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—
Chair

Mr. Brian Pallister

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• (1105)

[English]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): Ladies and gentlemen of the finance committee and guests, welcome. Pursuant to Standing Order 108(2), a study on income trusts will commence. Appearing this morning is the Honourable Jim Flaherty, Minister of Finance.

Welcome again, sir, to our committee. I understand you have some opening comments that you would like to make, and I invite you to do so now.

Hon. Jim Flaherty (Minister of Finance): Thank you, Chair. I'm pleased to be here this morning and I'm pleased to be the first witness at the hearings you're having on the tax fairness plan.

I'm accompanied this morning by Robert Wright, the deputy minister; by Mark Carney, the senior associate deputy minister and G-7 deputy for Canada; by Bob Hamilton, senior assistant deputy minister, Tax Policy Branch; by Brian Ernewein, general director of the tax legislation division, Tax Policy Branch; and Denis Normand, senior chief of payments, financial sector division, Financial Sector Policy Branch.

We'll hear from all of those folks, certainly from Mr. Hamilton, about the analysis done by the department, after I have an opportunity to make some opening remarks. You'll also see the charts around the room, which we produced in order to try to demonstrate, in an easily readable manner, some of the major issues that are involved in the tax fairness plan.

[Translation]

Mr. Chairman, members of the committee, I want to thank you for the opportunity to be here today.

[English]

You have received a briefing book, members of the committee, with a copy of my statement, which is more or less what I'll follow; a document prepared by the Department of Finance outlining our revenue estimates and calculations; and a series of charts illustrating the growing trend toward trust conversions in foreign ownership of energy trust units.

I'm pleased to be the first witness, as I said. Make no mistake, the decision that was taken on October 31 is all about fairness for Canadian taxpayers: in the first instance, fairness for Canadian taxpayers and their families, who would be asked to pay more and more if we did not implement the tax fairness plan; fairness within the corporate sector, where the current rules give income trusts a tax

advantage and distort investment decisions to give income trusts better access to capital than entities that are organized in the corporate form—that is, levelling the playing field between corporations—and fairness for Canadian taxpayers who are seeing tax dollars sent out of the country to foreign investors.

As you can see from the chart over there, in the large energy trusts, 50% of the ownership—

The Chair: I'm sorry, Mr. Minister. We have a point of order.

Mr. Pacetti.

Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.): I'm sorry to interrupt, but we have a copy of the speech. It seems to be ten pages long. How long can we expect to have Mr. Flaherty speaking for?

The Chair: I think we'll let him use his discretion. We have him for an hour.

Mr. Massimo Pacetti: So he can speak for up to an hour?

The Chair: We'll use our discretion. The fewer interruptions, I expect, the more time available for questions.

• (1110)

Mr. Massimo Pacetti: I thought we had limited it to ten minutes. I think ten minutes would be more reasonable.

The Chair: Please proceed, Mr. Minister. Thank you.

Hon. Jim Flaherty: The point I was trying to make before the Liberal member interrupted me was that the large energy trusts, as shown on the chart behind the member, are 50% owned by foreigners, largely Americans, who are only paying a 15% withholding tax. I'm sure the member will want to look at that chart. He will realize that a tremendous tax burden is being shifted to Canadian individuals and their families in that sector.

The other aspect of fairness, of course, is for Canadians vis-à-vis their governments, and I include not only the Government of Canada but the governments of Quebec and the other provinces in Canada. There are letters before you from nine of the provinces. Eight of them specifically support the four-year limitation, as you'll see from the letters. Two of them specifically comment on the tax losses to their governments of \$450 million. In Budget 2006 we showed it was \$400 million in Alberta. The minister has now written to me saying it's \$450 million. There's also \$150 million in the province of Quebec, which you can add to the federal \$500 million, giving you a total in excess of \$1 billion.

I want to take the next few minutes to quickly outline the tax fairness plan and walk the committee through the numbers and our methodology.

As I indicated in the fall, we estimate the federal revenue loss was about \$500 million in 2006. I emphasize to you that this will be a growing figure if we do not act, and this is a conservative estimate.

I'll also point out the hundreds of millions of dollars in tax losses to the provinces, and I'll talk about the fact that the landscape had changed dramatically, with almost \$70 billion in trust conversions taking place in the first 10 months of 2006 before we took action.

I'll also explain why it would be a serious mistake to carve out the energy sector and provide them with a permanent tax holiday. In that regard, I encourage members to read the letters from the Ministers of Finance of Newfoundland and Labrador and Nova Scotia with respect to their offshore interests and what it would mean to them if the income trust sector were to be active in those developments.

Finally, I want to touch on the need to maintain a four-year transition period in order to avoid billions more in revenue loss, about \$3 billion to the Government of Canada, that is the taxpayers of Canada, and at least \$2 billion to the provinces of Canada, again the taxpayers of Canada who pay taxes to the provinces.

I want to say from the outset that it is regrettable that some investors suffered financial losses. Although it was a very difficult decision, it was an absolutely necessary decision for our country and for future generations of Canadians, our children and our grandchildren, and for our prosperity in the future.

[Translation]

Our Tax Fairness Plan achieves two critically important goals. It restores balance and fairness in the tax system and strengthens the Canadian economy, now and into the future.

[English]

The tax fairness plan achieves these goals through a distribution tax on distributions from publicly traded income trusts, with a four-year transition period for existing trusts; an additional reduction in the general corporate income tax rate of 0.5% in 2011; an increase in the age credit amount by \$1,000 to benefit low- and middle-income seniors; and the ability for pensioners to split income beginning January 1, 2007.

Pension income-splitting is a major positive change in tax policy for pensioners and seniors. It significantly enhances the incentives to save and invest for family retirement security.

I want to be clear with the members of the committee and with all Canadians that I have no intention of altering the government's decision, including the four-year transition period for existing trusts.

[Translation]

I want to be clear with the members of this committee and with all Canadians. I have no intention of altering the substance of the government's decision, including the four-year transition period for existing trusts.

[English]

Canadians are looking for fairness and for certainty, and our tax fairness plan provides both. I've said it repeatedly as finance minister: Canadians pay too much tax, and this government has already taken steps to reduce their tax burden. Simply ignoring this issue would have resulted in Canadians paying more tax—not less—today and for years to come.

Why? Because as more and more companies converted to income trusts, they were shifting their corporate tax responsibilities onto the backs of individual taxpayers and their families. There was a growing trend toward corporate tax avoidance. In fact, in a news release on September 11, 2006, Robert McFarlane, who was the executive vice-president and chief financial officer of Telus, said this:

TELUS is pursuing a trust conversion at this time since it has recently utilized all of its tax assets and a conversion early in 2007 will optimize its future taxable position.

This wasn't an isolated case, but rather a disturbing trend that was moving into the core of our industrial and knowledge-based economy.

Since we took office, the landscape began to change significantly. In the first 10 months of 2006, almost \$70 billion in new income trust conversions took place or were announced. Chart A shows clearly this trend in income trust conversions and the path we were all on. You can see on the chart trends from 2003 to 2006 and the huge increase in 2006 in the first 10 months alone. This represented a clear and present danger to our tax system and our economic structure. Evidence was mounting that we were running a real risk of turning into an income trust economy, an economy where tax avoidance drove business investment decisions and foreign investors stood to make significant gains at the expense of Canadian taxpayers.

●(1115)

[Translation]

No responsible government could stand by and let this happen. I wasn't fair and it wasn't right. Regardless of the political consequences, we had to act. And we did, accepting our responsibility and acting in the best interest of Canada.

[English]

As I stated on numerous occasions, we estimate that the federal revenue loss was about \$500 million in 2006, as chart B and the supporting material you have received clearly demonstrate. The chart shows the various calculations and the assumptions used to make those calculations, showing the net loss to the Government of Canada of about \$500 million in 2006.

This is a conservative estimate. Now consider what these calculations don't include. They don't include any further conversions by any other companies. We estimate that TELUS and BCE alone would have added substantially more to this total. Widely reported estimates from financial experts, based on information from these two companies themselves, indicated that corporate tax savings over the next two years would have been about \$1.3 billion for TELUS and about \$1 billion for BCE.

Just imagine what the total would have been had other large corporations like EnCana or large financial institutions that currently pay billions in corporate income tax followed suit. The numbers also don't include provincial tax impacts. During my meeting with provincial finance ministers on December 15, 2006, in Vancouver, they expressed serious concerns about the loss of tax revenue and endorsed our tax fairness plan. Letters from most of the provincial ministers are included in your package.

Here are a few examples of what we received. Carole Taylor, the Minister of Finance of British Columbia, wrote:

I believe the measures you propose are necessary to address the policy and revenue impacts of converting corporations to income trusts.... I believe that without action the continued conversions to income trusts would have led to a serious disruption of the tax system.

The Honourable Greg Selinger, Manitoba's Minister of Finance, wrote:

Corporations were increasingly under pressure to convert to income trusts solely as a result of tax considerations, even in instances where trusts were not otherwise the most appropriate form of organization.

[Translation]

Michel Audet, the Minister of Finance for Quebec, said it was clear that the advantages enjoyed by income trusts had gone on too long and that action was called for.

[English]

Now, some critics have questioned these figures. In fact, these estimates are very similar to those made by Jack Mintz of the Rotman School of Business at the University of Toronto and former president of the C.D. Howe Institute.

On October 19, 2006, Mr. Mintz said:

It is silly to argue that there isn't any tax loss. Everyone knows the reason people go into income trusts is because there are tax benefits.... That's the way the law is.

The methodology used to determine federal revenue loss should also be familiar to the Liberal committee members of this finance committee. That's because it's the very same or identical methodology their own government used in preparing its 2005 consultation report. The revenue loss estimates are based on a sound methodology, and we stand by them. These are conservative estimates. The tax loss number could actually be higher, as chart C demonstrates; by increasing the effective tax rate by one percentage point, from 6.6% to 7.6%, the annual revenue impact would jump by over \$200 million to \$710 million per year.

You will no doubt hear from some witnesses that there is no real tax loss, and that if there were, it would be more than made up in the future through personal income taxes or withholding taxes on foreign investors, or taxes on deferred pension plans or RRSP withdrawals. Think about what you are being told: give income

trusts an indefinite tax break now, but get it back some time in the future.

Well, as Minister of Finance, I have a fiduciary obligation to the taxpayers of Canada today, not tomorrow. I have an obligation to pay for needed social, environmental, and economic programs today, not tomorrow. I cannot, and I will not, fund today's programs from tomorrow's revenues.

• (1120)

[Translation]

Clearly, income trusts had a special tax advantage that regular business corporations did not enjoy. You know it, they know it, and the market knows it.

[English]

The market reaction to a policy that levels the playing field between income trusts and corporations, that makes them equal, not worse, shows that a built-in tax advantage existed, otherwise the investors would not have reacted the way they did. There would have been no market correction.

For those who, faced with all of this evidence, still claim that we don't know whether there will be a loss of government revenue from income trusts, all I can say to you is this. We have federal and provincial government estimates clearly demonstrating tax losses. Income trust distributions are being sent out of the country to a large number of foreign investors who are reaping a financial windfall at the expense of Canadian taxpayers. The only Canadian tax they are required to pay—that is, the foreigners are required to pay—is a 15% withholding tax. That's 15%, far less than the taxes paid by trust holders here in Canada. We have had two of Canada's biggest companies explicitly citing tax considerations as the reasons for announcing plans to convert last year. We know that these same two companies have since renounced their conversion plans since our announcement that any new trusts would be taxed as corporations. We know that other large firms that were actively planning to convert to trusts have abandoned their plans, and we know that groups such as the Coalition of Canadian Energy Trusts must realize that there is a tax loss, otherwise they wouldn't argue that the trust structure gives them a lower cost of capital than the corporate model does.

Faced with these tax losses, the natural question should be, who will pay for all of this lost revenue? Well, your constituents will, of course—the people of Markham—Unionville, the people of Joliette, the people of Winnipeg North, and the people of my riding of Whitby—Oshawa. By failing to implement the tax fairness plan, we would harm our government's books and affect the budgets of every single province in this country, these funds that belong to the people of Canada.

As I pointed out earlier, the provinces are quite concerned about this issue, because ongoing trust conversions were costing them millions of dollars. They understand that converting our businesses into income trusts is not the way to build a dynamic, competitive economy, the kind of economy that we described in our economic plan for Canada, Advantage Canada.

The Province of Alberta, for example, estimated in its 2006 budget that it would lose \$400 million a year, before we introduced our tax fairness plan. Their minister now has told me, and put it in writing—you have the letter—that it's actually \$450 million, according to their current estimates in Alberta.

