivity.

We looked across a variety of economies across the globe and found the exact same data. Higher capital gains inclusion rates do not correlate with lower productivity.

What we know, from many longitudinal studies—some done by the London School of Economics—is that greater inequity in a society, which comes from tax systems like ours, has a regressive result on society. That, through things like the capital gains tax break, does in fact put a drag on productivity.

Something we would like to see explored in deeper ways in Canada is whether or not our low taxation of corporations and very wealthy people is providing a drag on our productivity right now as a country.

Mr. Don Davies: Thank you.

Mr. Lewis, the Canadian Medical Association says that because physicians often incorporate their medical practices and invest for retirement inside their corporations, their members will now face a higher inclusion rate on their capital gains, including on retirement investments.

In your view, are there alternate avenues for physicians to shield their retirement savings from taxation?

Mr. Steven Lewis: Yes, the same mechanisms are available to all Canadians, and, in particular, higher-income Canadians who are able to save more.

The RRSP, of course, is the number one mechanism. As I mentioned in my opening remarks, if you're prudent and you're a physician.... Let's take the average physician in Alberta, who, according to the CMA's own reckoning, will have a pre-tax income of about $240,000. The maximum you need to make the maximum RRSP contribution is in the order of $155,000 to $160,000, I think—maybe a little bit higher.

Anyway, the incentive is to take as much money out of the corporation as is required to make the maximum RRSP contribution. You put in $32,000 a year. It grows tax free until you retire. If you do it every year, you get a $15,000, roughly, tax refund. It only costs you $17,000 to make that $32,000 investment. Do the simple spreadsheet. Over 35 years, at modest rates of return, 6% to 7%—if you bought the Toronto Stock Exchange index, for simplicity—you cannot help but have that grow to millions of dollars.

In the meantime, you still have money left in your corporation, which is lightly taxed as a small business. In Alberta, it would be 9% to 10%. You can invest that any way you want, some of which will generate capital gains, etc.

This is a tremendous tax advantage for an incorporated professional. I have the same incentive.

● (1640)

The Chair: Thank you very much. We're well over time.

We're getting into our second round now, and we're starting with MP Kelly, please.

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): Thank you.

It sounds like we don't have Mr. Moody. I would like to, if I can, on the record, ensure that the clerk connects with him, so that we can have his full statement entered into evidence. It didn't sound like he had finished his statement. I would have many questions for him if he were available. In fact, I may ask him to expand, based on some of the questions that have come up, if he has additional remarks, so that we don't lose the benefit of his testimony over the interpretation issues.

With that, I'll turn to the Parliamentary Budget Officer. Thank you for being here today.

When you calculate the projected $17 billion over five years, is that just a straight-up calculation based on gains, taking the old rate and expanding the rate on what you would expect to receive?

Mr. Yves Giroux: It's a bit more complicated than that.

We look at the expected growth in the economy . We assume a certain ratio of capital gains that will be reported for tax purposes. We look at past behaviour for the proportion of these taxable capital gains that are in excess of $250,000.

Mr. Pat Kelly: Is it possible that this change will change investment behaviour that might impact that number?

Mr. Yves Giroux: We account for some expected changes in behaviour through what we call elasticities. We have some details that we can go through if you want, either here or in writing to the committee.

Yes, we take into account changes in behaviour.

Mr. Pat Kelly: Yes, if you can table that, it would helpful.

Let me go to Mr. Lewis.

In the very beginning of your opening statement, you acknowledged that this change will affect many Canadians, including yourself and many of the thousands, perhaps millions, of Canadians who are self-employed and have a corporation. Particularly the ones with corporations are the ones who do not have the $250,000 exemption. From your own research, do you know how many Canadians you expect...?

You said this will affect many Canadians, and it's your belief that it should. You think these particular Canadians should pay more taxes. I may not agree with you. In fact, I don't agree with you on that point.

However, could you share it with the committee if you have a number or if your own research has pegged how many will be affected by this change?

Mr. Steven Lewis: I don't have the number, but we can speculate. Again, talking about self-employed people with Canadian privately controlled corporations, like me, there are 80,000 or 90,000 doctors in the country. There are a lot of lawyers in the country, and there are a whole lot of people with small businesses in the country. It would be, I'm guessing, in the low millions, potentially.

Also, yes, of course, we can have a good, honourable debate about what the overall tax revenue should be and, then, who should pay it. My point—

Mr. Pat Kelly: To be clear, though, it is potentially in the low millions of Canadians who may be captured by this change. Is that correct?

Mr. Steven Lewis: Yes, potentially.

Mr. Pat Kelly: Thank you.

That's important, because we have been repeatedly told by the government that it's some extraordinary low number of Canadians who will be affected.

The lack of inclusion for at least the $250,000 exemption really does specifically target those who have their small businesses set up legally as corporations. That includes doctors—as you said—consultants, building contractors like plumbers and electricians, physiotherapists and a number of health professionals, owners of shops or small businesses, restaurateurs and bar owners. Maybe I'm missing other categories of people. It's a pretty large group, though.

● (1645)

Mr. Steven Lewis: Yes, it's a large group, and it's partly a large group because we allow a very large number of people to incorporate. If you allowed everybody to incorporate, you would have exactly the same situation.

The whole point I'm making here is that it's a tax advantage to be able to do this. We can argue about whether—

The Chair: Thank you.

Mr. Steven Lewis: —it should be that way.

The Chair: That's the time.

Now it's over to MP Dzerowicz, please.

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you so much, Mr. Chair.

I want to thank all of our speakers today for their presentations and for being here and being part of this really excellent discussion.

My first question will go to Ms. Miller.

Ms. Miller, often in our discussions about capital gains, we tend to leave out the importance of the programs this increase to the inclusion rate is going to be funding. We forget what we're trying to do. Part of it is the importance of the programs we want to be investing in, as well as tax fairness between generations.

