



House of Commons  
CANADA

## **Standing Committee on Finance**

---

FINA • NUMBER 010 • 3rd SESSION • 40th PARLIAMENT

---

**EVIDENCE**

**Thursday, April 22, 2010**

**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

Thursday, April 22, 2010

• (1140)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call to order meeting number 10 of the Standing Committee on Finance.

Our orders today are Bill C-9, an act to implement certain provisions of the budget tabled in Parliament on March 4, 2010, and other measures.

We have with us a number of witnesses from the Department of Finance and other departments to answer any questions members may have on any parts of Bill C-9.

Colleagues, I'm proposing we go through part by part, and I will ask if any colleagues have any questions related to the part, and then those officials who deal with that certain section will come to the table and answer any questions we may have.

We've started the meeting late, obviously. Another committee is here at 1 p.m., so we cannot go past that time. We'll try to proceed as quickly as possible.

So we have part 1 with respect to amendments to the Income Tax Act and related acts and regulations.

Do any members have any questions related to that part?

Mr. McKay.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** With respect to “modifies the definition ‘taxable Canadian property’ to exclude certain shares and other interests that do not derive their value principally from real or immovable property situated in Canada, Canadian resource property, or timber resource property”, can someone give me the quick and dirty of what that means?

**Mr. Tim Wach (Director of Legislative Development, Tax Policy Branch, Department of Finance):** Certainly.

Historically, “taxable Canadian property” has included items such as real property located in Canada, timber limits, and resource properties in Canada. It has also included things like shares of private companies, so shares of a privately owned corporation would be considered to be taxable Canadian property. That gave rise to a number of administrative issues for non-residents selling taxable Canadian property even where they weren't subject to Canadian taxation, because, for example, they had protection under a bilateral tax treaty. The change that is being made is to narrow the definition of “taxable Canadian property” so it will be applicable only in respect of real property, timber limits, resource property, and shares of corporations that derive their value from that type of property.

**Hon. John McKay:** Can you give me an example of what that means in the real world?

**Mr. Tim Wach:** Let's say, for example, that a U.S. multinational has a Canadian subsidiary and seeks to sell that subsidiary to a purchaser. Prior to this change those shares would have been taxable Canadian property. The U.S. multinational likely would not have been taxable on that sale because it would have been protected from Canadian tax under the treaty with the U.S., but it still would have been required to go to Revenue Canada to get a clearance certificate in advance of the sale of those shares. So one of the effects of this change is this compliance will no longer be required.

**Hon. John McKay:** Is there any reciprocity we get for this change?

**Mr. Tim Wach:** The Americans are already in that kind of a position, and most of our treaty partners are in that sort of a position, so what we're really doing is catching up with many other countries.

**Hon. John McKay:** Okay. Thank you.

Can I carry on in this section?

**The Chair:** I have Mr. Pacetti.

**Hon. John McKay:** Let me carry on because I've got a few other questions dealing with that.

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** It's on this one, though.

How about a non-resident who holds shares in a Canadian-held company on the stock market? Would it be pertinent to that?

**Mr. Tim Wach:** Likely not. Historically, shares of publicly traded companies were not taxable Canadian property. The exception was a circumstance whereby the non-resident held 25% or more of the shares of a class of that company. But typically for the retail-level investor, for most investors in publicly listed shares, they were not taxable Canadian property even before these changes.

**Mr. Massimo Pacetti:** And how about real estate?

**Mr. Tim Wach:** Real estate is taxable Canadian property and will continue to be.

**Mr. Massimo Pacetti:** Okay.

And for private Canadian companies, you were saying if it's just a small business...is that going to be relevant?

**Mr. Tim Wach:** It'll be relevant for most small businesses because for the vast majority the shares of those companies would be taxable Canadian property under the current rules and will not be under the new rules. The exception is where the company derives its value principally from real property or has done so within the previous 60 months.

**Mr. Massimo Pacetti:** Okay. Thank you.

Go ahead, Chair.

**The Chair:** Mr. McKay.

**Hon. John McKay:** On the point immediately above that, you're changing the interest rate, so it's on overdue moneys, to the yield of three-month Government of Canada treasury bills. I'm a little lost as to the equivalency. If the corporation owes the government money versus the government owing the corporation money, can you tell me what rates apply, and is there a differential in the rates?

**Mr. Tim Wach:** There is a differential on the rates, yes. There has been a differential in the past. That differential will now be greater. It was 2% prior to this change; it will be 4% difference now.

**Hon. John McKay:** So if a corporation owes the government money, versus the government owing the corporation money, we're actually exaggerating the difference between the two?

**Mr. Tim Wach:** Yes.

**Hon. John McKay:** Money is money.

**Mr. Tim Wach:** Yes, some would argue that the risk profile of the two debtors is different.

**Hon. John McKay:** It doesn't strike one as the basis for fairness.

**Mr. Tim Wach:** As I say, different arguments can be made. The argument has been made that the risk profile is different between different debtors, between the government and.... If, for example, the corporation were to go out and borrow in the public markets, it would pay a higher rate than would the government.

**Hon. John McKay:** I suppose. I'm not quite sure that's the analogy you would necessarily draw.

What about if you analogize to the personal rates? If I owe the government money versus the government owing me money...?

**Mr. Tim Wach:** Then there would be a 2% difference.

**Hon. John McKay:** So it's either a 2% or a 4% difference that's resolved in favour of the government.

It seems to me we're getting into some interesting issues here. If I owe the government money, I'm only going to get a 2% premium, if you will. If my corporation owes the government money, it's a 4% premium.

• (1145)

**Mr. Tim Wach:** Correct.

**Hon. John McKay:** So if I'm practising law without incorporating, it's 2%. If I'm practising law with incorporating, it's 4%.

**Mr. Tim Wach:** That's correct, although I suspect in those circumstances the taxpayer can control where the debt or where the unpaid tax is.

**Hon. John McKay:** I have sat on this committee for a long time, but I haven't heard anybody come before this committee and say, "This is what we have to do here."

**Mr. Massimo Pacetti:** We have a problem with 2%. Now it has become 4%.

**Hon. John McKay:** That's an interesting point.

Can I move on to another point? I didn't realize that from your briefing note.