The Atlantic provinces lost one of their biggest corporate taxpayers when BCE converted Aliant into an income trust. This conversion had a significant impact on their corporate tax revenues, and that's referred to specifically by the Honourable Mitch Murphy, the finance minister for the Province of Prince Edward Island, in the letter that you have from him.

• (1125)

[Translation]

And Quebec has estimated that the province would have lost \$150 million annually if the conversions of certain large corporations had proceeded as announced.

[English]

How would it be fair that foreigners would reduce their tax bills through this structure, but hardworking Canadians, who pay to keep our schools, hospitals, and emergency services running, would not?

As you can see, the costs of indecision would have been substantial and unfair, not only for our government but for all governments in Canada.

Our tax fairness plan recognizes that investors, many of whom were seniors, have been affected. We are taking steps to protect investors in four key ways.

First of all, we are providing a fair and reasonable four-year transition period before the new distribution tax will apply to existing income trusts.

Secondly, we are providing generous growth guidelines during this transition period, allowing existing income trusts to actually double in size during the four years.

Thirdly, we are putting in place this year pension income splitting for seniors and pensioners, a significant improvement to our tax system, worth approximately \$700 million per year.

Fourthly, we are increasing the age credit amount by \$1,000, from \$4,066 to \$5,066, effective back on January 1, 2006. This measure will provide tax relief for low- and middle-income seniors.

This committee will be urged to make a recommendation to extend the transition period from four to six to eight or even ten years. I want you to consider, on behalf of all Canadians, the ramifications of that move. A transition extension is actually a policy reversal. It gets through the back door a policy change you can't get through the front door.

A longer tax holiday period for trusts would only mean tax unfairness for a longer period of time. It would do nothing for some investors who decided to sell their units between November 1 and today. Most of all, it would create a greater financial burden on Canadian taxpayers.

Extending the transition period from four to ten years would cost the federal treasury approximately \$3 billion. It would also cost

provincial treasuries. Alberta would lose over \$2 billion, and Quebec would lose hundreds of millions of dollars.

[Translation]

So, I would say to the Member for Joliette, are you in favour of a wealth transfer of hundreds of millions of dollars from the pockets of Quebec taxpayers by extending the transition period to 10 years?

[English]

This isn't how you build a 21st century economy. This isn't how you build a productive future and a better quality of life for all Canadians, the ultimate goal of our economic plan, Advantage Canada. It certainly isn't how our competitors are doing it—not the United States, not Australia, not the United Kingdom. As Peter Godsoe, the former chair and CEO of the Bank of Nova Scotia, said on October 23:

We are using a structure that the Americans looked at, and shut down. The Australians had trusts, they shut them down. The British looked at this, and decided not to allow it. What do we know that everyone else doesn't?

Canada's new government agrees. Watching the world go by will do nothing to help future generations, whose standard of living will be determined by the investments we make today. Delaying, in other words, only puts off the ultimate goal of this decision, which is an economy driven by sound business and economic decisions, not by the kind of tax planning and tax avoidance our major competitors have clearly rejected.

Let me deal with one final issue, if I may, before I have an opportunity to take your questions—that is, the effect of our decision on energy trusts in particular.

Some in the energy sector have called for special rules based on that sector's history with these tax vehicles. I don't agree, and I don't believe most Canadians do either. I believe it's reasonable to expect that all sectors of the Canadian economy pay their fair share of taxes. Critics have often pointed to the U.S. energy sector and called on our government to treat energy income trusts the same way the United States does with master limited partnerships, or MLPs.

Well, first of all, Canada has no intention of mimicking the United States tax code.

Secondly, United States MLPs are almost exclusively owned by domestic investors in the United States. In Canada, energy income trusts are to a considerable extent foreign-owned—50% of the large energy trusts, as you can see on this chart.

Thirdly, structural impediments under U.S. law have the practical effect of limiting the investment of U.S. mutual funds and tax-exempts in MLPs.

Fourthly, we do not accept that the United States MLP rules will provide a tax advantage as compared to Canadian energy trusts, as the tax treatment of taxable investors under both regimes is effectively the same.

Finally, it's important to understand how much more significant the issue with energy trusts is here in Canada, and that is the size of the markets and the percentage of the markets. The value of Canadian publicly traded energy trusts represents roughly 4% of the TSX market cap. Income trusts alone comprise over 15% of Canadian oil and gas production. In comparison, the total value of U.S. MLPs amounts to less than a third of one percent of the market capitalization of the New York Stock Exchange and NASDAQ.

Had we not acted, the energy trust share of the marketplace in Canada would have risen even further. More and more businesses would have asked, why should that company benefit and not mine? Then that \$500 million revenue loss would grow, because if a company like EnCana opted to become a trust, you can be certain that they would not be alone.

Talk to Newfoundland and Labrador, a province with a historic opportunity before it to build prosperity and lift its citizens out of debt, and see what they would think about Hibernia, for example, becoming an income trust. This is not a hypothetical illustration. In the case of Hibernia, the federal government has received several proposals to do just that, with respect to Hibernia becoming an income trust. As Mr. Marshall, the province's finance minister wrote to me:

The potential erosion of this revenue source resulting from the proliferation of Income Trusts had been of grave concern prior to your announcement.

Newfoundland and Labrador, Nova Scotia, and the federal government all believe very strongly that energy projects should pay their fair share of tax. Our government remains committed to tax fairness and fulfilling our commitment in Advantage Canada by lowering taxes further as we prepare our next budget.

•(1130)

[Translation]

Our last budget reduced taxes in 29 different areas. While not giving anything away, I can tell you that, had this government not acted on income trusts, any plans for future tax reductions in the next budget would be at risk.

[English]

I have a few final thoughts to conclude. In the end, our government was faced with a hard choice, and now this Parliament is faced with a big decision: to make the tax fairness plan a reality. We chose not only to recognize a growing problem occurring in Canada's tax system, but to fix that problem. We made that decision based not on political calculations, as did the previous government, but on principles of tax fairness—balancing the needs of individual investors with the interests of taxpayers and their families. We acted responsibly and decisively. It is not tax fairness if it is only for a few. And it is not strengthening the economy if the playing field is not level for all businesses in Canada.

Committee members should recognize that they can't turn back the clock. There has been a substantial change of ownership in trust since October 31, 2006—for a number of trusts, up to one-quarter of the shares have changed hands. Where there was once speculation as more and more large corporations opted to become income trusts, today there is certainty. Businesses are making their own choices to grow this economy. They're moving on.

It's time we all move on, in the interests of all Canadians. The result of our decision is clear: a tax system that is fairer for Canadians and that will help make our economy more productive, efficient, and dynamic, today and for years to come.

•(1135)

[Translation]

The result of our decision is clear: a tax system that is fairer for Canadians and that will help make our economy more productive, efficient and dynamic today and for years to come.

[English]

Thank you for your kind attention.

I would, if I may, Chair, ask Bob Hamilton, the senior assistant deputy minister of tax policy at the Department of Finance, to go over the paper that the department has prepared, and which members of the committee have, with respect to the revenue losses to the Government of Canada, the methodology and so on.

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

Gentlemen, I appreciate your attendance here.

I think we'll move to questions. We only have a half hour remaining and I do want to include the committee members in the exchange today, so we'll move immediately to questions.

Mr. McCallum, you'll begin, for six minutes.

Hon. John McCallum (Markham—Unionville, Lib.): Thank you, Mr. Chair.

I think we have good news and bad news today. The good news is that at least these hearings have demonstrated their value by forcing the Department of Finance to produce numbers instead of these blacked-out, highly censored documents that we have had to date. So congratulations on that.

The bad news is that these numbers from Finance have been all over the map. There have been four sets of numbers. These are hugely complex issues. We can't respond immediately when we're presented with numbers on the spur of the moment, so it will be my proposition that after we have heard from the witnesses.... Some of these experts will question Finance. Finance now says "900 million"; some of our witnesses say "zero". This is an important subject. We will hear the witnesses, and then after we have heard from the experts, in light of the expert testimony we will propose to invite the minister back to revisit his estimates.

But I might just say off the top of my head, looking at two charts, I can think of two good reasons why right away I'm skeptical. He puts a lot of emphasis on BCE and TELUS, and at the time he said that if BCE and TELUS had converted there would be \$300 million of lost revenue. But since that time, BCE and TELUS have both revealed they will be paying essentially no corporate income tax. As one of our experts will testify, in fact by not converting to an income trust, BCE and TELUS will be paying less tax, because they will be paying essentially no corporate tax over the coming years.

With respect to the second example, his other chart here, about the foreign energy trusts and the 15% withholding tax, if those companies were corporations they'd presumably be paying the average effective corporate tax rate in the energy sector, which is approximately 7%—7% is less than 15%.

Those are just two examples, which I won't elaborate on further, as to potential flaws. We have to hear the witnesses at this point. After we have had time to digest all these numbers, we will seek to call the minister back.

This is my question for the minister. Before your announcement, did you receive studies on the impact of your announcement on investors? If so, what did those studies tell you?

Hon. Jim Flaherty: As you know, your government put out a consultation paper in 2005, and there were a large number of responses to that.

I'm pleased, Mr. McCallum, that you have said what we did was "absolutely the right thing, and we had started on this track to protect the tax base—"

Hon. John McCallum: Mr. Minister, my time is limited. Excuse me—

• (1140)

Hon. Jim Flaherty: "—to ensure tax fairness and to work for the productivity of the nation." I am glad you approve of the policy decision I made.

Hon. John McCallum: Mr. Minister, as a humble member of Parliament, I only have five minutes, but I think they are my five minutes, so I would ask you to answer the question.

Hon. Jim Flaherty: I was going to answer your question.

Hon. John McCallum: And my question has nothing to do with that out-of-context statement of mine. My question is a very simple one. Before you made your announcement—

Hon. Jim Flaherty: Was it the right policy or not? You said it was.

Hon. John McCallum: Mr. Minister, I am asking a very straightforward question. Before you made your announcement, did you receive studies on the impact on investors? For example, did you have any estimates or information or studies from your department as to the likely impact on the stock market in terms of the market value of income trusts? Did you have any studies or reports on that subject?

Hon. Jim Flaherty: Obviously, Mr. McCallum, as I said in my opening remarks, the reason the income trust sector, particularly the energy trust sector, argued so vociferously for the maintenance of the status quo—

Hon. John McCallum: Mr. Minister, did you or did you not have any such reports?

Hon. Jim Flaherty: The reason the income—

An hon. member: Come on!

Mr. Mike Wallace (Burlington, CPC): Let him answer.

Hon. Jim Flaherty: Are you going to let me answer or do you just want to keep going? If you want to keep going, it's okay. I've made the important points I wanted to make, and if you don't want me to reply, I won't.

Hon. John McCallum: You have had 30 minutes. I simply want to know, did you receive any reports from your department as to the likely impact on the market value of income trusts before your announcement?

Hon. Jim Flaherty: Do you want me to answer?

Hon. John McCallum: Yes.

Hon. Jim Flaherty: I'll answer the question. If you give me a moment, I'd be happy to.

Hon. John McCallum: If it is an answer to the question.

Hon. Jim Flaherty: I should mention, Mr. McCallum, the little speech you gave. The \$500 million figure I used today is the same figure I used in October—

Hon. John McCallum: I know, but that is not the question. I take it the answer is no, or else you would have said yes. Did you have any reports? Did you have any sense as to the loss to those hardworking Canadians who had invested in income trusts, taking the Prime Minister at his word? Did you have any sense of whether the loss they would experience the day after your announcement would be \$30 billion or \$30 million or \$30,000? Did you have any advance estimate or information from your department as to the likely impact on Canadians of that announcement of yours?

That's my question.

Hon. Jim Flaherty: Do you want me to answer?

Hon. John McCallum: I do.

Hon. Jim Flaherty: Will you let me answer?

Hon. John McCallum: If you answer that question.

Hon. Jim Flaherty: You want me to answer what you want me to say.

An hon. member: Exactly. That's why the question is—

Hon. Jim Flaherty: How about if I say what I want to say in response to your question? Will you let me answer or not?

Hon. John McCallum: I'd like you to answer my question. Please proceed.

Hon. Jim Flaherty: Good. Thank you.

The estimate of the tax loss was \$500 million on October 31—

Hon. John McCallum: That's not the question.

Hon. Jim Flaherty: —and it is the same today.

The Chair: Mr. McCallum, your time is up, but I'll give a little bit of time for the minister to respond, if he'd like to have just 20 seconds.

Hon. Jim Flaherty: The answer, of course, Mr. McCallum, is that just as your government knew, if it had acted, there would be a negative impact on the market, as you knew in 2005 and you didn't have the courage to act.... You had the courage to leak but not to act. We knew there would be an impact on the markets, and I did not look forward to that. That was a sad effect on people in Canada, on a significant number of investors. I met with one yesterday. It gives me no happiness to see that kind of impact on people, but you have to act in the interests of the whole country, of all Canadians, and do the right thing, which we did and your government didn't.