Can you speak to the importance of some of the policies within our social safety net that we want to have lasting changes to? Do you think it's right to ask those who are making a capital gain of over $250,000 in a given year to help fund these important programs?

Ms. Katrina Miller: We often look at our tax system as the way to solve all of the problems we see in the economy by engineering incentives and disincentives here and there, but the truth of it is that, if we want an affordable life and an affordable and sustainable future for future generations, we need to invest now. We need direct government investment in health care, in a green transition to a low-carbon or no-carbon economy and in housing, and that direct investment has to be funded through a fair tax system. That's what we believe.

That actually allows for generations who are living right now to enjoy a better life but also ensures there will be a better life for generations to come. I do believe that is a Canadian value. In order for that to happen, we need our tax system to change drastically because right now it's quite regressive in its overall tax burden. The capital gains tax inclusion rate improvements that are being made in this budget are one small but important step in that change towards fairness.

Ms. Julie Dzerowicz: Thank you so much.

The other question I will ask is very relevant in my little riding of Davenport in west downtown Toronto.

I have a lot of immigrants, and the largest population I have is actually the Portuguese population. When they first came in the seventies and eighties, many of them ended up buying a second house just because, to be honest, they had trouble finding jobs. What they ended up doing is buying a second house and renting it out.

I know you talked about how it was good for us to be increasing the capital gains inclusion rate because it has the appropriate impact on REITs. How would you respond to someone who came here and invested in additional property to help support their living and ultimately wants to sell it in order to provide a legacy to their kids or grandkids?

Ms. Katrina Miller: Our focus, in terms of the capital gains inclusion rate and who we see it impacting in terms of how it may benefit us with our affordable housing crisis, is really those large corporations and those REITs, those financiers who have come into our housing market more and more. We understand, especially in older communities, that many of these dwellings have been bought as secondary properties or investment properties.

What I would say—and I admit that I, myself, am selling a secondary property in the next year and will, in fact, be taxed more for that—is that it's better to be taxed when you have the money than when you don't. That's exactly what's happening in this scenario. We're taxing people when they have the money available to them, and we're taxing them fairly. We're taxing them closer to what people pay when they make a wage, and that is actually critical for tax fairness. There's really no good reason to argue why someone who's been able to make an investment and buy equity and assets gets a lower tax rate than someone who hasn't been afforded that opportunity.

● (1650)

Ms. Julie Dzerowicz: Would you also agree that the other comment that you might want to add is that the programs that we invest in, like a national child care program, will benefit their kids and grandkids? Would you agree, as well, that the additional dollars that we're putting into housing will also ensure that there is affordable housing for their kids to continue to live in our cities and in our city regions?

Ms. Katrina Miller: The reaction that we had to our report is that people absolutely want to see affordable housing now and in the future, largely for their kids. Everyone I talk to over 50 is worried about that. If we can show that these taxes are going to direct investment like that, I think that's a win-win.

The Chair: Thank you, MP Dzerowicz.

Before we go to MP Ste-Marie, I will say that I think that your mic may be working now, Mr. Moody. You have to put your boom between your lips and your nose. That's right; I guess about there.

We're going to go to members' questions. If anybody has a question, we'll try you.

MP Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

My question is for Mr. Giroux.

In an article published today in La Presse, Joël-Denis Bellavance points out that the ways and means motion was voted on, but that the bill has still not been introduced and therefore could not be passed to date. However, should the government be defeated before implementing legislation is passed, the measure would fall, despite the adoption of the ways and means motion. Joël-Denis Bellavance mentions that it was senator and economist Clément Ablonczy who recalled a past case where the Conservative government had passed a ways and means motion to raise the gas tax but was defeated 10 days later, so the tax increase was cancelled when Parliament was dissolved.

I would like to hear your thoughts on that, first of all.

I would also like to know what you think of the government's approach: A notice of ways and means motion was moved two weeks before the measure came into force, and now, several months later, no implementing legislation has been introduced. Is that a good way to proceed?

Mr. Yves Giroux: If the government were defeated before the bill received royal assent, the measure would obviously no longer apply. The capital gains inclusion rate would therefore be 50% for everyone.

As for the fact that the bill to implement this measure hasn't yet been introduced, and that it was the subject of a notice of ways and means motion separate from the rest of the budget content, this is a bit unusual for such an important measure. I can understand that it's probably technical issues that are still preventing the bill from being introduced. However, given the nature of the measure, we would have expected the legislative drafters at the Department of Finance to have drafted the appropriate amendments and published technical documents much more quickly, rather than what we've seen in recent weeks or months.

In summary, there was the announcement of the budget, then the notice of ways and means motion several weeks later, and then another revised notice. This sequence of events is a bit surprising.

Mr. Gabriel Ste-Marie: The measure applies as of June 25, but tax returns will only be filed at the beginning of next year. Is that an argument for why we should do this? Isn't it rather the fact that the choices had to be made before June 25?

[*English*]

The Chair: I'll need a very short answer.

[*Translation*]

Mr. Yves Giroux: I don't think the tax filing date is the most important thing. The most important thing is to give taxpayers certainty as to the application of this measure, because they had to make the decision to sell or not to sell certain assets before the June 25 deadline.

Mr. Gabriel Ste-Marie: Thank you.

The Chair: Thank you, Mr. Ste-Marie.

We go now to Mr. Davies.

[*English*]

Mr. Don Davies: Thank you, Mr. Chair.

Mr. Giroux, budget 2024 estimates that increasing the capital gains inclusion rate would produce approximately 19 billion dollars' worth of revenue between 2024 and 2028. You published a costing note that estimates it at about $17.4 billion, so I'm just going to saw it off at $18 billion. My question is about the use of that money. Can that $18 billion be used to improve productivity in Canada?