**The Chair:** Mr. Pacetti, you have a question on this point.

**Mr. Massimo Pacetti:** Yes, a particular one. The example would be if I'm a corporation and I owe \$100,000 on my income tax, but I'm waiting for \$100,000 from my GST. If you have taken your time in refunding me for the GST, that would mean after a year, even though it's a net on my balance sheet, I would owe the government \$2,000. Is that correct?

**Mr. Gérard Lalonde (Director, Tax Legislation Division, Tax Policy Branch, Department of Finance):** Well, before getting into that, there's some history behind this that I think would inform the committee.

The Auditor General had taken a look at a situation where it was

**Mr. Massimo Pacetti:** I'm not so sure she pays income taxes, but anyway....

**Mr. Gérard Lalonde:** Well, I don't know if she does or not, but the issue was large corporations having money on deposit with the Canada Revenue Agency and obtaining interest on that accruing that the government has to pay at the treasury bill rate plus 2%. That means that for those moneys the Government of Canada would be paying more—

**Mr. Massimo Pacetti:** I'm sorry, Mr. Lalonde. I've read the report. You choose to make an adjustment for that. There are other things that we can also make adjustments for, for the Auditor General. I'm not so sure there are millions of businesses that plan their financing around sending extra money to CRA and then when they need it they can just ask for a cheque overnight. If there were a couple of companies that were doing it, good for them. I think the Auditor General got a little bit of press for that, but I'm not so sure I know of too many companies that can rely on that kind of financing.

My problem is that with the inefficiencies in the way the CRA works, I don't see how you can just not offset, because as I said, it's not uncommon for CRA to send a refund with many delays and meanwhile try to collect overnight. It could easily add up to a 2% difference over a period of time, especially since the taxpayer is not the one who controls when CRA is the one issuing the refunds.

**Mr. Gérard Lalonde:** Within the different types of taxes that apply, the tax law does apply a concept known as contra interest. So if you overpay and underpay, the interest charges and overages can be offset. They're offset on an even basis, so there's no differential there.

You're probably right that most corporations don't plan on leaving money on the table with the Canada Revenue Agency. That is appropriate, and it explains part of the impetus behind this measure. Most companies don't do that, for obvious reasons. If a company is looking for somewhere to place surplus funds, they can place them with a financial institution, in which case they would get a lower rate of interest than if they placed them with the Canada Revenue Agency. That's considered to be inappropriate. On the contrary, if a corporation goes out and borrows, they will pay a higher interest rate than they will when they place their funds.

Those are sort of normal business realities. They also apply with the CRA and the amounts the tax law requires they pay and charge in respect of overages and underages of tax payable.

**Mr. Massimo Pacetti:** Thank you.

**The Chair:** Mr. McKay, do you have further questions?

**Hon. John McKay:** It does stretch one's notion of basic fairness here. Little did I know that you could actually invest with the Canada Revenue Agency and make more money than you would at the bank. That's a pretty interesting idea.

On the surplus issue with pensions and things of that nature, obviously you're addressing a real issue here. I think it's quite significant. The effect of these measures, as I understand them, is that you move the surplus up to 25%. So on a defined benefit plan I could carry 125% of my liabilities, from 110%. Is that correct?

• (1150)

**Mr. Tim Wach:** Yes.

**Hon. John McKay:** That's the only question I have on that section.

**The Chair:** Okay.

[Translation]

Any other questions?

Mr. Paillé, you have the floor.

**Mr. Daniel Paillé (Hochelaga, BQ):** I want to continue with the rates of interest. You collect the same rate of interest from any individual or company owing money to Revenue Canada. It is always the same rate, the Treasury Bonds rate plus 2 or 4%?

**Mr. Tim Wach:** Yes.

**Mr. Daniel Paillé:** So, there is no difference on the basis of credit rating. You told us that it was based on risk and that there are different levels of risk. I understand that when the federal government owes money to someone—triple A sovereign risk being the highest level in Canada—that person would collect a lesser rate of interest than when someone owes money to the government. Is that the explanation?

[English]

**Mr. Tim Wach:** That is part of the logic behind it. But you're correct in your comment that there is no distinction made among taxpayers. It would be a little difficult for the Canada Revenue Agency to try to do that.

[Translation]

**Mr. Daniel Paillé:** However, would it be possible to do that for companies? Some may invest their money, as my Liberal colleagues

were saying—it is rather unusual but, still— with Revenue Canada. Would it be conceivable that some companies in need of money—and some do that—would decide not to pay Revenue Canada or to delay their payment since the rate of interest is the same for all companies?

[English]

**Mr. Gérard Lalonde:** Well, in this case the upshot of this measure deals not so much with corporations that don't pay tax to the CRA. They will pay interest on their underpaid taxes at the treasury bill rate plus 4%, as would any individual. This measure deals with overpayments of tax, effectively leaving moneys on deposit with the Canada Revenue Agency. Part of this policy recognizes that the Canada Revenue Agency is not a deposit-taking institution; it is an institution that collects tax. Interest is paid on tax overpayments, and that's fair, but when you determine at what rate the interest should be paid, there is a good question as to whether it should be paid at the treasury bill rate, at the treasury bill rate plus 2%—which is what it was before for corporations—or at the treasury bill rate plus 4%. Previous to that, it was the treasury bill rate plus 2% for all taxpayers. Now for individuals it stays at the treasury bill rate plus 2%, but for corporations it's what the corporation would get had it invested straight up in a treasury bill.

[Translation]

**Mr. Daniel Paillé:** This brings us back to the earlier discussion.

For people receiving interest and those paying interest, a tax is still collected, which means that those who collect interest from Revenue Canada will have to pay tax on that interest the following year. In the case of those who pay interest to the government of Canada, that interest is deductible the following year.

• (1155)

[English]

**Mr. Gérard Lalonde:** Interest that you receive is taxable in the same way as if you had received interest from any other source. Interest that you pay depends on whether you have laid out funds for the purpose of earning income or not, and paying a shortfall in your income taxes and incurring interest expense on that is not considered money borrowed for the purposes of earning income. It's a tax liability, and that's after you have determined your income. So the upshot of it is it's not income.