The Chair: Thank you, Mr. Minister.

Just as a point of information, it is interesting for the committee to know as well that over 80% of trusts are up since the middle of November.

We will go to our second questioner now, Mr. Paquette.

[*Translation*]

Mr. Pierre Paquette (Joliette, BQ): Thank you, Mr. Chairman.

Thank you, Minister, for joining us.

I would like to remind you of the reason why the Bloc Québécois wanted the committee to take a closer look at the decision announced on October 31 last.

During the election campaign, the Prime Minister said he would not change the rules governing income trusts. Based on that undertaking, many small investors decided to invest additional sums of money in income trusts. You clearly demonstrated that a fiscal imbalance exists and I don't disagree with you at all on this. On the substance of the matter, the Bloc Québécois supported the government's decision and voted in favour of the notice of ways-and-means motion.

How do you explain the fact that during the election campaign, Mr. Harper didn't appear to be convinced that a fiscal imbalance existed, when you've just been able to prove convincingly that the opposite is true? Why opt for a four-year transition period, rather than two years, or six years? I'd like to know the rationale for this decision. If the aim is to address the fiscal imbalance, why exclude property trusts?

Lastly, you spoke of losses amounting to \$3 billion if the transition period was extended to 10 years. It seems to me that all you've done is automatically multiply \$500 million by six, when it's a known fact that profits will be taxed at a lower rate over the next few years. Did you take this fact into account when you came up with your estimate of \$3 billion?

I believe these are four very clear questions.

• (1145)

[*English*]

Hon. Jim Flaherty: Yes, there were at least a couple of questions there. I'll try to be as efficient in my answer as I can.

First of all, with respect to why the government acted at the end of October, the reason was what happened in 2006, and several things happened. As chart A shows, there was a rapid acceleration of conversions to income trusts in the first 10 months of 2006, including the ones that were announced by TELUS and BCE.

Secondly, the quantum had gone up dramatically, about \$70 billion alone in the first 10 months of 2006. Thirdly, the nature of the income trusts—they were starting to invade active areas of the economy requiring investment and re-investment, the knowledge-based sectors of our economy—was very dangerous for the growth of our economy and our future prosperity. All of those things were new in 2006 and were not present in 2005, and that is why we felt, given that change of circumstances, to act was the best thing for Canadians.

Now, why will the transition period be four years and not 10 years?

[*Translation*]

Mr. Pierre Paquette: You're right. All of these facts weren't known in 2005.

I agree with the decision to block income trust conversions. However, in 2005, you were willing to live with the existing 250 income trusts. Now, you've changed your tune, and rightly so.

[*English*]

Hon. Jim Flaherty: No, you're right. As you can see on chart A, Mr. Paquette, what happened in 2006 was very dramatic.

[*Translation*]

Mr. Pierre Paquette: Had we opposed this decision and there was no change to the income trusts in place in 2005, the Conservative Party would have been prepared to live with the situation, but now, it is singing a different tune. I'd like to know the reason for this change of heart.

[*English*]

Hon. Jim Flaherty: I can't account for the failure of the Liberal government in 2005. What I can say is that in 2006 we were faced with dramatically different circumstances. Quite frankly, we could have chosen not to act and we could have waited. Where would we be today, at the end of January 2007? Where would we be three months from now? What kind of economy would we be leaving our children? Is that the kind of economy, the kind of country we want to have? The answer to all of that is no.

Was it politically a good idea? Probably not. There's the fallout you're describing, but sometimes you have to do the right thing.

[*Translation*]

Mr. Pierre Paquette: This was a very courageous move on your part. However, it also means that the promise made by Mr. Harper in 2005 was irresponsible.

Why four years rather than three?

[*English*]

Hon. Jim Flaherty: I understand your position on that, Mr. Paquette. I will try to deal with the second aspect, why we chose four years instead of two years, or six years, or eight years, or whatever.

The nearest comparable case we had internationally was that of Australia, which dealt with this issue some years ago. They chose a three-year transition. We are more generous than that in allowing four years. Not only is the transition period more generous, but we're allowing double growth, basically. We're allowing income trusts, pursuant to the rules that we released in December, to double in size over the course of the four years.

It could go longer than that. It could go another six years. It'll cost the taxpayers of Canada \$3 billion federally and more than \$2 billion provincially. So \$5 billion will have to be paid by those of us sitting around this table and by people at home, hard-working Canadians. If you think that's the right thing to do, then that's your view. I don't share that view. I don't think it is your view, as a matter of fact. I think you think the four years is a reasonable period of time and that it's a question of fairness to Canadian taxpayers.

Why should one form of corporate entity have a tax advantage over another form of corporate entity in Canada?

[Translation]

Mr. Pierre Paquette: With respect to property trusts...

The Chair: I'm sorry, but I must turn the floor over now to Ms. Wasylycia-Leis.

[English]

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairperson.

Thank you, Minister, and all your staff for appearing before us today.

I think, Mr. Minister, if you would just simply say that your party made a stupid election promise in the last federal election, we'd be able to clear the air and get on with this.

• (1150)

The Chair: Would you like to make a motion to that effect?

Ms. Judy Wasylycia-Leis: I might.

In fact, what seems to be the case is that the information from the department has been a constant. The same information that you are relying on today from your finance officials was available to the Liberal government. In fact, it was the Liberal government that initiated the study back in September 2005, which revealed very clearly the loss of tax revenue, even then significant, given that we hadn't seen the explosion in potential income trusts at the time.

My question relates to that, and perhaps to the officials.... I think by the fall of 2005, the department had already flagged the tax loss question in public documents, and there was also a clear indication that energy giant EnCana was looking at a conversion. There were rumours about other major corporations. We were hearing then about other energy corporations—the banks, you name it, the list just seemed to grow and grow. Yet the Liberal government chose not to act.

Did the department actually take seriously this issue at that time? If it did, what was the explanation from the Liberal Minister of Finance for not acting on it?

Hon. Jim Flaherty: Do any of you want to touch that?

The Chair: Mr. Carney.

Mr. Mark Carney (Senior Associate Deputy Minister, G-7 Deputy for Canada, Department of Finance): Thank you, Chair.

The department has analyzed this issue, as the member suggests, for a number of years. Since the beginning of 2005 we've received tens of thousands of individual submissions to the department; we've had over 100 expert and professional submissions and meetings since the beginning of 2005.

So the short answer to your question is that we have looked at it over a period of time.

I would add, though, if I could correct one aspect of your question, that you referenced the fall of 2005, a specific company, and potentially financial institutions. I would refer back to what the minister said. That was the fall of 2006, which is consistent with the change in the landscape that took place over the course of 2006.

Thank you.

Ms. Judy Wasylycia-Leis: I appreciate that.

Just to clarify, it was the Liberal consultation paper of September 2005 that began to identify the significant impact on tax revenue. At that time—quoting from page 5 of this Liberal document—it said it estimated that the federal tax revenues in 2004 were \$300 million lower than they would have been if FTEs were structured as corporations. So I think that's a significant indication of the trend and the problem area.

Back on that fateful day, at least fateful for the Liberals, November 23, 2005—the same day, of course, that the Liberals announced their intentions for not taxing income trusts but for reducing the tax at the dividend-paying end—the parliamentary secretary at the time, John McKay, said in a media interview that there would be a tax on income trusts. He quickly withdrew that, but he certainly implied that the direction not to tax trusts at that time was a very last-minute one.

So I'm wondering if anyone has an explanation as to why the tax was pulled. What was it? Can you shed some light on this whole scenario?

Hon. Jim Flaherty: You don't have to—

Mr. Robert Wright (Deputy Minister, Department of Finance): I just want to make it clear that as professional public servants we don't talk about the advice we gave to the current government or the previous government.

Ms. Judy Wasylycia-Leis: Okay, fair enough.

Could I ask you, when you briefed the new Minister of Finance at the very outset, did you reference this issue of trust taxation as part of that briefing?

Hon. Jim Flaherty: I can answer that if you want. My recollection is that the first time we had a serious discussion of review of the issue was in July 2006. It was a matter of quite serious concern in July, August, September, and October, before we made the announcement on October 31.

Ms. Judy Wasylycia-Leis: I appreciate that.

Around the lead-up to the November 23 announcement, we had a clear indication from—

The Vice-Chair (Mr. Massimo Pacetti): Ms. Wasylycia-Leis, sorry, I wasn't noticing the time. Your time is up.

I would ask Mr. Flaherty to just hang on, because we're going to try to go through a second round.

After Ms. Ablonczy I have Mr. McKay on the list.

Ms. Ablonczy, you have five minutes.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): Thank you, Minister, for appearing, and your officials as well.

It has been instructive to watch the Liberals opposite, who said we had to have these witnesses appear because they wanted facts. But I notice that Mr. McCallum did everything he could to keep facts from going out.

I appreciate the fact that you have given the committee the numbers that the Liberals keep saying they don't have. I would appreciate it if you could take some time to go through these—you and your officials—to help Canadians understand a little bit more about what was at stake with this decision.

• (1155)

Mr. Bob Hamilton (Senior Assistant Deputy Minister, Tax Policy Branch, Department of Finance): Yes, Mr. Chairman, I'd be happy to take a couple of minutes, and I'll try to make it brief; I recognize the time.

I will just take a minute to explain a couple of the charts that go through the revenue estimates to make sure everything is clear. What we're trying to do in calculating this is to look at the taxes that would be paid under a corporate structure versus the taxes that would be paid by the same entity under a trust structure. So we try to look at those two things, build that up, and compare at the end what the differences are and how big the revenue loss is.

If we look at that chart over there, the federal government loss, it takes you through those components, and it's in the background documents you have as well. If you look at the first panel, and I won't go through it in gory detail, we first look at the taxes under the FTE or the trust structure, and that includes taxes paid by the unitholders of the trust—there's no entity-level tax paid there by the trust itself, that's one of the issues—and taxes that are paid in other distributions, for example, to third-party lenders. If you look at the total of that—this is data that's based on 2005 built up to 2006—it's \$1.6 billion.

If you look at the second panel, it says what that same operation would pay under a corporate structure. And there you have the corporate income tax that would be paid and you have taxes that would be paid by the shareholders on distributions and, again, the third-party lenders, and that comes up to roughly \$2.2 billion or \$2.3 billion.

In a sense, that's your ongoing difference. You take that \$2.275 billion, subtract \$1.675 billion and you get a \$600 million difference. As I said, that's your ongoing loss that's there every year. But there's also another effect, and that's the one-time capital gains. When a corporation converts into a trust, there can be a capital gain arising from the increase in the share prices, and that happens in the year of conversion. That gives us capital gains revenue in that year, or some

of it accrues that year and some of it accrues later. We factored that into the calculation as well, and that reduces the revenue loss. Here you see it's by \$100 million, and it takes you down to a net loss for 2006 of \$500 million.

As the minister indicated earlier, this is the federal revenue loss. There would be provincial revenue losses as well, and you've heard some of the numbers that have been played out.

First, the important thing in this calculation is to look at the taxes that are paid at the different stages under the two different structures and make sure you add them all up and compare them, and that's what we've done.

The other chart that's interesting in this context is over there, but it's also in your package, and it's the sensitivity chart. What we've done is said yes, \$500 million is our best estimate of the cost. We think it's a conservative estimate, because some of the things we've seen since then suggest that some of the parameters might be understating it.

What this chart shows is if you adjust some of those key parameters, how much do the revenue estimates change? The two we've picked up here are the effective corporate tax rate, because in doing the calculation under the corporate structure you have to make an assumption about how much corporate taxes would have been paid, and the other parameter is the proportion of the entity that's held by tax-exempt investors. If it's held by taxable investors, it has one tax effect; if it's held by tax-exempts, we don't collect any tax, RRSPs, RRIFs, in the year.

• (1200)

Mr. Paul Szabo (Mississauga South, Lib.): RRSPs are not exempt?

Mr. Bob Hamilton: They're exempt in that year and then the tax ultimately could get paid.

Perhaps I'll just finish this. If you look at the chart, it first expresses the effective federal corporate tax rate as a percentage of earnings before interest, taxes, depreciation, and amortization, and you can see that runs from 6.6%, which is the average we've assumed in the paper, and if you run that across the road to see the column that's headed 38%, which is the percentage of tax-exempt investors we've assumed, that's your \$500 million.

If you adjust those parameters, for example, if you increase the tax rate by one percentage point on the left column, which I should say is not a statutory corporate tax rate—that's the effective rate and it would translate to an effective corporate tax rate on pretax profits of 16.4%—then you can see that the revenue estimate would increase to about \$700 million, and similarly, you can walk down the column.