For example, if that money were used to fund universal child care, would that result in a productivity boost by liberating parents to work?

● (1655)

Mr. Yves Giroux: These funds are not dedicated funds. They'll be provided to the consolidated revenue fund, and they'll be funding all government priorities. If they were to be targeted specifically at measures, such as the one you mentioned, they could lead to enhancements in productivity in the economy at large.

Mr. Don Davies: Do government expenditures ever result in increased productivity?

Mr. Yves Giroux: Yes, they do. For example, peace, order and good government, generally speaking, lead to a productive economy. If we have a legal system and an education system that work, that leads to a productive capacity.

Mr. Don Davies: Some are suggesting that it's only by leaving this $19 billion in the hands of some of the wealthiest people that we will get productivity gains, but they're not the only people who produce productivity gains in Canada. The public sector does as well.

Mr. Yves Giroux: Some elements of the public sector...and that's probably an entirely different debate.

Mr. Don Davies: Got it. I also want to just quickly ask this.

Mr. Lewis, there are some suggestions that only entrepreneurs take risks and that's how they justify capital gains, but wage earners face the risks of job loss, economic downturns and company restructuring. They risk income instability and things like wage stagnation, reduced hours of benefits, losing funds due to inflation and health and safety risks, which can jeopardize a worker's earning potential.

What do you have to say to those who say that, in trying to put food on the table for their families, only entrepreneurs take risks when they enter the workplace?

Mr. Steven Lewis: The biggest difference is that entrepreneurs take voluntary risks. A whole lot of people lead precarious lives that are perpetually at risk because of structural inequalities and the fact that they do not get the same kinds of benefits as people like me, even from our tax system—although it is at the lower end, pretty progressive and so on, but still. By and large, wealth concentration and extreme income disparities end up being harmful for everybody. However, there are millions of Canadians—many more millions—who will be affected by this tax change, who are living with either housing, food, employment or just simple income insecurity every day. The tax system is one of the mechanisms by which we make that a little bit fairer.

The Chair: Thank you, MP Davies.

Now we go to MP Hallan.

Mr. Jasraj Singh Hallan (Calgary Forest Lawn, CPC): Thanks, Chair.

Mr. Giroux, thanks for being here and for always being accessible to the committee.

My first question is in regard to the capital gains tax hike. You mentioned that there are indirect costs or impacts of this tax change. Can you expand a little bit more on that and also, included in that, talk about the impact on jobs and wages? Does this change impact those things?

Mr. Yves Giroux: I ask my colleague to talk about the indirect impact of capital gains. He's much more of a tax expert than I am.

Mr. Govindadeva Bernier: One of the main indirect impacts we talk about specifically and that we'll continue analyzing is individuals who own private corporations. They're either self-employed or people running a business who are not directly, personally affected when they file their T1 tax return in a given year. However, because they own a corporation that realized capital gains, that corporation will pay higher taxes, which in turn means they'll have less after-tax income available to them, which in turn will also impact personal income tax revenue if they distribute dividends to the shareholder—or not—because these dividends will also be taxed in the hands of the shareholder.

Then, of course, we can speculate about what other broader impacts there are in terms of investment, employment, etc. One of the witnesses said that it's not going to change his incentive, but maybe it will change the incentives of others—

Mr. Jasraj Singh Hallan: If this impacts investment, which also could include, let's say, a business that's thinking about scaling up here in Canada, if this capital gains tax hike is going to impact them negatively, would that trickle down to impacting jobs and wages for current employees, in your opinion?

● (1700)

Mr. Yves Giroux: I don't know specifically about wages, but when it comes to jobs, when you have mobile individuals or corporations and you increase the tax on some of their activities, you tend to get less of it. If you tax investment or capital gains, you will tend to get less of it, so there will be slightly less investment.

Mr. Jasraj Singh Hallan: Exactly.

You know, just like the capital gains tax hike, it has cascading effects, much like something else. We all know what the carbon tax does. Thank you for being open to taking other questions as well.

I wanted to confirm a few things with you, Mr. Giroux, if you're okay with that. Can you tell us what the total impact on the economy is, the hit to the economy, when we factor in carbon tax one and carbon tax two?

Ms. Rachel Bendayan (Outremont, Lib.): I have a point of order, Mr. Chair. I probably missed it, but I'm just wondering, for clarification purposes, when it was that there was agreement to talk about other issues during the Conservatives' capital gains study?

The Chair: Members can ask what they want, but we are on capital gains, MP Hallan.

MP Kelly has a comment on the point of order.

Mr. Pat Kelly: On the point of order, the witness did invite questions on any other matter.

Ms. Rachel Bendayan: Thank you, Mr. Chair.

Mr. Yves Giroux: When you're referring to carbon tax one and carbon tax two, are you referring to the fuel charge and the output-based pricing system?

Mr. Jasraj Singh Hallan: Right. I'm referring to the overall impact.

Mr. Yves Giroux: The overall impact is estimated at about $25 billion on the economy in 2030, when it is scheduled to reach $170 per tonne of CO_2 emitted.

Mr. Jasraj Singh Hallan: Does that include the clean fuel standard impact as well?

Mr. Yves Giroux: No, the clean fuel standard is separate.

Mr. Jasraj Singh Hallan: How much is that?

Mr. Yves Giroux: Off the top of my head, I don't remember. I have 0.3% of GDP in mind, but that's a recollection. I don't have these numbers in front of me.

Mr. Jasraj Singh Hallan: Can you please table that for both so that the committee has access to what the impact is on the yearly basis?

Mr. Yves Giroux: Yes.

Mr. Jasraj Singh Hallan: When we're looking at the per-litre impact of that, in Ontario, if someone is filling up the gas in their tank, what is the per-litre impact of carbon tax one and the clean fuel standard?