[Translation]

**Mr. Daniel Paillé:** If I understand correctly, any interest paid by the government of Canada, for whatever reason and to whomever, is taxable that year. However, the interest paid by taxpayers or companies cannot be deducted from their income tax. This is patently unfair. I understand that interest may be deducted for an investment on which one has collected a profit but, in the case of a loss on that investment, that loss will be deductible later from other income or might be deducted from taxes already paid.

Finally, you said that the interest paid by the government of Canada is clawed back, in a way, through the income tax but, in the case of interest paid to the government of Canada, a significant portion is not deductible from future income tax.

[English]

**Mr. Gérard Lalonde:** That is correct, and it's consistent with the basic principles that money borrowed for the purposes of earning income is deductible. Interest on money borrowed for the purpose of earning income is deductible and other types of interest are not.

For example, if you had an individual who earned interest from a deposit in a deposit-taking institution and at the same time paid interest on, say, a car loan for a personal car, the interest on the car loan would not be deductible, but the interest on the moneys placed with the deposit-taking institution would be taxable. The same principles apply in the case of interest paid and received from the Canada Revenue Agency.

[Translation]

**Mr. Daniel Paillé:** I have another question but I have the feeling that we will not have enough time to deal with it because Mr. Menzies is trying to delay our work.

There are changes to clauses 30, 31 and others of the Canada Education Savings Act. What is the trick that even an experienced tax practitioner such as myself is unable to understand relating to the proposed amendments? I would like to have a quick wrapup about the proposed amendments to the Registered Education Savings Plan.

Very briefly, could you explain the intent of those amendments? Are they related amendments or do they represent significant changes?

[English]

**Mr. Tim Wach:** These amendments reflect the positions that have been applied by all the interested parties, the federal government, and the provinces for several years, that contributions to these plans from provincial sources, while they're valid and appropriate contributions to the plans, should not attract matching amounts from the federal government, nor should they take up contribution space on the part of contributors to the plans.

[Translation]

**Mr. Daniel Paillé:** All right. Thank you.

[English]

**The Chair:** Mr. McCallum, please.

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

My question relates to paragraph (e), about people who have retired and are resident in Canada and receiving U.S. social security benefits. I think you'd agree a general principle of taxation is that people in similar circumstances should be taxed similarly.

My question is, if you have two people, two neighbours in a border town like, say, Windsor, and one receives social security from the U.S. and one receives the Canada Pension Plan, which one is better off, or are they equally well off, tax-wise?

• (1200)

**Mr. Tim Wach:** Without knowing all of the details, it's hard to say, but it would seem the one receiving the amounts from the U.S., at least on the social security amounts, will be taxed at a lesser rate in Canada.

The change that is being proposed here is simply reinstating the position that had been agreed to and was reflected in the Canada-U.S. tax treaty prior to 1996 and putting people who were in that position prior to 1996 back in the position they were in at that time.

**Hon. John McCallum:** Well, if the prior position was unfair, why would it be a good policy to revert to what was unfair, if those receiving U.S. social security are now better off than those receiving the Canada Pension Plan?

**Mr. Tim Wach:** I suspect the former American resident receiving the amounts might argue that not being in the same position that he or she was in back in 1995 is unfair to them, and it's for that reason that this change is very targeted. It's only available to those who were in that position in 1995 and have been continuously resident in Canada and in receipt of these amounts since 1995.

**Hon. John McCallum:** Okay.

One last question for me has to do with the pension surplus now being allowed to be 25%. I don't object to that. It seems the horse has already left the barn, in the sense that might have had an impact when pensions were in good shape, but 125% may not do much when the average pension might be around 85%.

But I seem to remember... I think it was the actuaries who had a proposal that companies could make contributions in excess of 100% into some special vehicle and they would then be the clear owners, and that might have had a more powerful incentive effect for companies to do that. Do you know what I'm talking about and whether that proposal was considered?

**Mr. Gérard Lalonde:** Well, this measure is strictly a tax measure. What you're referring to is something that would be dealt with under the PBSA, the Pension Benefits Standards Act, and we haven't tried to wade into that with this particular measure.

As you do know, there is a pension consultation process that's under way right now. What this measure does is strictly deal with the issue that perhaps 110% was not sufficient to overcome unexpected downturns in the market. Your question about the timing of it is a very good question, but what this does is ensure that should that situation ever happen again, the pensions will be able to be funded at least to 125%, and if you get a downturn similar to what we've had recently, and let's hope that doesn't happen again, there will be that 25% cushion there.

It doesn't attempt to deal with the ownership issue. That's a much broader issue.

**Hon. John McCallum:** Thank you.

**The Chair:** Thank you. No further questions on this part.

We'll go to part 2, then, amendments in respect of excise duties and sales and excise taxes.

I have Mr. Wallace to start.

**Mr. Mike Wallace (Burlington, CPC):** Thank you, Mr. Chair, and thank you to all our guests at the table and in the audience here. You're helping us out to understand this legislation.

The issue I'd like to be clear on is the tobacco labelling, I guess you would call it, or a new stamping that we're proposing in this. We're hearing from a lot of our colleagues. It's not too far from my area either, the issue of contraband tobacco products.

I need to understand what this legislation is actually doing in terms of stamping. I'm assuming it's helping in terms of countering that activity. What are your expectations based on the legislation? Why can't we do it through regulation? Why do we have to have legislation for it?

• (1205)

**Mr. Carlos Achadinha (Legislative Chief, Sales Tax Division, Public Sector Bodies, Department of Finance):** Sir, I'll respond to that question.

What is being proposed here is a new regime for the stamping of tobacco products. I'm not a smoker, but if you look at a tobacco package, there is a ribbon that goes around it and some words that are required to say "Canada duty paid". These are intended to provide a sign that these are legitimate products and that all taxes have been paid. The problem is that these products have now become counterfeited. There are offshore manufacturers that are so sophisticated they can reproduce the product and it will look identical to a product that is legitimate.

What we're intending to do with this new regime is put in place a new mechanism for that stamp. The government itself has developed and will be issuing a new stamp. It will be responsible for the production and distribution, and there will also be specific possession requirements and limits on this new stamp. It's a new sophisticated stamp with both overt and covert security features. It'll be an additional tool for enforcement officials to help identify the counterfeit product from the legitimate product.