Alternatively, if you were to—

The Chair: I'll cut you off right there, as riveting as this is, but I have to move on now to the second round of questioning.

To accommodate two to three more questions, we'll make it three-minute rounds. Mr. McKay, we'll start with you.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

We're all in favour of facts around here.

I wonder, Minister, if you could reverse the decision of your department to send Mr. Tait blacked-out copies of this document. Mr. Tait apparently asked for documents on November 10, and he was sent all of these blacked-out documents on loss in federal tax revenues allocated by province, etc. So if we're ever going to deal with facts, we would like to at least have the facts, as you see them, before the committee. I wonder, could you do that?

The second question is with respect to the apparently permanent loss of about \$30 billion to \$35 billion in Canadians' savings—hard-working Canadians, as you're fond of saying.

I have in my hand *The Globe and Mail* globeinvestor.com chart dated yesterday, and it shows that loss as a permanent loss of \$35 billion. You apparently think taking \$35 billion out of Canadians' savings is worth this alleged leakage of something in the order...well, we've had an inflation of numbers from \$200 million to \$300 million to \$800 million, and if I read *The Globe and Mail* headlines correctly this morning, it's \$1.3 billion. So you apparently are prepared to dip into Canadians' money to the tune of \$35 billion for this leakage.

Then when you start to parse the leakage, it divides into three arguments. The first argument is the pensions/RRSP argument, and you call it tax-exempt. It's not correctly stated. As any other person would understand it, it's not tax-exempt; it's a tax deferral. If in fact my RRSP is now tax-exempt, I think we can all quit and go home, because we're all happy little campers. It is a tax deferral.

The second issue is with respect to the losses to foreign investors of about 22%. Why not close off the other loopholes as well? Apparently, it's a 15% withholding tax with respect to bonds and other remittances to other holders of Canadian securities. With the balance of the money, which is approximately 40%, the argument is that the effective tax rate for those who hold trusts is higher than distributions under corporate entities.

It's very difficult, Minister, to make a reasoned assessment as to whether in fact the advice you're receiving is correct when all you receive is blacked-out documents.

First, will you re-instruct your officials to give us the full document? Second, would you please comment on whether you received any analysis as to the impact on the market with respect to your decision?

Thank you very much.

The Chair: Mr. St-Cyr, please proceed.

[*Translation*]

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): Thank you, Mr. Chairman.

I have a few questions for you, Minister. First of all, you showed very clearly that the number of conversions had increased in 2006 and that more were in the works. Ultimately, don't you think this situation is more the result of this irresponsible promise that was made by this government?

I'm also wondering if you have an answer to the question asked earlier by my colleague, the Member for Joliette. If this decision was made with a view to achieving tax fairness for all, why then have property trusts been excluded?

Thirdly, you quoted a figure of \$3 billion in connection with the transition period. How did you arrive at this figure? Did you simply multiply \$500 million by six? Can you let us in on how you did your calculations? I didn't find the answer anywhere in the guide you supplied to us.

Fourthly, today you are breaking a promise, arguably because the cost of the status quo is too high. While the Bloc Québécois agrees with you on principle, it regrets your making this irresponsible promise. Another big promise was made in relation to the fiscal imbalance and I'd like to know if we're going to get the same answer when the next budget is tabled, namely that it would prove too costly for the government to keep this promise.

• (1205)

[*English*]

Hon. Jim Flaherty: I don't know how long I have.

The member will appreciate that on the last question about moving from fiscal imbalance to fiscal balance in Canada, we will have to await the budget. That's not too far away, so we'll get to that before too long.

I'm trying to respond to your questions. In terms of the \$3 billion estimate, that is an additional six years at \$500 million a year, \$3 billion. It's a straight arithmetical calculation.

On your question about the REITs, internationally REITs are being treated separately. In other jurisdictions that are comparable to ours they've been carved out and treated separately. We thought it was justifiable to continue that practice here in Canada with respect to passive real estate investments, which is what they do, as opposed to active, knowledge-based industry of the future of our Canadian economy.

With respect to what was happening in 2006 with BCE and with TELUS, these were very serious announcements. The member from Winnipeg North asked me earlier about when I was briefed and so on. As we looked at this issue in July, August, September, October, we had the TELUS announcement, which I believe was September 11, and the BCE announcement, which I believe was October 11. I had communications with these companies. I had directors of other companies saying to me, "Jim, you know what's happening out there. We're being pressured to convert to income trusts by our shareholders because of a tax loophole. And is that the right way to run our businesses?" I had directors saying to me, "I don't want to vote in favour of this publicly traded corporation that I'm a member of the board on. I'm an experienced business person. I don't think the income trust is the right thing for this ongoing operation, but the shareholders do, because they can get greater returns in that structure."

So that is what was going on.

The Chair: *Merci beaucoup, Monsieur.*

We conclude with Mr. Wallace now.

Mr. Mike Wallace: Thank you, Mr. Chairman.

Thank you, Minister, for appearing this morning.

As you know, I was not in favour of having these meetings until we had the actual legislation in front of us, which I believe is coming. Last night, on my way back to Ottawa, the Honourable John McCallum said to me on a public airplane that we're going to have some fun this week with this. Well, I find it ironic that he would consider these types of discussions as fun, as if this is some sort of game. As we look at what happened in November of the fall of 2005, when they talked about it, mused about it publicly, you'll see what happened is that the markets went up and down, and investors were hurt. I don't think that was appropriate.

One of the issues that was to be discussed was "Why four years?" While you were giving that presentation, all of our Liberal friends were chatting with each other and weren't paying attention. Whether they agree or not, I'm not sure. But I think they should have at least been paying attention.

So my question is to you, as the Minister of Finance. I think it's obvious that the governments before us were given the information, obviously started this information, and have received the studies. But why is it important for the finance minister of this country to act with certainty and decisiveness on this particular item?

If you could explain that to me, I would appreciate that.

Hon. Jim Flaherty: I was certainly aware when we looked at this issue last year, in 2006, of what had gone on in 2005, which was leaked information, the market fluctuations that you've seen—all by the previous Liberal government. We had Mr. McKay, who's here, saying on Newsworld on November 23, 2005—and I quote—"The trusts will be taxed going out or starting, I think, around 2007", and that it would be a very modest tax. Then we had the Minister of Finance of the day going out and doing something else, not doing that, and issuing a consultation paper, and there were more leaks and more market gyrations. That's not right for the Canadian economy. It's not fair to investors. If we were going to act, we were going to act with certainty and decisiveness, and that kind of certainty we maintain for the people of Canada.

The "having fun", which the Liberal Party is now intent on doing with this issue, simply serves to create market uncertainty and more difficulty for Canadian investors. It's time to move on. Canadian investors have.

The Chair: Thank you very much.

The committee thanks you very much, Minister, and your officials for being here. We appreciate also the fact that there are some finance officials who will be staying here as providers of additional information if there are more detailed questions for them. Thank you for that.

We will not recess; we will simply allow two or three minutes for the panel members to come forward now. I urge them to do that expeditiously so that we'll have the maximum time to enjoy their presentations.

•(1210) _____ (Pause) _____

•(1215)

The Chair: We will reconvene. I will give committee members just a few seconds to return to the table and then we'll proceed.

Thank you to our guests. We appreciate your being here. We thank you also for the materials that you provided to our committee in advance of this meeting today. I know you have been alerted to the fact that you'll have a maximum of five minutes to make your very detailed presentations. I will give you an indication of when you have one minute remaining in your time just to avoid the necessity of cutting you off in mid sentence. We'll unceremoniously cut you off at five minutes, just to allow time for exchange with committee members.

Thank you all for being here. We will proceed first of all with Dianne Urquhart, who is an independent consulting analyst and is here as an individual.

Welcome, Dianne, and over to you.

Mrs. Dianne Urquhart (Independent Consulting Analyst, As an Individual): Thank you.

I support the income trust tax plan, with no increase in grandfathering beyond four years. I strongly urge that the income trust tax plan be enhanced by the addition of prescribed conditions to the Income Tax Act to stop income trusts from reporting deceptive, non-gap financial measures. Cash distribution must be defined as income distribution and return of capital distributions. The cash yield calculation should be restricted unless there is an equally prominent income yield calculation.

The federal government should not be giving tax incentives for an investment targeted to seniors where the product is an unsuitable investment based on the investment objective of secure retirement income and preservation of retirement capital. The high-risk design of income trusts and their deficient investor protection legal framework makes them unsuitable for seniors.

Making matters worse, the tax incentive is promoting the purchase of an investment where there is considerable malfeasance in the financial reporting and marketing material, which I'll speak about in a moment.

I have found that two out of three business income trusts pay distributions well in excess of their incomes. The average amount that the cash distributions are above income is 60%. The sources of the extra money are borrowed money, reserves from prior financing, and not retaining cash to replace plant, machinery, equipment, and software. This financial engineering, without proper transparency, is causing the return of capital to be capitalized as income. This is causing excessive pricing in the market.

In my research “Heads I Win, Tails You Lose”, I found that the business income trust market was trading at a premium of 55% relative to the TSX/S&P60, which comprises sixty of Canada's largest public corporations and a few income trusts. I also compared it to a sample of Canada's non-cyclical public corporations, which comprise the banks, the telcos, the utilities, and the power companies. On that basis, Canadian business income trusts were trading at a 55% premium. Even when I looked at the cashflow from operations, I found that income trusts were trading at a 40% premium. I believe the tax advantages in income trusts contributed 16% of the 55% premiums.

I conclude that the income trust tax plan with a four-year grandfathering period has a 10% negative impact on prices. My calculations differ from the calculations Mr. McKay asked about earlier with respect to what the investment losses have been since October 31 and the announcement of the plan. Business income trusts and energy income trusts, based on a roll-up of each of the individual trusts, are down 13%—up to about two to three days ago—for a loss of \$23 billion.

On the basis of my detailed analysis of the tax advantages and the elimination of the premium associated with the tax advantages, it's my opinion that the income tax loss associated with the decision to introduce the income tax plan is \$17 billion. This damage is a necessary consequence of a government closing a tax loophole that is not achieving benefits for the economy and is promoting the purchase of an investment by seniors for which this investment is unsuitable.

For a properly diversified portfolio with less than 20% invested in income trusts, the new tax damage is 2%. This is clearly capable of being absorbed by Canadians who invested in this security. Those who have higher losses than this have seen them occur as a result of improper diversification, or perhaps they have suffered the losses as a result of the malfeasance with respect to the improper marketing of income trusts to seniors.

I want to note that on May 3, 2006, the Canadian Accounting Standards Board said that the failure to distinguish clearly between returns on capital and returns of capital is inaccurate and potentially misleading, particularly when terms such as “yield” are used to describe the amount distributed.

The Chair: Thanks, Dianne. I appreciate that. Your five minutes is up.

We'll move on to George Kesteven, who is president of the Canadian Association of Income Funds.

Mr. Kesteven, welcome.

Mr. George Kesteven (President, Canadian Association of Income Funds): Thank you very much.

We are pleased to be here today on behalf of the Canadian Association of Income Funds.

First and foremost, we commend this committee for undertaking these hearings into the proposed taxation of income trusts. This is the first time that due process has been allowed since the Conservative government shocked financial markets last Halloween with the

announcement that they would break an election promise and impose a tax on income trusts.

You and your viewing audience are all familiar with the Prime Minister's repeated promise to seniors that he would never raid their hard-earned assets, yet that is exactly what Mr. Harper's government has done, moving arbitrarily and without consultation to tax the distribution payments of income trusts for millions of investors.

Minister Flaherty's stated intention last October was to level the playing field with corporations. Instead the government caused a multi-billion dollar meltdown of investor savings almost overnight and sounded the death knell for this sector.

Before looking at the damage that has occurred, let me deal with the key issue underpinning the government's case: tax leakage. The minister's claim now that over \$1 billion per year is lost due to tax leakage is grossly exaggerated and is not supported by facts. That appears to be, unfortunately, the heart of his case.

Given the importance of this issue, it is unconscionable for the government's numbers to keep changing. Even if we could believe the original \$500 million leakage figure, the minister later raised it to \$800 million following the announced intentions of Bell and TELUS to convert. These organizations do not pay taxes, so how can there be additional and increased leakage?

Permit me to quote from a news release issued by Bell Canada on December 12, 2006:

Bell expects it will have no significant federal cash taxes through 2010, due to organizational simplification enabling accelerated use of Bell's R&D tax credits.

Similarly, in a news release issued on December 14, 2006, TELUS stated:

Based on an updated review of the company's tax loss position, TELUS now expects minimal cash tax payments in 2007, a preliminary estimate of approximately \$100 million in 2008 with the payment of significant cash taxes largely deferred to 2009, rather than 2008 as previously anticipated.