Mr. Yves Giroux: Again, I'd have to go back to my notes, but for the clean fuel regulations, there's an estimate of about 16¢ to 17¢ per litre, when the regulations are—

Mr. Jasraj Singh Hallan: Can I get you to please table with us what's on each litre—the carbon tax one, the clean fuel standard and then the GST and HST on top of that, per litre? Maybe we can do that for all provinces. I think that would give us a good idea.

I'll move on.

The Chair: You're actually at the time. Thank you.

Now we'll go to MP Baker.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thank you, Chair.

Thank you to all the witnesses for being here.

[*Translation*]

Mr. Giroux, I'll start with you.

First, I'd like to clarify whether I understood correctly. I know that you've done a study on the financial impact of this new tax increase, but you're planning to do another study, are you not?

Mr. Yves Giroux: Yes. That's what we plan to do, but with a better matching of tax returns over a period of time, to see who pays the higher inclusion rate, whether a person appears on the radar once in their lifetime or whether it's the same individuals showing up several times over a period.

Mr. Yvan Baker: When you do this study, will you also study the impact of the expenses related to this new revenue?

Mr. Yves Giroux: I imagine you're asking me if we're going to consider what the government will do with this additional revenue.

No, we don't consider that aspect. We only estimate the revenue that will be generated if the capital gains inclusion rate is higher. We won't comment on how the government is going to spend that revenue, because that money goes into the federal government's consolidated revenue fund, not into a specific expenditure fund.

Mr. Yvan Baker: I understand. That said, my Conservative colleague raised the issue of the carbon tax. To assess the impact of this tax, we have to assess not only the cost, but also the benefits to society of protecting our environment and reducing financial costs, among other things.

If we assess the financial cost and the benefits in the case of the carbon tax, wouldn't it be appropriate, in the case of an increase in the inclusion rate, to assess not only the costs—people will indeed pay more taxes—but also the positive effect on society? That way, we would really assess the impact of this measure.

It's not as if the money is going to be given to the government and disappear. It's going to be spent on something. The government has set out its intention in the budget with respect to new spending and programs, such as housing.

Wouldn't it be appropriate to evaluate that?

● (1705)

Mr. Yves Giroux: That's a good point, and it comes up often.

My office has a mandate to estimate the cost and impact of certain measures. In general, the government is very good at talking about the benefits of its proposals. Where there is often an information asymmetry is when we talk about the costs or repercussions of certain measures. If I were doing cost-benefit analyses, as is sometimes suggested, my office should have a mandate that is considerably different from its current mandate.

Furthermore, it would be difficult to estimate the benefits of a measure such as the capital gains inclusion rate, because it would then have to be determined where the funds would be paid. The government said it would use the funds for certain purposes, but it could have generated revenue in other ways. If we did cost-benefit analyses, it would force us to become policy analysts and to comment on the merits of certain very specific policies.

That is why we only estimate the costs of certain measures. We leave it to parliamentarians to arbitrate and determine the ratio between costs and benefits. For our part, we provide the information on the costs. The government, on the other hand, often provides very good information on the benefits. By putting all that together, legislators—in this case you and your colleagues—are able to make good trade-offs and arrive at good decisions.

Mr. Yvan Baker: I completely understand what you're saying, but I don't completely agree with you. You say that it's up to us, as members of Parliament, to assess the ratio between costs and benefits. You're going to provide us with information on costs, but as far as benefits are concerned, you're not going to study that aspect. I'm not saying you should get into the politics of whether a particular measure is a good decision or a bad decision. I'm just wondering if you could provide us with the information on the costs and benefits so that we can evaluate the proposed measure.

My colleague Don Davies just gave the example of child care and the positive impact it can have on the economy. I've read the studies you've done in the past. In fact, you're conducting some very interesting analyses. In addition, you were able to estimate the economic impact of various programs.

Couldn't you add that to what you're looking at? I think it would help members of Parliament from all parties make more informed decisions.

Mr. Yves Giroux: For me to venture into this territory, I think it would be more prudent if Parliament were to review the mandate of my office. That would allow me to move forward on slightly more familiar ground and have more solid parameters, rather than simply deciding to do cost-benefit analyses.

[*English*]

The Chair: Members, we're getting into our third round. I'm going to take us through this third round, and then we'll be done.

MP Chambers is first up for five minutes.

Mr. Adam Chambers (Simcoe North, CPC): Thank you, Mr. Chair.

Mr. Chaffe, thank you for coming and for the work you and farmers do. On behalf of all those who are served by your members, thank you for providing food for our tables, as well as trade and commerce in this country.

I'm curious about the conversations you're having with the next generation of farmers or with current farmers who are thinking about exiting the business. From the feedback you get, are people more or less interested in entering the farming business after these changes were implemented?

Mr. Jack Chaffe: It's a concern for that next generation coming into farming because it's big dollars and big risk.

As I stated in my testimony earlier, the most important part of capital gains within farming is having that intergenerational transfer exemption. I can give you an example. My grandfather retired in the early 1990s. When he sold his farms, we used part of that intergenerational transfer to set me and my brother up. Currently, we're going to use that to bring the next generation in—two of my sons.

● (1710)

Mr. Adam Chambers: Thank you very much.

I have a final question, because I'm going to be tight on time.

It was suggested that people who have corporations.... Maybe your farm is incorporated. You could just pull the money out and put it into an RRSP. However, what if your tractor goes down and you have to buy a million-dollar piece of machinery?

If you've pulled that money out of your corporate account, where would you get that from?

Mr. Jack Chaffe: Normally, farmers don't invest in RRSPs because they put everything back into their land and equipment.

Mr. Adam Chambers: Okay. Thank you very much. That's perfect.

I have to move fairly quickly here, so I apologize.

Mr. Moody, there are some rumblings that the government might be considering a wealth tax. I'm curious. You have some experience with capital gains and some clients.