**Mr. Mike Wallace:** Did we have to have legislation to do this... and not through regulation?

**Mr. Carlos Achadinha:** It's a regulatory regime right now, and that regulatory regime just specifies the colour of that ribbon and the wording. What we're producing now and what we're proposing are new specific controls, and those controls will entail that the stamp itself will be under the control of the Minister of National Revenue. So there are legislative requirements there. There will be a requirement on who can possess it, and there are related and complementary penalties and offences for non-legal possession and non-uses of that particular stamp. That requires legislative amendments.

**Mr. Mike Wallace:** Is there any flexibility on packaging? Cigarettes are basically packaged very similarly, I think. I'm not a smoker either, and now that we have in Ontario, at least, all those things, people don't even see them in the stores. But there are other tobacco products—pipe tobacco, cigar boxes, and that kind of thing. Is the stamp flexible enough that it's able to be used on all kinds of products? Or are we having some issues with that?

**Mr. Carlos Achadinha:** The intent is that this particular stamp will be applied to all tobacco products over time. The primary target initially is the cigarette package itself. The intent is to have this stamp apply to all manufactured products—roll your own, the tobacco sticks, all those products.

**Mr. Mike Wallace:** My final question in this area is this. Let's assume the budget passes and we're not into an election, what is the timeframe in which you hope to have this implemented? Are you giving the manufacturers some sort of notice of the change and how much time they have to comply?

**Mr. Carlos Achadinha:** There is a specific transitional rule in these provisions. The intent is that once this legislation is passed there is a bit of a delay. That provides time for new regulations because there are complementary regulations that will be needed for this particular new regime. That provides some time for the CRA to announce those, to distribute, and to get those regulations passed. The intent is to provide until April 2011 for the full implementation of this new stamping regime, so to provide the transitional period.

**Mr. Mike Wallace:** Those are my questions.

Thank you.

**The Chair:** Thank you, Mr. Wallace.

I have Mr. Martin and then Monsieur Carrier.

**Mr. Pat Martin (Winnipeg Centre, NDP):** Thank you.

Not being a regular member of the committee, I'm just taken by what a vast document this is and how complicated it is. I assume it's going to take many, many meetings to plow your way through the various parts. I certainly hope it's not going to be in any rush or any hurry—

**Mr. Mike Wallace:** I'm ready to vote right now, Pat.

**Mr. Pat Martin:** Yes, I can imagine you are.

I didn't realize we were limiting ourselves to parts 1, 2, and 3. As it's Earth Day, I want to talk about clauses 18, 19, and 20. I hope maybe I can come back and substitute when we finally get there, which may be months from now, I presume, at the rate we're going.

The question I have in the relevant section we're talking about, though, deals with the goods and services tax as it might pertain to financial services. This has been in the news a little bit lately, and I don't pretend to know a lot about it.

Could you tell me, as a layperson, whether the enactment of part 2 will result in the application of GST/HST to any previously exempt services?

• (1210)

**Mr. Pierre Mercille (Senior Legislative Chief, Sales Tax Division, GST Legislation, Department of Finance):** I'm going to answer that question.

I'll give you a little background for the answer. The general rule under the GST is that if it's applied in the course of commercial activity, it is taxable unless it's specifically exempt or zero-rated.

Financial services are part of the services that are treated as exempt. It was at the state before...there were a series of court cases that broadened that exemption. On December 14, 2009, the minister issued a news release, the goal of which was basically to address the court cases that had broadened the exemption in the tax base at that point. Following that, there has been a release by CRA trying to explain the change, but only based on what was released at that time, which was a backgrounder.

In March, when the budget was tabled, in annex 5, in the notice of ways and means motion, was the text of the proposed amendments. It's true that there have been a lot of comments on the amendments, but following the tabling of the proposed amendments as included in this bill, Canada Revenue Agency posted something in the memo they issue, saying that based on the wording that was released in the budget, they were going to review their policy and consult with anyone who wanted to share his or her view with CRA on what should be addressed by those amendments.

Furthermore, the Minister of Finance, on March 26, issued a news release again to confirm that the policy intent was to bring back the exemption to the point it was at before there were those court cases that expanded the tax base.

So the policy intent is for the tax base to be what it was before those court cases expanded the base of exemption. We want to go back to the situation that existed before those court cases increased the exemption and reduced the base.

**Mr. Pat Martin:** Will this result in a lot more revenue for the government?

**Mr. Pierre Mercille:** The goal here is not to increase revenue to the government; it's to protect the tax base that existed before those court cases.

**Mr. Pat Martin:** Along the same line, how would that affect the ordinary Canadian, never mind high finance? Why are there exemptions for financial services? I presume those are things such as tax consulting, etc.

Are those exempt? If a corporation hires a consulting company to give them advice on tax avoidance, is that tax exempt?

**Mr. Pierre Mercille:** Consulting in itself is not usually a financial service, because you can consult on all sorts of things.

You talk about tax advice. That is not a financial service. For it to be a financial service it needs to be linked to the issuance of a financial instrument.

**Mr. Pat Martin:** Can you give me an example?

**Mr. Pierre Mercille:** An example would be an insurance policy, or the issuance of a bond or any instrument that is there to provide financing of some sort.

**Mr. Pat Martin:** What if you hire somebody to do your taxes?

**Mr. Pierre Mercille:** My understanding is that's taxable.

**Mr. Pat Martin:** That's taxable?

**Mr. Pierre Mercille:** Yes. That's my understanding.

**Mr. Pat Martin:** I don't pretend to understand the reasoning here.

So there's no net benefit. This isn't a tax grab. The government is not going to get more money, more revenue, as a result of this initiative.

**Mr. Pierre Mercille:** The amendment was intended to protect the tax base that existed before those court cases broadened the exemption.

**Mr. Pat Martin:** So that resulted in less money. Broadening the exemption resulted in less revenue for the government.