To date, and even including what we're seeing today, there is no clear, credible data that has been released by the Department of Finance to prove its claim. When information was requested through access to information to substantiate the numbers, we were given blank page after blank page.

I can, however, report to this committee that CAIF's independent third-party consultants, HLB Decision Economics, which will appear before this committee in a few days, met with and agreed upon a methodology with the Department of Finance throughout 2005 and concluded that there was no federal tax leakage due to the existence of trusts. Based on independent, expert third-party economic analysis, there therefore is no federal tax leakage. In fact, federal tax revenues generated from income trusts are higher than tax revenues that would be generated were these organizations structured as corporations.

The reality is there is no tax leakage, and the studies you will read and see in the coming days will prove this to you.

I can also report to this committee on behalf of my colleagues in the industry that we have been inundated by phone calls, letters, faxes, and e-mails from individual Canadian investors who are frightened and worried by the government's actions. We are hearing from them by the thousands in every region in Canada, and no one on this committee should believe this issue is simply going to go away.

In addition to the damage done to retail investors, what are the other unintended negative consequences flowing from the government's trust announcement? Again recall the minister's stated intent: to level the playing field between trusts and corporations. The reality is this policy does not accomplish its stated objective. Private trusts and other public partnership arrangements, for instance, are not included. Why single out the one business entity instrument that serves the retail investor?

The effect of the minister's policy has been very severe and could put a stranglehold on the publicly listed trust sector. Let me explain what we as a sector have experienced. Access to capital has been severely curtailed, and in some cases terminated, for many trusts. Those trusts, for which access to the capital markets has become impaired, have been, in many cases, simply put up for sale. Billions of dollars in financing and mergers have been put into limbo or cancelled entirely. Depressed valuations have occurred, leaving many trusts susceptible to takeover by private equity funds or foreign investors, which, by the way, exacerbates the loss of tax revenues if these assets end up being owned by such entities.

• (1220)

With reduced valuations, infrastructure trusts are targets of pension funds and U.S. private equity. As this occurs, we Canadians will be frozen out of the opportunity to invest in our own infrastructure and natural resources.

• (1225)

The Chair: Thank you, Mr. Kesteven.

We continue now with Mr. Brent D. Fullard, president and CEO of the Canadian Association of Income Trust Investors.

Welcome. Over to you, sir.

Mr. Brent Fullard (President and Chief Executive Officer, Canadian Association of Income Trust Investors): Thank you for holding these hearings, and holding those responsible.

Five minutes is barely sufficient time to make the points I need to make; hence, the prepared comments.

Our association represents the interests of the 2.5 million Canadians who are directly and negatively affected by this policy and who will sustain the \$35 billion hardship the so-called tax fairness plan will inevitably result in. If only this policy had purpose and reason—purpose and reason supported by fact. To quote the Auditor General of Canada, “parliamentarians need objective fact-based information on how well the government raises funds”, namely, taxes.

We also represent the interests of the 70% of Canadians who are not members of defined benefit pension plans, unlike our elected representatives and members of the civil service, of which there are 280,000. We are the only association coming before you in these

hearings representing the interests of Canadians in a way that is credible and free of commercial influence. Please hold others to this standard, or at least take this into consideration when weighing their testimony.

Providing for retirement income in a protracted low interest rate environment is not an easy task by any means. This is why income trusts have emerged as a popular retirement investment vehicle. The made-in-Canada income trust phenomenon is a product of investor pull and not issuer push. This is why income trusts need to remain as a vibrant and sustainable part of the Canadian capital markets going forward. People's lifestyles and standards of living are fundamentally at stake. Canadians' lives and hard-earned savings should not be compromised to assist in the narrow interests of corporate Canada and many of its influential persons, regardless of their last names or their privileged access to decision-makers.

The ability to introduce this tax legislation is made possible by only one thing, the enabling document entitled, “The Notice of Ways and Means Motion to Amend the Income Tax Act”. Therefore, anyone who wishes to weigh in on this debate and these public hearings needs to make their arguments in the context of that motion's five stated provisions. Issues that are tangential to those five provisions are just that—tangential issues. Some tangential issues are perhaps worthy of further study. However, in the limited time you have allotted, the scope of this committee needs to be focused on these five provisions, all of which are quantifiable propositions, by the way.

Our pre-submission document submitted nine days ago to each of you in both official languages does just that. It is also available on our website at www.caiti.info, under the tab, “Public Hearings”. I call upon the committee members to challenge me today on any of the points our association has raised in this document that you do not agree with or that you feel need clarification or additional documented support. We need to turn these public hearings into a debate, not a speaker's corner.

Unless I am challenged by you, and until I withdraw any of these points, I will assume that our pre-submission document stands as the authoritative voice on the tax fairness plan. This is government in reverse. The government should be presenting Canada with its thought process and supporting evidence, which Canadians could then challenge and subject to peer review. The burden of proof should rest with the architects of a tax fairness plan. Their seeming unwillingness and failure to do so simply makes the tax fairness plan a false moniker, as it's being advanced on five hollow constructs. Absence of facts creates a void—a void in logic, a void in purpose, a void in reason. We do not intend to fill this void with \$35 billion of Canadians' hard-earned savings, nor do we wish to lose the only investment vehicle that has any hope of providing retired Canadians with the ability to maintain their retirement lifestyle after they no longer receive employment income.

I do not come before you as an advocate of income trusts, since only licensed investment advisers are able to advise their clients on what investment products best suit a given investor's investment goals. This is called the know-your-client rule, and it is the most fundamental rule that underlies the Canadian investment industry. The tax fairness plan is an abrogation of this rule, as it will prevent Canadians from investing in what they have determined best suits their investment needs.

Despite condemnations from our Prime Minister and Minister of Finance that Canada not become a nation of coupon clippers, the need for retirement income will go on unabated. Canadians will simply turn to other markets to fulfill these basic needs. The TFP will result in a flight of Canadian investment capital out of this country into other markets, like the U.S. high yield market, and Canadians will therefore be financing the growth and prosperity of other economies, principally the U.S.

Meanwhile, the tax fairness plan has created the perfect storm for private equity investors and Canada's largest pension plans to exploit. The 20% decline in market value and the inevitable forced sale of income trusts as a result of the double taxation of RRSPs under this plan will allow these large investors to exploit small Canadian investors.

• (1230)

This inevitable take-out by foreign private—

The Chair: Thank you, Mr. Fullard.

Mr. Brent Fullard:—equity buyers will induce the very outcome that the tax fairness—

The Chair: Thank you, Mr. Fullard.

Mr. Fullard, you're done now.

Mr. Brent Fullard: When can I return?

The Chair: You're done. There will be time for questions after, sir. That's the reason I'm cutting you off now.

Next is Total Asset Management Research & Investment Rights Consultancy, Andrew Teasdale.

You have five minutes, sir.

Mr. Andrew Teasdale (Total Asset Management Research & Investment Rights Consultancy): Income trusts have not been sold

to help retired individuals meet their financial security in retirement; they have been sold for the revenue they generate for the financial institutions and the often phenomenal financially engineered returns for private equity and institutional investors who used income trusts as exit routes. The income trust IPO has been an exit strategy that has allowed cashflows and leverage, and hence valuations, to be manipulated in favour of private equity, corporate, and institutional sellers.

The decision to buy an income trust is principally a decision between current and future consumption and the decision between the rates of capital depletion and the rate of capital accumulation. Many trusts have been distributing not just return on capital but a good portion of capital itself. Many are also using debt and capital raised from new issuance to fund distributions in excess of cashflow, let alone earnings.

The yield on cash bonds and traditional equities is insufficient to meet the financial needs of all but the very wealthy. Individuals are forced to meet lifetime expenditure by depleting investment capital. It is this that has drawn the individual investor towards the income trust sector.

Unfortunately, income trusts have not been valued as lower capital growth or capital-depleting investments that are exposed to the economic and market cycle for their return and access to capital. They have been valued as higher growth, high-yield investments that are impervious to risk. With most income trusts having been launched from the bottom of the last business cycle and up through the current commodity-led boom, investors have been led to believe that they provide both high yield and high rates of capital growth over the long term. Given this belief, it is no wonder that the average income trust investor is up in arms.

Are income trusts a value to the economy? Canada does not have a consumption problem; it has a productivity, growth, and investment problem. An entity that leverages short-term consumption at the expense of long-term capital accumulation will exacerbate short-term inflation problems and impact long-term economic growth. Income trusts are cash generative businesses that invest in cash generative activities and acquire cash generative businesses. They're unlikely to invest capital in businesses that are not immediately accretive to cashflow. Their investment objective is therefore short term.

Some have pointed out that sales revenue and capital invested by income trusts have increased at a far higher rate than the economy at large. These figures ignore the fact that this sector of the market is growing strongly through IPO issuance and post-IPO acquisition and that much of this gain is due to the transfer of capital from other business structures, economic sectors, and asset classes. At any one point in time, resources are best allocated and managed by efficient, competitive, and informed markets without distortion. The efficient allocation of capital and the pricing of capital within the Canadian marketplace has been negatively impacted by tax distortions and by informational asymmetry.

Are they important to the Canadian resource sector? At a time when the world economy has seen overweight commodities and when global capital has been aggressively seeking exposure to commodity investments, it would seem absurd to state that the Canadian resource sector has been dependent on income-hungry Canadian investors. The problem Canada has is in allocating return from the resource sector to the rest of this economy.

Are they important sources of capital for small- to medium-sized businesses? I have analyzed the financial histories of 100 income trusts, from pre-IPO and conversion to the current point in time. The majority of the businesses at IPO that I looked at were not businesses seeking capital for expansion, but private equity and institutional investors seeking exit strategies for businesses acquired. Another important source of income trusts was large corporations spinning off non-core businesses or minority stakes to raise capital. Many of the genuine corporate conversions were companies that were grown well enough prior to conversion, that were retaining earnings, acquiring business, investing, and clearly had access to debt and equity capital. Companies with significant cashflow are also companies that are best able to finance their own organic growth and the least likely to suffer from the end of the income trust model.

Is there a real viable and valuable cost of capital? The lower cost of capital argument only works if capital is not transferred to institutional or private equity sellers but retained for organic growth or for an acquisition strategy that does not value its targets on a similarly distributable cash multiple. There is evidence that income trusts are paying higher multiples for their acquisitions. Clearly, the cost of capital for an income trust in the marketplace is so high that they can only meet this cost through a return of investors' own capital.

Does an income trust structure pose greater fiscal discipline? From my analysis, it would appear that far too many income trusts have been raising capital far too easily. At the same time, with valuations and the ability to raise cash dependent on the maintenance of high cash distributions, many companies are forced to maintain the cash distributions at levels well beyond those the business is capable of maintaining.

•(1235)

The Chair: Mr. Teasdale, you have given the translators the best workout they've had in some time. Thank you very much for your presentation, sir.

We continue now with Cameron Renkas, from BMO Capital Markets.

Welcome, Cameron. Over to you.

Mr. Cameron Renkas (Royalty and Income Trust Analyst, BMO Capital Markets): Thank you for the opportunity to present in front of the committee. Given the short timeframe, I plan to keep my discussion narrowly focused on an area I've done an extensive amount of work on lately, the U.S. flowthrough market.

One of the statements I want to make first is that it's difficult to make comparisons to one small aspect of a country's tax policy without giving regard to how it fits into the broader tax system, but I do believe it's important for the finance committee to have all the facts regarding the experience that occurred in the U.S. back in the mid-eighties.

There are three key points that I want to stress first off. One, the U.S. continues to have a large, active flowthrough market across a broad range of industries. Two, recent actions by U.S. policy-makers have expanded and encouraged investment in flowthrough entities. And three, U.S. flowthrough entities could become active acquirers of Canadian trust assets, particularly in the energy- and resource-related sectors.

In the U.S. today, there are 214 publicly traded flowthrough entities, including master limited partnerships, limited liability corporations, and trusts, with a combined market capital of over \$475 billion and growing. Practically speaking, the U.S. flowthrough structures are essentially the same as Canadian trusts. The majority of pre-tax income is passed through to individual investors in the form of distributions, and each investor pays personal tax on his or her share of that distribution. However, the actions taken by the U.S. government in the mid-eighties were much different from those proposed by the Conservatives' tax fairness plan.

In 1987, the U.S. amended its tax code to require any publicly traded partnership to receive 90% of its income from qualifying sources. Otherwise, it would be treated as a corporation for tax purposes. But unlike the tax fairness plan, exemptions were provided to a broad swath of the market, including oil and gas production, transportation and refining; mining; fertilizer; propane distribution; timber; and real estate. Moreover, existing publicly traded partnerships that did not meet the exemptions were given a ten-year transition period at that time, to meet the rules before being taxed as corporations. That's very different from our four-year transition period provided to Canadian trusts. During that transition period, I'd note, there were no restrictions imposed on partnerships expanding within their existing lines of business.