Have you had more people exploring leaving the country now after the capital gains tax? What would happen if they brought in a wealth tax?

Mr. Kim G. C. Moody: Thanks, Mr. Chambers.

I've written about this extensively in my weekly columns. The short answer is this: Things like a wealth tax, high personal tax rates and now the capital gains inclusion rate—despite some of the other witnesses' comments—have a significant impact on people leaving Canada. My office is just filled with cases that we're working on presently and has been for quite a while.

Mr. Adam Chambers: Just to confirm, you've had more—

Ms. Julie Dzerowicz: I have a point of order, Mr. Chair.

It seems like they have no more questions about the capital gains tax, so they have to invent a wealth tax that's not going to be introduced by our government.

The Chair: Thank you, Ms. Dzerowicz.

We are on capital gains. Let's be relevant, MP Chambers.

Mr. Adam Chambers: Thank you, Mr. Chair.

I assume I'll get that time back.

It was with respect to whether you have seen more inquiries into your office since the capital gains tax has been introduced. If the government brings in a wealth tax, would it be even more?

I think that was a confirmation of yes, but, Mr. Moody, could you just give a yes or no for whether you've seen an increase in inquiries in your office?

Mr. Kim G. C. Moody: The short answer is yes. I've seen a significant increase.

Mr. Adam Chambers: Thank you very much.

I'll note that maybe we could take it to the bank that a Liberal MP said there will be no wealth tax.

I'll pass it over to my colleague, Mr. Morantz.

Thank you, Mr. Chair.

Mr. Marty Morantz: Thank you, Mr. Chambers.

Mr. Chair, I had put a motion on notice that I'd like to move at this time. I'll read it into the record.

It states:

> That, with regard to the provisions of Budget 2024 and the subsequent motion passed by the House of Commons regarding changes to certain provisions regarding the administration of capital gains and the provisions related to the taxation of capital gains earned by both individuals under the Income Tax Act and corporations (both publicly traded and Canadian-controlled private corporations) including but not limited to the increase in the inclusion rate from 50% to 66 2/3's %, the Department of Finance provide the following to the House of Commons Standing Committee of Finance on or before November 1, 2024:
>
> A detailed written 'economic impact study' on the implementation of the aforesaid changes including:
>
> a) a breakdown of the expected impact on private sector employment including jobs related to trades and construction;
>
> b) an estimate of the anticipated new tax revenue expected;
>
> c) a breakdown of the effect the changes will have on Canada's GDP both gross and per capita;
>
> d) an analysis of the impact on the equity positions of publicly traded corporations with a specific focus on the direct impact on share value;
>
> e) an estimate of the impact on the equity position of the Canada Pension Plan;
>
> f) an estimate of the impact on investment in SMEs, start-ups and R&D including impact on scaling;
>
> g) an analysis as to whether these changes will be a disincentive for the construction of purpose-built rental units and multi-unit housing projects.

I don't expect this motion will be particularly controversial, but it will certainly aid this committee in completing its study.

The Chair: MP Morantz, are you giving notice or did you move that?

Mr. Marty Morantz: The motion was on notice. I have now moved it.

The Chair: You moved it. Thank you for that.

There's going to be some debate.

I see MP Ste-Marie's hand up.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

I believe that a study containing the points raised would allow us to better assess the impact of such a tax measure, which would be useful in analyzing the potential bill. Personally, I would be in favour of the motion at this time, but my position isn't final. I'll listen to what my colleagues have to say on the subject first.

● (1715)

[*English*]

The Chair: Thank you, MP Ste-Marie.

I do see another hand up.

MP Chambers.

Mr. Adam Chambers: It won't surprise my committee colleagues where I fall.

I'll take the opportunity to mention that the government just released yesterday a new ways and means motion. I think we're supposed to vote on that tomorrow. There's been no briefing offered to parliamentarians about what's changed in that motion, so perhaps those folks in the finance department might like to make themselves available.

I would put this as an adjacent to Mr. Morantz's motion, about just being a little more rigorous around the changes they're doing and making sure we have the right impact statement.

When the government introduces one ways and means motion in June or late May, and then another one on the same issue without the final draft of legislation but doesn't offer a briefing to parliamentarians about what's changed in that motion.... I think it would just be good practice to offer that to parliamentarians, so they know what's changing and what we're voting on in less than 24 hours.

The Chair: Thank you, MP Chambers.

I do see that MP Ste-Marie's hand is up, and then we have MP Davies after that.

[*Translation*]

Mr. Gabriel Ste-Marie: Mr. Chair, I just want to respond to Mr. Chambers.

After seeing the new notice of ways and means, I contacted Ms. Bendayan and the team at the Department of Finance, and I was given an overview of the changes. These people have also made themselves available to answer my questions. In contacting them, I got answers to my questions, and I thank them for that.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

MP Davies.

Mr. Don Davies: Mr. Ste-Marie took one of my points. I did the same thing. When I saw the ways and means motion, I reached out and got an explanation as well, which I think is open to all parliamentarians.

What I would like, though, is for the motion that was just moved by Mr. Morantz to be provided to us in writing. It's a pretty detailed—

A voice: It's in the notes.

Mr. Don Davies: I know it's in the notes, but I don't have it in front of me right now. It's hard to debate the motion. It's multifaceted.

The Chair: I'll ask the clerk to distribute it to everybody, please.

Mr. Don Davies: Typically, when a motion is moved, there are copies distributed to everybody in both official languages.

The Chair: Members do want it, so I think it should be distributed.

Clerk, if you can also distribute it to all members electronically.... They may not have it in front of them.

I see PS Bendayan, although MP Davies still has the floor.

MP Davies, do you have anything else?

Mr. Don Davies: No. I'm going to take a few minutes to read the motion before I speak to it.