**Mr. Pierre Mercille:** Yes.

**Mr. Pat Martin:** This will result in more revenue for the government. So it's a tax increase.

**Mr. Pierre Mercille:** Well, it's not a tax increase, because it protects from a tax decrease.

**Mr. Pat Martin:** That might be splitting hairs a little.

How does this work, Mr. Chair? Do I just keep asking until I'm finished asking questions on part 2, or is it someone else's turn?

**The Chair:** We have Mr. Carrier, Mr. Paillé, and Mr. Wallace. We can come back to you if you like.

**Mr. Pat Martin:** I'll come back if I have more. Thank you.

**The Chair:** Go ahead, Mr. Carrier.

•(1215)

[Translation]

**Mr. Robert Carrier (Alfred-Pellan, BQ):** Thank you.

I would like to come back to the issue of the more sophisticated excise stamp. I am pleased that the government is trying to fight the contraband of cigarettes, which is a real plague. However, I would like it to be more effective.

I was reading in the documents that the stamp would be issued by National Revenue but I also saw that the minister would be able to authorize stamp producers to provide them to some persons. Does that not entail a loss of control on who will be able to use the stamps? If the Minister can authorize stamp producers to distribute them to some people, is that enough control and will that be really effective? Would it not be better that the stamps be issued only by the Department of National Revenue?

[English]

**Mr. Carlos Achadinha:** The minister, as you can appreciate, doesn't have the capacity to print these particular stamps. He is going out to a specific specialized printer. The printer in this case is one of these specialized printers who also deals with the currency. He is a very sophisticated, very directed, targeted sort of printer. The stamps themselves would look very much like something you would see on some currency. There are those sorts of measures. It's a very sophisticated stamp.

The minister has entered into a contract with this particular stamp provider. It is a sole-source contract. There is only one particular company that will be producing those stamps. The process envisioned here is that the request will be made to the minister himself by the industry for these stamps. It will be the minister who goes through, receives, and reviews the particular requests. Again, the request for stamps can only be made by and stamps can only be issued to those people who are licensed, legitimate, prescribed, and authorized under the act to receive them. So that request will be made directly to the minister. The minister will approve it, then he will send an order to that provider. That provider will then distribute those stamps directly to that particular licensed producer or manufacturer.

[Translation]

**Mr. Robert Carrier:** All right. Thank you.



[English]

**Mr. Carlos Achadinha:** Also, as I mentioned earlier, there are controls in terms of who can possess that particular stamp, and there are penalties and offences for illegitimate possession of this particular stamp. So it will very much be a new, controlled product. There are significant penalties in here for improper possession.

[Translation]

**Mr. Robert Carrier:** Very well. Thank you.

[English]

**The Chair:** Merci.

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

[Translation]

**Mr. Daniel Paillé:** Relating to how difficult it is to understand the subtleties of financial institutions, I believe the issue is whether a service is financial or not. Yesterday afternoon, in this room, Mr. Martin made some excellent comments about that.

Let us look at the definition of asset management services. If I am not mistaken, when I ask an accountant to prepare my tax report, he will charge GST, QST or HST, but that may be a matter of interpretation. An accountant is an accountant and there is something called the Chartered Accountants of Canada. A doctor is a doctor and there is something called the College of Physicians. However, when we talk of asset management, I suppose that when he was in business, Vincent Lacroix—I see you raise an eyelid—he used to collect sales taxes since he was well known and had an official business. He was supposed to operate legally. When Earl Jones was doing business in his basement, did he collect GST and QST from his clients for the services he supposedly provided?

How far can we go with this kind of subtleties?

**Mr. Pierre Mercille:** I am sure you will understand that I am not able to make any comment on those two cases.

**Mr. Daniel Paillé:** I was just using them as examples.

**Mr. Pierre Mercille:** Very well.

Financial services are a rather complex area. There are financial services and there are also associated services which are more of an administrative nature. There was and there still is in the Excise Tax Act a rule stating that one should always verify what is exactly provided in the transaction since we are dealing with a tax on transactions. According to the rule, if more than 50% of the value of the components of the transaction represent financial services provided individually, everything is considered as financial services and is therefore tax-exempt.

I have no idea what your two advisers did exactly.

● (1220)

**Mr. Daniel Paillé:** They were obviously not my advisers

**Mr. Pierre Mercille:** You seemed to know them.

We always deal with facts. One has to look at the exact nature of the services. That is why one has to be careful when making general comments, especially in the field of financial services. One has to look in detail at what is provided.

**Mr. Daniel Paillé:** I want to underline that it is difficult to define things so clearly. You have just stated that the rule is based on 50% but one is not going to check every day if the advisor has worked four hours or four hours and a half on a given issue. In other cases, there is a rule of 20% to be registered. In brief, it depends on a number of things.

Let us go back to the sales tax. I see that they are several issues relating to the harmonized sales tax. You have given us some explanations recently on the HST legislations of British Columbia and Ontario. I wonder what you are waiting for to include in such an interesting Bill the famous Quebec harmonized sales tax.

**Mr. Pierre Mercille:** I am sure you will understand that I did not decide personally what would be included in this Bill. That is decided by the Minister and that is whom you should put the question to.

**Mr. Daniel Paillé:** Since he is not here, I am asking you. Unless Mr. Menzies, who is outrageously delaying our work, is good enough to put the question to him.

I have no other questions for the time being, Mr. Chair.

[English]

**The Chair:** Okay, merci.

Mr. Wallace, please.

**Mr. Mike Wallace:** Thank you, Mr. Chair.

For clarification, for Mr. Martin's and everyone's knowledge, I want to go back to paragraph (c) and "reaffirm the policy". I just want to be clear.

I do appreciate you coming to the pre-meeting we had. I know I was a little bit hard on you, and I apologize for that. I still haven't had the answer, but you did a great job. I just want to tell you that. That's what happens when you have it at 7 o'clock at night.

What happened was we had a policy on the definition of financial services and how it was working. An organization or organizations decided it was too ambiguous or they thought there was a loophole. They took it to court, they won, and what we're doing here is changing the wording back or fixing the wording so that the loophole does not exist in the future for those who are trying to find a way to get out of paying tax. Is that basically what's happening here?

**Mr. Pierre Mercille:** I don't want to qualify it as a "loophole", but I would say "uncertainties" existed following those court decisions, and basically the goal of this amendment is to remove the uncertainty and bring the situation back to what it was before those court cases.