We estimate that a ten-year transition period to Canadian trusts would have mitigated a negative market impact to about 8%, rather than 12.5%. In other words, it would have saved Canadian investors approximately \$10 billion. When the U.S. ten-year transition period ended in 1997, partnerships that did not meet these rules were exempted indefinitely so long as they elected to pay a 3.5% tax on gross income.

Since 1987, many U.S. corporations have spun assets into flowthrough structures in order to capture a higher valuation for those assets. Canadian trusts are at a competitive disadvantage to their U.S. peers because of the significantly higher valuations at which U.S. flowthrough entities trade. As a result, an unintended consequence of the tax fairness plan could be that U.S. flowthrough entities become active acquirers of Canadian trust assets, particularly in energy- and resource related-sectors, as I mentioned.

In contrast to Canada, U.S. tax policy-makers have clearly recognized the benefits of the flowthrough structure, and they've taken steps to expand and encourage investment as a means to attract capital to certain mature industries. In 2004, changes were made to allow mutual funds to participate in the sector. In addition, a structure called the "i-unit" has been allowed. It lets tax-exempted investors' true exempt investments, such as IRAs and pension funds, own flowthrough structures without penalty.

In summary, I again want to reiterate the three key points. One, the U.S. flowthrough market is large and active and is growing across a broad range of industries. Two, the policy-makers in the U.S. have expanded and encouraged investment, and they continue to do so in flowthrough entities. And three, an unintended consequence will be that, very likely, many trusts could be acquired by U.S. flowthrough entities.

I also want to stress on a slightly different note that while the U.S. flowthrough market totals \$475 billion, it only comprises a small part of the nearly \$6 trillion high-yield market in the U.S. Despite having similar demographics in need for income, Canada's high yield market is only about \$200 billion, consisting almost entirely of trusts. On a ten-to-one population equivalent, Canada should have a \$500 billion to \$600 billion high yield market in one shape or form or another.

This leads to an important question for the finance committee. Why does the tax fairness plan want to limit investment alternatives to investors? More importantly, what are the longer-term repercussions of not providing sufficient income alternatives for Canadian retirees?

In an economy that tends to grow only 2% to 3% annually, not all businesses can meet the 8% to 10% growth expectations of most equity investors. Without attractive reinvestment options, many mature businesses will otherwise have their capital trapped without an efficient use, or, worse, they'll try to chase high-risk projects in order to generate growth. This can often lead to poor investment decisions.

The flowthrough structure allows excess cashflow from these businesses to be returned to investors efficiently, with no double taxation. Those investors can then reinvest it back into that trust,

they can spend that money, or they can reinvest it into a different area of the economy. It's their decision.

The structure also helps to satisfy the important growing income demands from our aging population for providing high yield on investment options.

Thank you.

• (1240)

The Chair: Thank you, sir.

We'll conclude our presentations now with a representative from Canada's Association for the Fifty-Plus, William Gleberzon. Welcome, sir.

Mr. William Gleberzon (Co-Director, Government and Media Relations, Canada's Association for the Fifty-Plus): Thank you very much. I want to thank the committee very much for allowing us to make this presentation.

CARP is here to bring forward the views of our members and of the hundreds of thousands of retail investors adversely affected by the government's new policy on income trusts. Those actually impacted by the new policy must be represented because they embody the expertise of experience.

You all know who CARP is, I'm sure, so I can go to the next paragraph, if you're following what I'm saying.

CARP recommends that current income trusts should be exempted from the new tax regime, as is the case with REITS, and at the very least current income trusts should be exempted for 10 years, as occurred in the United States under similar circumstances, as Mr. Renkas has just pointed out. This would give retail investors a chance to readjust and redirect their investments without panic and perhaps recoup a portion of their losses.

After the October 31 policy change was announced, CARP received more correspondence than on any other single act by the federal government since the initiative to introduce the senior benefit 10 years ago. By the way, the Minister of Finance at that time courageously rescinded his proposed policy to transform the public pension system. I say "courageous" because he recognized that it was a mistaken initiative.

The correspondence we received reflected anger and outrage and disgust at the government's sudden turnabout after having been promised that the income trusts would not be touched. They expressed fear and panic over the loss of income that they were counting on to live out the rest of their lives, and at their stage of life, how are they expected to recoup it? If the government goes ahead as planned, there will be more loss of income after four years on a regular basis.

It was welcome news when the government promised not to tamper with income trusts, but what they did, and especially how they did it, was unconscionable and totally insensitive to the impact of their actions. Many of the correspondents told us they used the monthly income from those investments to enhance their daily standard of living, being taxed and spending the balance, as you can actually see on this chart here. Some of the large amounts of money, as much as \$20,000 to \$100,000 or more, were lost through no fault of their own but rather because of the government's new policy.

Many of the correspondents told us about themselves. Like other demographic cohorts, there was nothing stereotypical about them. They ran the gamut in wealth and occupations. Some were retired chefs, or taxi drivers, or truck drivers, or small business persons—because a lot of women corresponded with us on this issue—who had worked long and hard to accumulate their own personal retirement savings without the benefit of corporate or occupational pensions. Often, their savings were insufficient to meet their daily cost of living so they invested in income trusts. They also had to augment their retirement income so they would not outlive it. Others were more affluent or had income from a corporate or occupational pension, but they wanted to grow their retirement income. The human cost of the change in policy must not be forgotten or ignored in all of these figures.

What I'd like to do now is to very quickly read what some of the people have been telling us in the correspondence. I don't have enough time to read all of it, so I'll just pick some excerpts.

On page 4, this is a letter that was sent to Mr. Harper:

Like so many senior citizens, I have no pension income and have to rely on my savings. In addition to the totally inadequate income from CPP, I, like so many others, have relied on income trusts, which are the only source that up to now offered a decent return. Your recent announcement cost me \$20,000 of my hard-earned savings. In fact, that pales in comparison to the losses other seniors have suffered. I don't think I and hundreds of thousands of other seniors can ever recover from the loss you inflicted.

On page 5, at the very top:

I'm a retired widower who worked hard all my life, paid my taxes, never took a nickel back from this country until my pension started. I planned for my retirement, invested according to the laws of the land, and was encouraged by Harper's anti-Liberal rantings when they thought out loud of taxing the trusts. I pay almost \$10,000 tax yearly on my income trust income—note, at a higher rate than any corporation would have paid—and I'm sure thousands of small retail investors like myself do the same.

Further down, third paragraph:

I cannot, under any circumstances, bring myself to vote for a government that lied to me and then proceeded to steal over \$100,000 from me and my family, money that it took me—

• (1245)

The Chair: Thank you, sir.

On that note, we'll move on to questions now.

Mr. McCallum, you'll commence. You have six minutes.

Hon. John McCallum: Thank you, Mr. Chair, and I'd like to thank all of the witnesses.

I'd like to focus principally on the tax leakage issue and the witnesses who have dealt with that question. I notice Mr. Kesteven referred to TELUS and BCE. I made the point earlier that because TELUS and BCE are saying they're not paying essentially any

corporate taxes going forward, if they had become trusts, it would not indeed have cost the government tax revenue. I believe you agreed with that statement. Is that right?

Mr. George Kesteven: Absolutely.

Basically, the calculations I've seen indicate that the government has foregone somewhere between \$1.7 billion and \$2.2 billion of tax revenue that they would have otherwise received from unitholders of those two companies if they had been converted into trusts.

Hon. John McCallum: Thank you. That was my understanding as well.

Mr. Renkas, maybe I can refer briefly to my second comment when the minister was here in terms of this chart, that is, the reference to the fact that the effective corporate tax rate on oil and gas is in the order of 7% or so. Can you comment on that and the implications for tax leakage?

Mr. Cameron Renkas: I would agree with that. I believe the withholding tax is sufficient where it is. I don't believe there is a leakage to the U.S. investors. The other thing to consider is this. You're talking about effective tax rates of equivalent numbers using 7%. If you look at the average effective tax rate that corporations pay—this is on a broader sense, looking at business trusts—it's effectively 22%, on average, but that's off income.

We've looked at 83 business trusts that we cover at BMO Capital Markets, and on average distributions are 1.5 times the size of taxable earnings. It's a bigger number. You're collecting 15% off a bigger number. In fact, if you work through the math, it works out to about 23% that they collect today on withholding taxes off earnings going to the U.S., on average, versus an effective 22% rate.

I don't believe the withholding tax to the U.S. non-residents is a big issue at this point. I think it's something we could review. In my research I have also found that the withholding tax on U.S. flowthrough entities is specifically exempted from the tax treaties. In fact, they're collecting anywhere from 30% to 35%, depending on the entity you're dealing with. The U.S. is withholding more tax from non-residents. It's certainly an area I would think could be revisited on Canada's behalf.

Hon. John McCallum: I believe you said the tax system in the U.S. for energy or natural resources is effectively similar to that for real estate.

Mr. Cameron Renkas: I'm sorry, can you repeat that?

Hon. John McCallum: It is effectively similar to that for real estate in terms of flowthrough, the way it is in Canada.

Mr. Cameron Renkas: Yes. The exemptions provided to master limited partnerships, and REITS would be included in that calculation. The exemptions provided were to the energy space, which includes pipelines, exploration and production, transportation of energy, and mining. There's a very wide range of industries that are exempt.

Hon. John McCallum: Does that imply that the minister's statement and his comments are simply wrong when he seemed to question that? Is there some nuance there? How would you reconcile what you regard as a reality and what the minister said?

Mr. Cameron Renkas: I can't reconcile his statements. From what I have found, the minister is wrong. There is an active, growing market. With respect to limited liability corporations, since October there have actually been four IPOs of limited liability corporations that effectively operate like trusts and shift taxable income through to unitholders to pay their distribution tax, and those are active exploration and production companies. I do believe that those companies will start looking towards Canadian trust assets at some point. The U.S. energy basin is similar to the Canadian basin—it's a very mature basin. We're shifting to where it needs to be developed and exploited. It doesn't need to be explored any more.

Hon. John McCallum: We seem to say that the fact that the energy trust sector is a smaller percent of the TSX in Canada than it is of the U.S. equivalent stock market was relevant. I fail to see the relevance of that. Can you comment on that?

Mr. Cameron Renkas: Yes. I'm not certain how that is completely relevant.

The difference in the U.S., as I mentioned in my statements, was that they have a \$6 trillion high yield market. Their flowthrough market is only \$475 billion, approximately two and a half times what was our trust market of \$220 billion before the announcement. Since that time, our market has shrunk. That \$475 billion on a 10:1 population equivalent would seem smaller than our market, but they also have many other alternatives, such as tax-free municipal bonds, high yield junk bonds, and asset-backed securities, along with their flowthrough structures. There are many other alternatives for them, so they don't require their high yield alternatives to come strictly from the trust market.

• (1250)

Hon. John McCallum: I have one final question, if I have time.

The Chair: You only have a few seconds, sir.

Hon. John McCallum: Is the hollowing out of corporate Canada an issue?

Mr. Cameron Renkas: I believe it is, yes, in particular in our resource sector.

Hon. John McCallum: Is that because of this tax break?

Mr. Cameron Renkas: It's because of the advantage the U.S. flowthrough entities have over...and because of private equity. There are many advantages that other non-Canadian entities have, which can hollow out our sector. I believe that's a risk we face now.

[*Translation*]

The Chair: Thank you very much, sir.

Mr. Paquette.

Mr. Pierre Paquette: Thank you, Mr. Chairman.

I'd like to thank all of you for your presentations.

Ms. Urquhart, in your submission, you talked about a problem that is specific to income trusts, namely the fact that trusts often distribute more money than they effectively have. However, you did not comment on the decision taken by the Minister on October 31. Based on your analysis, do you agree, or disagree with the government's decision to block income trust conversions and to provide a four-year transition period for taxing income trust distributions?

[*English*]

Mrs. Dianne Urquhart: My research has me conclude that I support the income trust tax plan and I do not support an extension of the grandfathering period. I believe there are permanent government tax losses as a result of permanent loss within tax-deferred accounts, both RRSPs and pension funds. I believe that the research indicating there would be more future taxes collected than foregone today is not credible. I believe that if you do a thorough analysis of the benefits of the tax structure of RRSPs, the upfront deduction and the deferral of taxes on investment income, the benefits of that structure will more than overwhelm any allegations of double taxation.

Consequently, there is not only a short-term loss, which I agree with the minister on, but also a long-term, permanent loss as well. The reason I further bring up the matter of malfeasance is that I think it's inappropriate for the Government of Canada to be spending government revenue, short-term and long-term, to promote seniors investing in a product for which there were criminal charges in the United States.