The other thing is that I'm wondering whether, with just 10 minutes left, we should relieve the witnesses.

The Chair: I agree.

We're going to allow the witnesses to leave because we're not going to go much past 5:30 here. We'll release the witnesses.

We're just going to suspend for a few minutes so that MP Davies and others can take a look at this.

Go ahead, PS Bendayan.

Ms. Rachel Bendayan: Thank you. I would like the opportunity to speak, Mr. Chair.

Once again, we see the Conservative motion on capital gains being interrupted by the Conservatives. It's unfortunate because there are several Conservatives, as well as other witnesses, here to provide interesting testimony.

Mr. Chair, given that a member of this committee, Mr. Davies, has requested time to review the motion—the motion is quite detailed—I would suggest that we hold a committee meeting to discuss committee business. In that meeting, we can talk about all of the motions that are before us and see where the committee would like to go for the remainder of the fall session.

Given that there are several other studies that have been proposed, that have been on the books for quite some time and that, I think, members would like to get to, and considering that we've already studied several Conservative motions at the finance committee, I would suggest that we proceed in that way.

With respect to the motion that is currently on the floor of your meeting, Mr. Chair, I move to adjourn debate.

(Motion agreed to: yeas 6; nays 5)

The Chair: We're adjourned on that.

Because we still have all of the witnesses—and maybe I spoke too soon—we will continue with the witnesses again.

We have about a minute left, I think, for the Conservatives.

● (1720)

Mr. Pat Kelly: I have a point of order.

Did we lose any witnesses when you excused them? I see Mr. Moody. I don't see Mr. Lewis.

The Chair: I don't think so. I think everybody is with us.

Mr. Pat Kelly: Okay.

Mr. Marty Morantz: Mr. Chair, it's very disappointing to see the Liberals and the NDP—I guess the coalition is still alive and well—voting together to block a very simple motion that would ask the Department of Finance to tell us what the economic impact is of the increase in the inclusion rate. It's really unfortunate that they want to keep this information from Canadians. However, Conservatives will make sure that Canadians get the information.

I'm glad Mr. Giroux was here to hear the motion because I think it will give him a lot of great ideas as to what he can study as he's putting it forward. I'll make sure that Mr. Giroux gets a copy of the motion because, if the Department of Finance won't provide information or feedback on the motion, I know that the PBO certainly will. It will be unfortunate that the department doesn't have its own data to back up or dispute Mr. Giroux's findings, which we'll have to take as correct.

With that, Mr Chair, I will cede the mic.

The Chair: Thank you, MP Morantz.

I will go now to MP Sorbara, please.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Are we going back to our witnesses now?

The Chair: Yes.

Mr. Francesco Sorbara: Thank you, Chair.

It's great to be here this afternoon, colleagues.

To the witnesses, I'd like to speak to the individual from my alma mater, Simon Fraser University. That's where I did my undergrad degree in economics. Is that individual still there?

The Chair: Mr. Lewis, are you still here?

Mr. Steven Lewis: Yes, I'm here.

Mr. Francesco Sorbara: Good afternoon, Mr. Lewis, at Burnaby Mountain. It's a lovely part of this beautiful country that we live in.

Mr. Lewis, we know that a tax system is designed to raise revenue to pay for services that Canadians need, be it their health care, education for their kids, roads, running various government departments, old age security and so forth.

We also know we want to design a tax system with few inefficiencies, with as much neutrality as possible, with this concept called integration and in which we avoid such practices as surplus stripping for tax avoidance strategies that some corporations and individuals can currently take advantage of to lower their tax bills, which I don't think is efficient or fair. We want a tax system that does not result in, as you point out, extreme wealth inequality. That's something we need to look at.

We have a progressive tax system, but we also have a tax system right now where there's a differential in the tax rates between dividends, interest and capital gains. We have moved to put more integration in the tax system.

I'm going back to your comments on health care because I truly believe our doctors and professionals should not really be depending on our tax system to create wealth for themselves. They should be depending on their salaries. They should be compensated fairly for that.

There was the debate on passive and active income, and there is now the debate on capital gains. At the provincial level, we need to understand that our doctors need to be paid more. I think in the province of British Columbia they are going down that route. The compensation system needs to change because we shouldn't even be having that argument or conversation about how we pay our doctors. We need to pay them well. They're very important, but they should not have to depend on generating capital gains within their corporation for their livelihood.

Would you not agree with that, sir?

Mr. Steven Lewis: In general, yes. If you have a problem with how much people are paid in a public utility, essentially, like health care, then first of all, verify if it's the case. If it's the case, pay them more and see if it has the desired impact.

On the more general principle, governments have to decide how much revenue they need. That's obviously a fungible proposition, and people can debate it—that's fair enough—but then who do you get it from?

To me, this debate is actually a little bit simpler than all of the arcane arguments about incentives and so on. If we need more revenues, either to balance the books or to fund programs people want and the government in power wants to pursue, you have to decide who you get it from. This gets a little bit more from the people who have more. From a health perspective, equity is better. Equity means better health status and probably, in the long run, reduces demand on the health care system.

I doubt you will find many population health researchers—or anybody who is concerned about health status and the productivity that's associated with people who have poor health status and all of those other things—who don't point to examples around the world where less equal societies, both in terms of income and wealth concentration, aren't healthier. They are healthier.

I'm a health policy person. I've been in the health field all of my life. As you say, I'm also an entrepreneur who uses the tax system in all of the ridiculous ways the tax system creates incentives for me to use it. I have gotten richer because of the capital gains tax as it was before, the treatment of dividends and the ability to smooth out my income, etc.

● (1725)

Mr. Francesco Sorbara: I know my time is short.

As an economist and someone who did his degree at Simon Fraser, before going to U of T, I concur with your thoughts. Our goal is to raise the standard of living for all Canadians, create wealth and create jobs, but also not create wealth inequality while we're doing that. That's the last thing we should be doing.