**Mr. Mike Wallace:** Okay.

In regard to the timeframe between the court case and this, have a lot of financial institutions taken advantage of the uncertainty that the court case decision has caused in terms of not paying their taxes? Or would you say they're mostly assuming that we're going to fix this little issue and are either paying or holding on to money knowing that they're going to have to pay this money eventually, in the future? Has there been a big uptake of this court case's decision?

•(1225)

**Mr. Pierre Mercille:** Yes, there has been. It's important to understand that when you're a provider of a taxable service, you're entitled to an input tax credit. If you're a provider of an exempt service, you're usually not entitled to an input tax credit. So if the provider to you charges you tax because he argues that what he's doing is taxable based on the longstanding policy, the person who receives the service, if he pays, may not be entitled to recover it through input tax credits. If there is a court decision that says this guy tried to say this service is not taxable, the other guy next door, even if he paid tax on those transactions, will try to argue the same thing. There is something in the legislation called a tax paid in error rebate, and he can try to claim back tax and argue that he paid in error for the last two years.

In a situation like this, if there is no fix, it affects the supplier and it affects the recipient in this case. The way it affects the supplier is he charges tax because he thought he would recover his input tax credit. If a court suddenly says no, this is exempt, the recipient, which is usually a financial institution, gets what we could even call a windfall of this decision, but it penalizes the supplier because all the input tax credit he claimed, he would have to give back.

To ensure that there is not too much of that game playing going on, when the announcement was made, it said these amendments are proposed to apply as of that date, which is December 14. To make sure people don't claim all those taxes paid in error, it also says that if you paid tax on those transactions and you complied with the longstanding policy, this will apply to you, so you cannot try to claim those taxes paid in error.

**Mr. Mike Wallace:** Very good. Thank you very much.

**The Chair:** Thank you, Mr. Wallace.

Mr. Martin.

**Mr. Pat Martin:** I don't mean to harp on this, and I thank you for trying to bring as much clarity as you can to it. I think I understand you, but I still don't know how much the government will realize by this. It's one of the advantages of being government that if the courts rule against CRA and say you are applying the law incorrectly, you just change the law and keep doing what you wanted to do all along.

Had this part 2 not come into this budget implementation bill, you would have had less revenue, but with this change you will have more revenue. There must be an estimate of what the net benefit to the government is of this particular measure of the Budget Implementation Act. Can you share that figure with us?

**Mr. Pierre Mercille:** I was asked a similar question during the parliamentary briefing and at that time I didn't have the answer, so I did my homework and asked the person responsible for that. Basically, the revenues the government intends to protect here are estimated at over \$100 million a year.

**Mr. Pat Martin:** It is a paltry amount of money then.

The room for abuse is still serious, though, and I just ask this with all due respect. One of the real shortcomings of our corporate governance regime is that we allow...an auditor of a company would be providing a service that is probably exempt, but we allow that auditor to also give tax advice to that same company, the very rules that he will in fact audit. There is no independence of auditors

assured in our corporate regime, so where would be the crossover for that person selling financial services to that company if they are the auditor and the tax consultant advisor at the same time, and how could the CRA be satisfied that this tax expert is going to say, well, I have this hat off now and I've put this hat on—taxable, not taxable, taxable, not taxable? It's a real problem.

**Mr. Pierre Mercille:** I assume your auditor here is not an employee of the corporation you're talking about, because in that case—

**Mr. Pat Martin:** No.

**Mr. Pierre Mercille:** It's an accounting firm.

**Mr. Pat Martin:** Yes.

**Mr. Pierre Mercille:** Accounting services are taxable. An accountant is not issuing a financial instrument. An accountant is not going onto the stock market to purchase a financial instrument for a client. It's just accounting advice that he's giving.

•(1230)

**Mr. Pat Martin:** So that's all taxable? That's not considered exempt, the auditing of your books and services...?

**Mr. Pierre Mercille:** No. One way maybe I can try to explain it is that a financial instrument is something that has an element of risk in it. You put your money there, and it's risky. A mortgage—someone lends money to someone and the person may pay or not pay. The risk element there is kind of the pure financial link. An accountant who goes somewhere and looks at the books and does basically a....

**Mr. Pat Martin:** I'm obviously misunderstanding what financial services are in the context of taxation.

Thank you.

**The Chair:** Thank you.

*Monsieur Carrier, encore.*

[Translation]

**Mr. Robert Carrier:** Let us talk about sales tax harmonization, the issue raised earlier by my colleague. The government of Quebec has been collecting GST for the Canada Revenue Agency since 1992. It administers both taxes. It collects the tax and probably sends you the money afterwards.

Once again, we hear talk of changes to the GST. How do you make sure that the Act is correctly implemented since the tax is collected by Quebec? Is everything working smoothly? Does the Quebec Revenue Ministry make sure that all the provisions of the legislation are fully implemented? Do you have to check that?

Do you believe that everything has always worked smoothly or are there any issues relating to the collection of the GST on behalf of the Canada Revenue Agency?

**Mr. Pierre Mercille:** I am not sure that I am the right person to answer your question. I work for the Department of Finance and tax collection, in 1992, was the responsibility of Revenue Canada. To my knowledge, the agreement with Quebec was an agreement between the Minister of Revenue Canada and the Minister of Revenue Quebec. It is therefore the responsibility of another department. My understanding is that the employees of Revenue Quebec are in a way proxies of the Minister of National Revenue as far as the administration of the GST is concerned.

So, questions relating to the administration of the tax and to verification should be put to representatives of CRA, the agency working with Revenue Quebec. They might be able to answer. Since the agreement is still valid, I suppose everything still works smoothly but I cannot give you any details.

**Mr. Robert Carrier:** So, the implementation of the changes brought about by Bill C-9 is automatically the responsibility of the Canada Revenue Agency. Your department has nothing to do with that. Is that correct?

**Mr. Pierre Mercille:** Of course, we make sure that the Act is correctly interpreted but I have no information about the time needed to send an assessment notice to a Quebec taxpayer in comparison to a taxpayer in another province, for example.

You should understand that, since Revenue Quebec is the proxy of the Minister of National Revenue, the interpretation of these amendments by Revenue Quebec will have to match those of Revenue Canada.