Prudential-Bache took the largest criminal settlement and securities offence settlement in American history—\$2 billion in 1994. They were charged because in oral presentations and in marketing literature, Prudential Securities routinely used the terms “yield”, “return on investment”, and “income”, to describe the quarterly cash distribution received by investors in the energy income funds. Prudential Securities routinely used such terms in its marketing materials even though Prudential Securities knew, as evidence, in its disclosure in the prospectus, that the cash distributions did not constitute pure profit or interest but instead also contained a return of original investment capital. Twenty-seven state investigations, the National Association of Securities Dealers, the U.S. Securities and Exchange Commission, and the U.S. Department of Justice stopped the use of cash yields by this precedent decision, which was a deterrent to the rest of the American investment banking industry. There was a \$2 billion settlement restitution to investors who lost on the limited partnerships as a result of the deceptive marketing. In addition, there was a \$41 million fine and several terminations, but unfortunately, no one went to jail.

The RCMP, the municipal, and the provincial police forces have the jurisdiction to start investigations on the malfeasance in the income trust product under section 380 of the Criminal Code. Clearly, I support the income trust plan because it has stopped new conversions and it has stopped the prospects for more billion-dollar losses in the future.

[Translation]

Mr. Pierre Paquette: Thank you.

Would any of the other witnesses care to respond to Ms. Urquhart? I'd like to have some reactions to...

[English]

Mr. Brent Fullard: As distinct from Enron? Hello? This is endemic within the securities industry. If you want to think that's the high water mark, there are much higher water marks. In the case of Enron, I do recall that a couple did actually go to jail. To say that one form of model is better than the other would suggest that somehow one is subject to a different review process by the CICA or the OSC, which isn't the case. We don't have two parallel universes of securities regulations here. We do have two parallel universes of numbers produced by Finance insofar as tax leakage is concerned—and I'd love to spend some time demonstrating for you how in fact the numbers they attempted to conceal from us actually lay bare the very methodology that is at the heart of the falsehoods that are being asserted by our Minister of Finance, as it pertains to leakage, etc.

Thank you.

• (1255)

[Translation]

Mr. Pierre Paquette: Mr. Kesteven.

[English]

Mr. George Kesteven: I'd just like to address a couple of Ms. Urquhart's comments. One is the concentration on the focus on earnings. They key metric in a trust is not earnings, it is cashflow. Cashflow is the key metric, and that is one of the great aspects of the governance of an income trust. My management, which I deal with on a day-to-day basis, makes that point all the time, saying that the distribution of cash is either there every month to be paid or it's not.

There's no Nortel in the income trust sector because there's very little use of accrual accounting. It can't be concealed because it's all cash-related. So when she talks of earnings and excessive payments against earnings, that is not really relevant. What we want to talk about here is payments in excess of cashflow, and cashflow is the critical measure.

The other point is around return of capital. The term "return of capital" is admittedly a misnomer. The accounting profession has made that quite clear. CAIF, in its involvement with the CICA, has had those discussions. What it infers is that people are getting back their own money. That is not correct. What it is in fact is the tax deferral of that particular corporate entity being flowed through into the hands of the unitholder. Remember that this is a flowthrough entity. Therefore, all the tax consequences flow through benefits and taxes to the unitholder.

The Chair: Mr. Kesteven, I appreciate that.

We'll move on now to Mr. Del Mastro.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Mr. Chair.

Ms. Urquhart, I'm just reviewing your résumé a little bit. You have quite a bit of experience in relation to investment, and you are

certainly a professional witness before this committee. I appreciate your being here.

I spent a lot of time reading your report of October 12, entitled "Income Trusts: Heads I Win, Tails You Lose". When I read that report, it actually struck me that the first line in about a fifty-page report reads, "Business income trusts will likely suffer a 25% to 35% correction as an asset class." That's not my question, but it was striking that you chose to begin a fifty-page report with that particular comment.

The income trust lobby has spent a lot of money on advertising. In my mind, they've put a lot of fallacies out there. Furthermore, today we hear that the finance minister is wrong. Obviously, the provincial finance ministers, by relation, must therefore be wrong. You must be wrong. Mr. Teasdale must be wrong. Anyone who doesn't believe there is tax leakage is obviously wrong, because we have counter information that says there is no tax leakage.

Would you like to comment a little bit about the types of assumptions that are being made on the other side? How can that be?

Mrs. Dianne Urquhart: The point I would make is that the income trust product was to the substantial benefit of the vendors and promoters of income trusts. Basically, they converted into income trusts businesses for which they were selling out of the market, taking the cash up front. In addition, the investment banking industry and the securities legal community that supports the income trust industry have taken out exorbitant fees, at the rate of 7% for every cash financing pass.

In addition, I would note that while those vendors were taking cash out of the businesses and the investment banks were taking \$2.5 billion in fees on \$35 billion of business income trust offerings, the performance has been pathetic. The facts speak for themselves.

In the \$35 billion business offering market comprised of 286 offerings from the year 2001, one in three is down more than 20%, and the average decline is 45%. There are \$10 billion of losses in one of three business income trusts. Two out of three of them are below water.

We have a situation in which products are sold to seniors on the basis of a deceptive cash yield. That is unsuitable because those seniors don't have a proper legal format for seeking restitution for damages in the courts. Meanwhile, the vendors are taking hundreds of millions of dollars off the table while the investment banks are taking out \$2.5 billion in fees. They're fighting because this was 40% to 50% to 60% of the business that was done on Bay Street.

I used to work on Bay Street. I'm pro business, but I'm pro honest business. In transparent markets, you don't have vendors taking billions of dollars off the table to sell products to seniors.

• (1300)

Mr. Brent Fullard: Transparent markets—

Mrs. Dianne Urquhart: We do not have a transparent market.

The Chair: Mr. Fullard, I'd appreciate it if you would conduct yourself as a gentleman, starting now. Thank you, sir.

Mr. Brent Fullard: Are you suggesting I haven't?

Mr. Dean Del Mastro: Secondly, Ms. Urquhart, Mr. Fullard referred to the know-your-client rule. I found that remarkable, since the income trusts were marketing themselves as having 15% returns in many cases—a reliable 15% return—but they weren't telling people that part of that return was their own money coming back to them, their own capital, in these distributions. It wasn't earnings; it wasn't earnings at all. They were paying people back with their own money or, even worse, borrowing money to pay them back money.

Would you like to expand on that a little bit?

Mrs. Dianne Urquhart: Yes. When you borrow money to pay an investment return above earnings, that's commonly referred to a Ponzi scheme. That's why Prudential took a \$2 billion settlement for communicating in their marketing materials to seniors that these were extremely attractive cash distributions, without referral to the return on capital.

I disagree with Mr. Kesteven based on 25 years' of experience analyzing financial companies and supervising up to 60 analysts and associates responsible for determining the fair value of securities in all sectors and all types of securities in the Canadian economy. Return on capital is defined by accounting standards; it's not up to the management of an income trust to decide they can tell investors that capital is something they define. Accountants, accounting standards, define return on capital. That definition is a convention in the world.

The excess cash paid above the earnings is not a tax deferral; the tax deferral was the depreciation charged. That's not simply a tax matter. Depreciation is the amount of cash that needs to be set aside for the purpose, in the case of energy, of depleting reserves. In the case of other business investments, depreciation is for the purpose of replacing machinery, equipment, plant, or software. If you do not maintain those necessary sustaining capital assets in your business, your business is dying.

What has happened in—

The Chair: Madam, I'm sorry, but I have to cut you off, as Mr. Del Mastro's time is done.

We'll continue with Madame Wasylycia-Leis now.

Ms. Judy Wasylycia-Leis: Thank you, Mr. Chairperson.

I just wanted to say that I didn't hear Dianne Urquhart condoning Enron. What I heard Dianne Urquhart saying was that we need to be vigilant at all times, and whenever there is the possibility of unethical practice or even criminal undertakings, we should be ready to crack down on it.

I want to ask Dianne, since I'm just getting up to date on this Prudential Securities issue, are you saying that what is common practice in Canada would be considered criminal in the more tightly regulated U.S. environment?

Mrs. Dianne Urquhart: I would say that the RCMP and provincial and municipal police forces have the tools within section 380 of the Criminal Code today to call the deceptive cash yields...as has been said by the chairman of the Canadian Accounting Standards Board and by Paul Hayward, OSC senior legal counsel, who said in a tax journal in 2002 that an investigation could be conducted and

fraud could be found. I'm not making that allegation specifically, but the wording concerns the Canadian Accounting Standards Board and Paul Hayward, OSC senior legal counsel. The actual criminal charges in the United States suggest that the misconduct of the limited partnerships of the eighties and early nineties was similar to that which has occurred in the Canadian income trust market, and it could be considered criminal in Canada upon investigation.

Ms. Judy Wasylycia-Leis: Thank you.

I have one more question for Dianne Urquhart and then one for Mr. Teasdale.

Dianne, as you and others know, I have publicly stated that I support measures to shut down income trusts used as a way to avoid paying taxes, and I accept the statistics we've now had from a number of jurisdictions and a number of years, which are consistent with what you and others are saying.

My question to you, Dianne, is given the fact that the ways and means motion is likely to go through, based on the previous vote in Parliament.... And I've been working on this issue you've raised about the undervaluing—or overvaluing, sorry.

● (1305)

Mr. Brent Fullard: It's one or the other.

Ms. Judy Wasylycia-Leis: No, it's clearly overvaluing.

It's a serious issue to change the Income Tax Act to deal with this. Is it still worth my while to do this, given the fact that, hopefully, we'll see over the grandparenting period the end of income trusts? Is it still important for consumers that we do it?

Mrs. Dianne Urquhart: Yes, there is still \$200 billion of current income trusts in the market, and 288 of the trusts are, I believe, in non-bifurcated markets—full transparency. I don't want those who know that their income trusts are overvalued having the opportunity to sell them to unsophisticated players. I believe we should have immediate requirements; the sooner we can get this into the Income Tax Act the better. The sooner we get transparency on the return on capital and the distributions, then we can have a market that's honest and not one in which sophisticated players dump trusts onto those who do believe the return on capital is there for their household expenses. It's just not there, because there is a limit on access to the amount of cash that's on the balance sheets and on the financial markets paying it.

Ms. Judy Wasylycia-Leis: Thank you very much.

My question is to Mr. Teasdale. I'm a bit concerned about the lobbying that's being done to try to extend the grandparenting period. My sense is that it would just perpetuate unfairness. I'm wondering if you can tell us, in your opinion, what the advantage or disadvantage is of extending the grandparenting period beyond the four years now planned.

Mr. Andrew Teasdale: I can't really see any advantage at all. I think income trusts need to convert back to corporate status as soon as possible. Essentially, a large number of income trusts rely on the ability to raise capital. If they can't raise capital or debt, then they have to reduce their distributions, since income trusts are primarily valued on their cash distributions, even if they're holding their share price.

Income trusts are going to have to start operating like companies and stop distributing all their cashflow, and retain their cashflow to fund capital expenditures and support a low level of distributions. They're effectively going to have to start acting like corporations. Some of the better-run income trusts have actually been operating pretty much like corporations since they converted. They need to convert back as soon as possible. I see the four-year period primarily as the time period to allow them to do that, not really to continue to operate as income trusts.

The Chair: Thank you very much, Madam Wasylycia-Leis.

I'll just inject a couple of questions here, if I might. I've heard the number \$35 billion thrown around quite a bit. I know, as do the people who use it, that they're trying to make the point that there's tremendous hardship out there among investors. So I'm interested in the facts in respect of this so-called \$35 billion.

This \$35 billion is predicated on the assumption that people bought income trusts on October 30 and sold them on October 31. Is that correct, Cameron?

Mr. Cameron Renkas: It would be very close to that, yes, within a week after the announcement.

The Chair: Okay.

I know that with 160-plus trusts we're not going to get into the details on each individual one. I'm interested in whether there is such a thing as a trust index we could refer to, to get a ballpark idea of how trusts have performed over the past period of time.

Mr. Cameron Renkas: Absolutely. We were actually just out presenting to clients a couple of weeks ago, and we looked to the beginning of November. So that would be one month after the announcement. There have been many other factors that have played in since then. At that point, the market had settled down around 12.5%. It was down 12.5%, which is approximately \$28 billion.

The Chair: Thank you.

So it was \$28 billion. They bought it the day before, and then by the middle of November....

Mr. Cameron Renkas: By the beginning of November, yes.

The Chair: Okay.

Today's *National Post* cites numbers since the middle of November, saying that since then, 134 of 162 trusts have gained an average of 9%. Are those your numbers, too?

Mr. Cameron Renkas: I don't have that number off the top of my head, but I would say that the markets are probably down. Again, this is a number off the top of my head. I could certainly get it to the committee if they require it, but it would probably be off by about 10%, as things stand today.