The capital gains effective tax rate is at 25% right now. Literally, people selling stock or a piece of land that they've owned for a long time do very well, especially when the government has put in infrastructure around that land. Think about this. The taxpayers fund all the infrastructure around a piece of land. The person who has owned the land for many years now benefits, because the value of the land has increased exponentially, while the cost of making that value increase was borne by the taxpayers of Canada or by a region.

We have many instances of that in the GTA. The person then sells the land and benefits handsomely. There's nothing wrong with that individual paying and providing a little bit more, so we can provide such programs as the Canadian dental care plan, the Canada child benefit and an early learning and national day care plan.

I look forward to having that debate in the weeks and months ahead.

Thank you.

The Chair: Thank you for that, MP Sorbara.

We'll now go to MP Ste-Marie, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

My question is for Mr. Giroux.

Critics of the inclusion rate proposal often say that it will discourage business investment and, by extension, productivity.

Is that something you've considered? Do you have any information to share with us in that regard?

Mr. Yves Giroux: Generally speaking, the more something is subject to taxation, the less of it we have. This is the case when it comes to increasing the capital gains inclusion rate. We haven't done a specific analysis of the impact it would have on investment and productivity. However, as I mentioned, when something is subject to taxation, people tend to provide a little less of it, so presumably this measure would have a negative impact on investment.

However, there are measures that have the opposite effect. One example is the Canadian entrepreneur incentive, through which the portion of capital gains that will be exempt will increase by $200,000 a year until 2035, I believe.

The proposed measure therefore contains a number of things. It could be felt that some elements will reduce investment incentives, but that others will encourage investments in certain categories, particularly as regards the incentive for Canadian entrepreneurs. That said, there are eligibility criteria. For eligible sectors, it will increase investment incentives in certain sectors and in a certain income bracket.

Mr. Gabriel Ste-Marie: So you haven't looked at the elasticity of that effect, as to whether companies are reacting a lot to this change in inclusion rate for their investment projects. It's not something you've looked at.

Mr. Yves Giroux: Yes, we've looked at the academic analyses in which attempts have been made to estimate elasticity in several cases. That said, it is difficult to assess elasticity for tax measures. In general, elasticity is assessed when dealing with minor changes, specific countries or particular tax situations. As a result, a certain elasticity was applied to businesses and individuals. However, there is no guarantee as to how individuals and businesses respond to the measure or change their behaviour. There is no certainty that the elasticity has been accurately and fairly assessed. It must be said that estimates elsewhere vary greatly, depending on the particular changes being considered.

● (1730)

[*English*]

The Chair: Thank you, MP Ste-Marie.

Next, we have MP Davies, please.

Mr. Don Davies: Thank you, Mr. Chair.

Ms. Miller, ever since the 1960s, when the Macdonald commission, which studied our taxation system, came up with the famous axiom that a buck is a buck is a buck. We have been seized with the idea that a dollar of income should be taxed the same, as a fundamental matter of principle.

If you're lucky enough to be wealthy and you can get income in the form of a dividend, then you get a dividend tax credit. If you're fortunate enough to have some of your income come in the form of a capital gain, you get half of your capital gain, up to $250,000, tax free. This measure is saying, simply, that one-third of the income above $250,000 will still be tax free.

What do you have to say about that principle of treating tax dollars the same, especially when people like waiters and waitresses, nurses, teachers, plumbers, truck drivers and warehouse people have to pay taxes on 100% of their incomes and don't have these privileges.

What's your sense about the impact of that on our tax system?

Ms. Katrina Miller: Earlier this year we did a study with the Canadian Centre for Policy Alternatives, which showed that, in the overall tax burden as it's spread among Canadians, we have a regressive system. Those who have the least tax burden in our society are, in fact, the richest in our society, and those who have the greatest tax burden are, in fact, the middle class. The reason is that we aren't treating a buck as a buck, which is a really important concept that, I think, has been a Canadian value in driving our tax system for many decades now.

The capital gains inclusion rate change that's being offered up does get us closer but still allows, as you mentioned, for one-third of that capital gains to be tax free, so there is still an inequity in the capital gains taxation inclusion rate as it is being offered up. That is why, frankly, from a principled point of view, we suggest that it really should be a full inclusion rate of inflation in adjusted dollars. We think that's how we come to a fair system of taxation in terms of a buck of wage equalling a buck of capital gains.

The Chair: Thank you, Mr. Davies.

There are about 10 seconds left, so we move now to MP Kelly. There are two and a half minutes in this round.

Mr. Pat Kelly: Thank you.

Mr. Moody, earlier we had several witnesses who disputed or downplayed the notion that there's a difference in risk or that, just because a person is self-employed or an entrepreneur, they don't really endure risk. It's occurred to me that you forgo all kinds of other protections in law that employees have. You have unlimited liability for anything that your employees might do. Your family's assets are all at risk. You lack access to benefits. You don't get paid for vacation. You don't even get a minimum wage. You might actually work and get paid less than that would allow. In your opening statement—the first time you tried it, anyway—you talked about the differences in risk.

Can you talk about how self-employed people, who have a corporate structure and have to save for their own retirements, do, in fact, endure risk, and how the system is supposed to mitigate some of that risk and allow people an opportunity to save for themselves and for their retirements?

Mr. Kim G. C. Moody: Thank you, Mr. Kelly. Yes, I was trying to go down that avenue.

A simple, blunt response to the statement that entrepreneurial risk and employment risk, for example, are equal is that's just nonsense. I always challenge people who say that to put their money where their mouth is. If they think it's equal, then go and start a business, go and buy a building, because it's pretty damned risky.

I experienced it myself. All of my clients who are entrepreneurs—we have many of them—experience the ups and downs, and there are a lot of downs. The short answer is that the tax system, in my view, has done a nice job historically of acknowledging that risk and encouraging entrepreneurs to take that risk.