**Mr. Robert Carrier:** All right.

**The Chair:** Thank you.

[English]

There are no more questions on part 2?

We'll move to part 3, amendments in respect of the air traveller security charge.

I have Monsieur Paillé, *s'il vous plaît*.

[Translation]

**Mr. Daniel Paillé:** I have a very brief question, Mr. Chair, relating to Part 4 and Part 6.

If the fee is raised from \$4.90 to \$7.48, off from \$9.80 to \$14.96, or even from \$8.34 to \$12.71, or from \$17.00 to \$25.91, does that mean that you will necessarily collect more revenue?

• (1235)

[English]

**Mr. Carlos Achadinha:** Correct.

[Translation]

**Mr. Daniel Paillé:** So, for the same number of flights, there will be more revenue?

[English]

**Mr. Carlos Achadinha:** Correct.

[Translation]

**Mr. Daniel Paillé:** In other words, this is a tax increase by a government claiming that it never raises taxes. I am not asking you to answer.

[English]

**Mr. Carlos Achadinha:** There's a principle with respect to the funding of air travel security. The basic principle is that it's a benefit directly and principally for the air travellers; therefore, air travellers, as the principal beneficiaries, should pay for the cost of enhanced air travel. There are going to be some significant increases in spending and improvements and enhancements to Canadians' air travel security system. There have been a number of events recently.

[Translation]

**Mr. Daniel Paillé:** Your answer raises this question: the revenue collected with those increases will not go into a fund specifically dedicated to passenger safety but into the Consolidated Revenue Fund?

[English]

**Mr. Carlos Achadinha:** Correct. These are revenues that are collected. It's the air travel security charge. The revenue is collected by the carriers and it then goes into the CRF, the consolidated revenue fund.

[Translation]

**Mr. Daniel Paillé:** Indeed. As we were told a long time ago, a buck is a buck is a buck. Everything is put into the system and then money is withdrawn to pay for expenditures. So, the revenue from the fee is not explicitly linked to safety expenditures. At the end of the day, it is virtual.

[English]

**Mr. Carlos Achadinha:** There's a process in place. There's normal reporting in terms of how security is financed and the link between revenues from the ATSC and the security expenditures. It's normally reported. It's been reported in past budgets. There is an audit process by the Auditor General that reports on how those revenues are used and the link between the revenues and the expenditures.

[Translation]

**Mr. Daniel Paillé:** Thank you.

[English]

**The Chair:** Mr. Gagnéaux, *s'il vous plaît*.

[Translation]

**Mr. Bernard Gagnéaux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC):** Thank you to all the witnesses.

I would like to continue with you, Mr. Achadinha. The fee increase which is about 53% is based on the user-pay principle. It is really based on the users paying the cost, that is to say by air passengers only.

[English]

**Mr. Carlos Achadinha:** Correct. The air travel security charge is levied on air travellers. It's collected by the carriers, and the air travellers are the people who principally benefit. Those are the people who get the direct benefit from the enhanced travel. Therefore, the principle is that the air travellers pay for the cost of the air travel security system.

[Translation]

**Mr. Bernard Généreux:** Did you submit those questions to various groups of persons or organizations in order to consult them before charging those new fees?

[English]

**Mr. Carlos Achadinha:** On the increases in the charge, there have been discussions I believe between Transport Canada and the security agencies regarding new security measures and what's required. A lot of the security measures are international in context. In order to fly into a foreign airports, those airports require some sort of clearing, and there are agreements before they will allow you in. So they require some sort of screening, some level of screening, before they'll allow you to land. For example, after certain events, there is an increase in the level of screening and of the expectations of the screening that will be done on foreign flights going into some countries. So you have to provide that level of screening in order to enter into those other countries.

[Translation]

**Mr. Bernard Généreux:** Have any other countries also had to raise their fees for airport safety? If so, how were those increases received in those countries?

[English]

**Mr. Carlos Achadinha:** I'm not familiar with how well it was received. I know there is a proposal in place right now in the U.S. to increase the level of the charge for security.

[Translation]

**Mr. Bernard Généreux:** Do you know if there are any other countries, in the European Union for example...

[English]

**Mr. Carlos Achadinha:** I'm not familiar if there have been any changes. I know there are security fees. It's difficult to compare security charges in Canada versus those elsewhere, because they are often lumped together with different fees. There's a customs fee. They are all together in one fee, so it's really difficult to compare them. A lot of them are for the air travel system in terms of all of these other things, such as clearances, which are sometimes all packaged together as one fee in other countries. So it's difficult to compare them. It's not apples and apples; it's apples and oranges.

• (1240)

[Translation]

**Mr. Bernard Généreux:** All right. Thank you.

**The Chair:** Thank you.

Mr. Pacetti, you have the floor.

[English]

**Mr. Massimo Pacetti:** Thank you, Mr. Chair.

I know this is a new tax, so it's a projection. Has there been any projection as to what the cost will be? A tax is a tax, and we never seem to see taxes go down. Is this going to be temporary? Has there been a budget made up to make sure that we're going to be spending this revenue on security? What's happened in the past, if we were to compare revenues versus expenses for air security charges?

**Mr. Carlos Achadinha:** The announcement made on February 25 basically indicated that there would be an additional \$1.5 billion provided for enhancing the air travel security system. The commitment is that these new revenues that will be derived from the increase in the charge will roughly offset that amount over five years.

**Mr. Massimo Pacetti:** Okay, so there should be no profit made.

**Mr. Carlos Achadinha:** The intent is that it has to be in line. There has to be a balance.

**Mr. Massimo Pacetti:** What's happened in the past? There is an amount right now being charged.

**Mr. Carlos Achadinha:** I believe that if you look at the budget of 2008-09, it was indicated that cumulative revenues and expenses for the air travel security system were roughly offset. Up to that point in time, it was roughly equal. It was in balance.

**Mr. Massimo Pacetti:** Thank you.

**The Chair:** We'll go to Mr. Martin, please.

**Mr. Pat Martin:** Much of what I was going to ask about this has been answered, but I think it's worth noting your point that this is a principle that the user, the beneficiary, of this particular service should pay for this service. That's getting to be a real hallmark, a trend, of the government. If you're cutting taxes here, you're raising service fees on the other hand. Ultimately, you're still paying more.