The Chair: It would be off by about 10%. So that number, \$28 billion, wouldn't be \$28 billion anymore, assuming that people had bought on October 30 and had held until now. It would be less than that.

Mr. Cameron Renkas: It would be slightly less if they had held until now, yes.

The Chair: My concerns, as I think are most of our concerns, are around issues of proper diversification. I hear the stories. I've gotten the letters, as all MPs have, from people who say they've lost a tremendous amount of money and who claim, as William did in his presentation, that they were counting on that money for the rest of their lives, which tells me that they were low-risk investors investing in a higher-risk vehicle. It tells me that they were inappropriately invested in the first place.

What would be an appropriate diversification percentage for income trusts? Is there a number you could throw out? Would a person who had more than 15% invested in income trusts be a higher-risk investor? Would that be a fair statement?

• (1310)

Mr. Cameron Renkas: I'm not an investment adviser, so I can't recommend to clients what their investment alternatives should be and where they should sit. Certainly, diversification is key. And it should be across the trust sector. You shouldn't be isolated in one part of the trust income sector. It should be diversified. But I can't recommend to any given client what that number should be.

The Chair: So accepting the fact that there should be some diversification there, investors shouldn't have more than a significant amount of money in income trusts. They should be diversified, especially a senior, you would think. I think that's a fair statement.

Let's go back a little bit, because all of this is on the assumption that these people bought in just the day before. What was the performance of the index for the four-year period prior to October 30 of last fall?

Mr. Cameron Renkas: I don't have that number in front of me.

The Chair: Does anybody on the panel know?

Mr. Brent Fullard: That's irrelevant.

The Chair: Thank you very much for your contribution, sir. I'm getting used to that.

Mrs. Dianne Urquhart: I think it's roughly 20% a year. I don't think we should take comfort in that. In the prior four years we had a tripling of the energy price, and we had something like a 40% reduction in long-term interest rates. So there was very strong performance.

The Chair: So there's a strong performance. My point is, of course, that the people who invested in income trusts over that period of time obtained very significant double-digit yields, is that not correct? When people throw around this \$35 billion loss, aren't they ignoring the fact that people made \$100 billion in the previous four years, assuming they were invested for that four-year period? Is that right?

An hon. member: But you don't know when they bought.

The Chair: No, of course not.

An hon. member: Clearly they're specific issues.

The Chair: Of course I don't know when they bought. What I'm trying to establish here is that throwing this \$35 billion number around is not entirely fair or demonstrative of the actual facts for investors.

Cameron.

Mr. Cameron Renkas: I would disagree. I think the market valuation that we saw diminish was \$35 billion immediately, and it has somewhat come back since that point because of various reasons, but I do think that's the number to focus on. I don't believe it's relevant to when individual investors bought and when they didn't buy. It's a specific case. Some investors lost much more than others. Some were more diversified.

The Chair: Mr. Teasdale, would you like to come in?

Mr. Andrew Teasdale: I think one thing needs to be made clear. These investments were going to fall during a period of market decline and economic recession, the leverage to the economic cycle, and the market cycle. That means that if demand for that area falls, the prices are going to fall. If the revenue the company depends upon to provide its distributions falls, its distributions will fall and its cash will fall.

These companies are highly leveraged to the market and the economic cycle. The types of declines we saw in October are the types of declines that we would have seen in a market correction or in a recession, and possibly more.

The Chair: Thank you.

I shouldn't use up too much time.

We'll move over to Mr. Szabo.

Mr. Brent Fullard: [*Inaudible—Editor*]

The Chair: Order.

Mr. Fullard, cool it. You've interjected, interrupted, and used props. All of these things are against the rules of our committee. I am encouraging you now to listen to me when I call you to order.

Mr. Szabo.

Mr. Paul Szabo: Mr. Chairman, the issue here is the determination of the leakage. The chart the minister presented to us is a hypothetical. It compares a group of investors under one scenario, that being income trusts, to the same companies under a corporate scenario. It shows a differential of \$500 million. I think the committee really should try to obtain the computations that were requested by Mr. Tait under access to information, so that we can actually see how the \$500 million is determined, based on published data of the finance department.

The other issue has to do with the reference to RRSPs being tax exempt. As we all know, RRSPs and RRIFs do have deferred taxes, in fact, but they deregister or people make withdrawals. Taxation revenue is actually paid in cash to the government, but that cash revenue is never included in any analysis of leakage, ever, in any year, even though every year there is revenue coming out of RRIFs and RRSPs.

The issue to me, Mr. Chairman and colleagues, seems to be that the numbers are not as important right now as the methodology. The methodology seems to be flawed.

I think Mr. Fullard has done some work on this, and maybe others have. I believe it's a methodology question, and I'd ask for the opinion of the panellists.

• (1315)

Mr. Brent Fullard: I'd like to comment on that. In fact, it's amazing how much the redacted documents that we were provided under the spirit of the Freedom of Information Act actually do reveal as to the methodology.

It's very clear. I have a handout here and I'd love to take you through it. It just lays bare the fact that the work that Finance does is somewhat concocted, from the standpoint of whether they do or do not acknowledge the retirement taxes Canadians pay.

It's one thing to ignore the fact that Canadians at large pay \$9 billion of retirement taxes on \$52 billion of income, which is coming in the front door. It's funny because Mr. Flaherty referred to the front door/back door concept—interesting—when this is in fact coming through the front door but has not been acknowledged inside the house. By virtue of that, they come up with these false tax leakage results.

Then, to make matters worse, they create policies that are regressive to those very people whose taxes they don't seem to want to acknowledge. Therefore, we're in the situation we are in today, and that's just not good.

The Chair: Sorry, but we have to let the committee members control their time.

Mr. Pacetti, it's over to you for a minute.

Mr. Massimo Pacetti: Thank you.

Just quickly, Mr. Kesteven, looking at chart B, do you agree with any of the numbers there? I'm just looking at one number in particular: the capital gains tax. They're estimating it to be \$100 million, but if Bell and TELUS converted, you were saying the numbers were going to be much higher. Have you had a chance to look at these?

Mr. George Kesteven: We haven't had a chance, obviously, to review these numbers because we got them, like everybody else, just a short time ago, but clearly there are some huge inconsistencies in what we're seeing here. One of the points that was made earlier was that part of the error in Finance's way of evaluating this arose from using average tax rates for corporations or statutory tax rates for corporations based on EBITDA numbers. And, I'm sorry, but that's not necessarily a reflection of reality. Corporations in this country, contrary to Minister Flaherty's comment, do not pay billions of dollars in income taxes. They have deductions that allow them to reduce their effective cash tax rates, in many cases, to under 10%. And that's what the number should be benchmarked at in terms of the data.

The other good point that's been raised is that there are only two entities in this country, that I'm aware of, that are tax exempt: municipal crown corporations and charitable organizations. Everything else is either taxable or tax deferred, and it's important that tax deferred not be treated as tax exempt. That's another major error in analysis.

The Chair: Thank you.

We'll continue with Monsieur Crête.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup): Thank you, Mr. Chairman.

It's rather ironic, but after the Conservatives' announcement, I saw the same incredulous expression on the faces of investors in my riding as I had seen in 1994 when the Liberal government announced its plans to continue restricting access to employment insurance. Two groups at opposite ends of the income spectrum reacted in exactly the same way.

Let's assume that the transition period is extended from four years to ten years. Indeed the total amount of federal government tax revenue lost every year, namely \$500 million, could be multiplied by six. However, in reality, isn't that a rather simplistic way of looking at things? The losses associated with extending the transition period from four years to ten years could be higher, or lower, than \$500 million per year. Agreed?

I put the question out there for anyone who might care to venture an answer.

[*English*]

Mr. Cameron Renkas: Again, this is the first time we've seen these numbers. I would have to look through the numbers, but I don't believe the studies we've done show any tax leakage, so I don't believe we would see a compounding. You also have to take into account the present value of the dollars today. But according to the numbers we've seen and the numbers we've run looking at true, real, practical taxes paid by corporations versus the trusts, there is not a leakage issue here. We have not come across that in any of our studies. We've looked at 126 business trusts, and we compared the taxes paid in the prior one, two, and three years before conversion, and then looked at the taxes paid, through the distributions, by the unitholders in the first year following conversion, and that number was almost two times the difference.

You can massage the assumptions, but the reality is that all of these are based on theoretical studies looking at, as George mentioned, statutory tax rates. Corporations have 600 pages of tax code on deductions. I don't believe it was ever predicted that BCE would restructure their subsidiaries and accelerate R and D credits. Was that factored into these assumptions? Corporations have many avenues available to them that ordinary common unitholders do not have. Using that as the basis for our assumptions, we have not determined, through our studies, that there is any leakage

• (1320)

[*Translation*]

Mr. Paul Crête: Would anyone else care to comment?

Ms. Urquhart?

[*English*]

Mrs. Dianne Urquhart: I'd like to make three points with respect to that question.

The Chair: Madam Urquhart, you'll have about 30 seconds to do so.

Mrs. Dianne Urquhart: Okay.

You can't give credit for capital gains that are forced by conversions. You can't make a policy decision for the perpetual future on the basis of the realization of accrued gains that are from the past. When the full conversion occurs, we're not going to have those benefits.

The second point is there are permanent government revenue losses in the tax-deferred plans when you do a proper analysis.

And, time permitting, I'll deal with anybody who wants to see my methodology.

The Chair: We'll conclude on that point.

Mr. Dykstra, your time begins now.

Mr. Rick Dykstra (St. Catharines, CPC): Thank you.

My first question is for both Mr. Kesteven and Mr. Fullard, and it is very straightforward.

We know that your organizations have had resignations both from the board of directors and from the membership. Could you let us know who those folks are and why they made the decision to abandon your organizations?

Mr. George Kesteven: You're referring to the CAIF board of executives? Our board is actually made up of 36 volunteers from the trusts. As far as I know, we haven't had any resignations recently from the board. We did have one resignation, which was the gentleman who is general counsel for Yellow Pages. He simply didn't have the time to deal with the issues anymore, based on how we've had to ramp up, quite frankly, since October 31. That's the only resignation.

Mr. Rick Dykstra: Mr. Fullard.

Mr. Brent Fullard: What is your question?

Mr. Rick Dykstra: The same question.

Mr. Brent Fullard: Resignations?

Mr. Rick Dykstra: Resignations from your board of directors, your membership.

Mr. Brent Fullard: From the board of directors, no, there have not been.

Mr. Rick Dykstra: No one has resigned?

Mr. Brent Fullard: No, that's correct.

Mr. Rick Dykstra: All right, fine. Thank you.

The second question is to Mr. Kesteven.

These are some of comments that I read, quotes of yours, that were about the minister: "He's not going to budge. He's made that abundantly clear. I won't be wasting my limited time with him." Those were your comments.

If that's the case, why have you indicated to your organization that it's worth spending millions of dollars trying to change the mind of the government?

Mr. Brent Fullard: Where are you getting that number from?

Mr. Rick Dykstra: What number? I'm asking you—

Mr. Brent Fullard: You said “millions of dollars”. We spent \$147,000 to date, which is on average 14.7¢ for every one of the one million investors we represent, about the price of a third of a stamp. So I think they're getting pretty good advocacy on this issue.

Mr. Rick Dykstra: Mr. Kesteven.

Mr. George Kesteven: Are you referring to our budget? Our budget is nowhere near millions of dollars. Our budget is perhaps, for the organization in its entirety, between \$1 million and \$2 million for an entire year.

Mr. Rick Dykstra: If you're under the impression that the decision is not going to change or is going to remain the same, why would you not use those funds and invest them on behalf of your investors?

Mr. George Kesteven: Because we hope at some point the minister comes to his senses and realizes that this is a fiscal policy error.

Mr. Rick Dykstra: Ms. Urquhart.

Mrs. Dianne Urquhart: I just want to make the point that unless I'm not completely up to date, the CAITI members comprise the coalition of energy income trusts; Borden Ladner Gervais; PricewaterhouseCoopers; approximately six structured product investment managers; and, the last time I looked at it, four individuals. I'm sure that's higher by now. So I'd like to indicate that the CAITI does not represent a million Canadians. It largely represents the structured investment managers, a lawyer, a law firm, and an accounting firm that reaped the \$2.5 billion of revenues; it isn't a grassroots income trust ownership association.

Mr. Rick Dykstra: Could I respond to that?

The Chair: No, your time is done, Mr. Dykstra.

Thank you very much to our panels for being here.

Mr. McCallum, did you want to bring a motion now?

Hon. John McCallum: I won't now.

The Chair: All right. Thank you very much, panellists, for being here. I appreciate your participation in the process.

Thank you all.

We're adjourned.

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