● (1735)

Mr. Pat Kelly: There's a productivity crisis in this country, and I think you alluded to that in your remarks. I think it's pretty widely understood that productivity is in decline. Living standards have declined, and per-capita GDP is lower now than it was 10 years ago.

Is this the time to disincentivize investment?

Mr. Kim G. C. Moody: Absolutely not, and I've been on record many times in my writings and speaking.... Absolutely not. We encourage entrepreneurship.

Mr. Pat Kelly: Does this tax proposal disincentivize investment?

Mr. Kim G. C. Moody: Absolutely, it does. Notwithstanding what other witnesses have said, it very much does.

Mr. Pat Kelly: From your own professional practice, can you talk about how these kinds of changes to taxation affect people's investment decisions?

Mr. Kim G. C. Moody: They greatly impact them. I go back to one question that was asked of me earlier, which was, “Are people leaving Canada because of this?” The short answer is yes, and they're taking their investment dollars with them and placing them in a more friendly environment. In this mobile world, you don't have to place your money in Canada. Foreigners don't have to place their money in Canada, and we're not seeing a lot of foreign investment.

Mr. Pat Kelly: The capital flow from Canada is outward. Canadians are taking their money and investing it in other countries. What impact does that have on employment in Canada?

Mr. Kim G. C. Moody: It has a devastating impact. I'm working on a file right now, a very significant Ontario employer is packing up, leaving and moving to Florida. They don't need to be in Ontario. They're homegrown Canadians, but they don't need to be here. There were all these tax changes and, frankly, capital gains was just the final straw.

Mr. Pat Kelly: There are other tax policies under this government that have led to capital flight.

Mr. Kim G. C. Moody: Yes, and I could list a lot of them if you want.

Mr. Pat Kelly: Please do.

Mr. Kim G. C. Moody: There are the high personal tax rates. There are the changes to private corporations and their shareholders that were introduced in 2018. There are the anti-income splitting rules. Even some of the real estate measures, like the ridiculous short-term rental stuff, are very ridiculous and dangerous, frankly, for Canada.

There have been numerous floats by the Prime Minister's Office of a wealth tax, which, of course, hasn't been implemented.

Long story short, all these things spook entrepreneurs and have them looking elsewhere.

The Chair: Thank you, MP Kelly.

Now we're going to our final questioner, who is MP Thompson.

Ms. Joanne Thompson: Thank you, Mr. Chair.

I'm going to pass my time to my colleague, PS Bendayan.

Ms. Rachel Bendayan: Thank you, colleague.

Thank you, Chair.

Ms. Miller, we just heard testimony from Mr. Moody a moment ago about capital gains. We've had several witnesses appear before this committee and say that increases to capital gains actually don't disincentivize investment. The Conservative government of Prime Minister Brian Mulroney increased capital gains significantly to 75%, and the evidence is to the effect that investment was not disincentivized.

I wonder if you'd like to comment on that from your perspective, Ms. Miller.

Ms. Katrina Miller: That's exactly what our study found as well. There's just no correlation between high capital gains inclusion rates and reduced productivity, either in our country or in other countries.

If we want to use our tax system in targeted ways to incentivize investment, we should go ahead and do so—and we do, through various types of tax credits. The green technology tax credits that have been proposed are one such way that we can target an incentive for investment, but providing this large, broad-ranging capital gains tax break really doesn't do anything for our productivity.

There's no evidence that can be found to show that increasing it is going to somehow hamper our productivity.

Ms. Rachel Bendayan: Thank you very much, Ms. Miller.

Mr. Lewis, do you have anything to add from your perspective?

Mr. Steven Lewis: No. I think that's exactly right. These broad-based measures create a lot of unintended consequences and, frankly, unintended beneficiaries—or perhaps intended—when you use them.

As we said at the beginning, a tax regime can't do everything about everything. It can do a lot about equity and fairness. Any measure that is relatively modest and increases to some modest extent equity and fairness actually does more for the economy than the alleged prices.

I'll say one final thing. To those who say, “Well, it's going to make people leave the country,” or “It's going to affect investment decisions in a major way,” yes, moving out of the country is always an alternative. If you want to go and hunt down a lower tax rate, you always have that option if your capital is mobile. On the other hand, for people like me, what do you think I'm going to do about this increase as an alternative to generate a better return, since I will still get a privileged return from the dividends and the lower tax rate?

For most people, there's simply no viable option, even if we don't like it. Even if I don't like paying more money, I'm still going to invest in exactly the same way because it's still a better deal tax-wise. It's probably, as Ms. Miller said, still an unfair deal, and only slightly less unfair in my favour.

● (1740)

Ms. Rachel Bendayan: Thank you very much.

With the remaining time I have, Mr. Chair, and given the discussion that happened both at this meeting and the last, I would suggest that Thursday's meeting be dedicated to committee business. I would like to put on notice the following motion.

[*Translation*]

This is on pre-budget consultations:

> That the committee hold pre-budget consultations for the 2025 budget, and that:
>
> a. The committee dedicate no fewer than ten meetings to pre-budget consultations and that it report its findings to the House;
>
> b. The Deputy Prime Minister and Finance Minister and departmental officials be invited to appear before the committee.

We could debate it and discuss it at the next meeting, if that's the will of the committee.

[*English*]

The Chair: Thank you, PS Bendayan. I'm sure that will be distributed to members.

We want to thank our witnesses for the testimony they have provided our committee for our study on capital gains.

Thank you very much to our witnesses and members.

Mr. Jasraj Singh Hallan: There was a motion, Chair, that was adopted back in May for carbon tax Carney to appear here. I would just like to know if you have heard back from carbon tax Carney at all.

The Chair: We're adjourned.