The system can't be viewed as a dedicated tax if it still goes into general revenues. It still goes into the same pool. You say there is an accounting at the end. The Auditor General may find that the amount submitted is roughly the amount spent on that service, but there is no obligation. The government can spend that money on whatever they want, really. And that's what concerns Canadians, I think.

A 52% increase is actually massive, even if it's a relatively small amount of money. Is this strictly to pay for the new body-scan machines, or was this service operating at a loss already, and if so, by how much? In other words, were we breaking even prior to Mr. Baird announcing the new body-scan machines?

**Mr. Carlos Achadinha:** I think there was some decision that there would be a significant increase in the level of security. There were new requirements throughout the world, internationally. CATSA and those people who are responsible for determining the level of security and what is appropriate identified significant new needs.

There is also some capital that is going to be replaced.

**Mr. Pat Martin:** It is not just the body-scan machines, then. There will be an increase....

**Mr. Carlos Achadinha:** There are going to be additional enhancements. The body scanners are just one measure.

**Mr. Pat Martin:** We must know how we compare with other countries. Even if you say it's complicated, in the interest of openness and transparency, somebody must have done a breakdown. The United States charges, I don't know, \$3.50 per ticket or \$7 per ticket. Somebody must have stripped away all the other confusing things that are lumped in there so that we could have some idea of where we stand in that field.

Do you have that answer?

**Mr. Carlos Achadinha:** In terms of the U.S., I can tell you that it's difficult to compare. They have at least three different sets of fees and taxes on airline tickets, including a passenger security fee. So it's really difficult to....

**Mr. Pat Martin:** How much is that?

**Mr. Carlos Achadinha:** I'll follow up and just say that the U.S. budget proposed to more than double its current security fees—

**Mr. Pat Martin:** What's the current fee?

**Mr. Carlos Achadinha:** —from \$2.50 right now per segment to \$5.50 per segment, up to a maximum of \$11 for a one-way trip by 2014.

**Mr. Pat Martin:** How will ours compare to that?

**Mr. Carlos Achadinha:** It's different, because in the U.S. it's per segment, so it depends on how many legs of travel it takes for you to get to your destination.

**Mr. Pat Martin:** There has to be a way to compare it, surely. This is not that complicated.

**Mr. Carlos Achadinha:** It will all be based on whether it's equal and whether there are any connections, because as I mentioned, in the U.S. it's per segment. So for your connections you're paying separate fees.

**Mr. Pat Martin:** Let's say it's one segment. Let's say it's from Winnipeg to Toronto.

**Mr. Carlos Achadinha:** It'll be \$5.50 per segment for domestic travel—

• (1245)

**Mr. Pat Martin:** For us.

**Mr. Carlos Achadinha:** —and in Canada, the rate will be.... Is that one-way travel?

**Mr. Pat Martin:** Yes.

**Mr. Carlos Achadinha:** Let me get my current rates. For one-way travel it is \$7.48.

**Mr. Pat Martin:** The fee is 50% more than it is in the United States.

**Mr. Carlos Achadinha:** It's \$7.48 for one-way travel and \$14.96 for round-trip travel.

**Mr. Pat Martin:** It's not quite 50% more. Why is that? What a cash grab that is.

**The Chair:** Thank you, Mr. Martin

I have Mr. Wallace and then Mr. McCallum.

**Mr. Mike Wallace:** Thank you.

I want to clarify a number of things.

I'm sure it's difficult to compare based on volume and everything else. If you put a thousand people or 500 people through the scanners, the capital cost is exactly the same, but the amount of revenue you could generate is different. I'm sure it's basic economics that Mr. Martin will eventually figure out. If he comes to these meetings on occasion, I'll help him out the best I can.

My point is this. You indicated that the money goes into general revenues, which is fine, but every year we get the blue books on the estimates for the actual spending that is done. Would a member of Parliament be able to find it in the blue books? Whether it is the main or supplementary estimates (A), (B), or (C), how would a person such as myself find where the actual expenditure is allocated? Will we be able to find where we're spending money on CATSA or airport security in the blue books?

**Mr. Carlos Achadinha:** CATSA is the dedicated agency responsible for air travel security in Canada. What they do is all dedicated towards the air travel security system. They are the ones who largely administer it.

The screeners you run into every time you fly are employees of CATSA. They have an annual report and they report their expenditures each year.

**Mr. Mike Wallace:** Is their expenditure reporting to the Government of Canada reflected in the estimates that we see every year?

**Mr. Carlos Achadinha:** I think they would report under Transport Canada.

**Mr. Mike Wallace:** If I look at the Transport Canada area, I can find how much we're spending, likely with a little work.

**Mr. Carlos Achadinha:** That's correct.

**Mr. Mike Wallace:** It's on airport security and CATSA for a year. Is that correct?

**Mr. Carlos Achadinha:** CATSA's mandate is only the air travel security system. All of their expenditures would be related to the functioning of the national air travel security system.

**Mr. Mike Wallace:** All right.

**Mr. Carlos Achadinha:** There are some additional programs. The RCMP air marshals and some other things done in Transport Canada are also funded by the air travel security charge.

**Mr. Mike Wallace:** I want to clarify one thing you said. You said the user fee will cover the costs over five years.

**Mr. Carlos Achadinha:** That's correct.

**Mr. Mike Wallace:** Are you telling me that if I look through the blue books I can find an upfront cost or expenditure for increased security for people flying in this country immediately or very soon and that the fee will be enough to offset those costs over time? Is that correct?

**Mr. Carlos Achadinha:** I think what you'll be able to see is there's going to be an increase in CATSA's expenditures, which will correspond to the increase in the air travel security charge rate. It won't be one to one.

**Mr. Mike Wallace:** It won't be one to one.

**Mr. Carlos Achadinha:** As you can appreciate, it's over five years. There will be some years when spending may be higher or lower than other years. There's capital equipment acquisition.

**Mr. Mike Wallace:** But at the end of the five years it should virtually balance out.

**Mr. Carlos Achadinha:** The intent is that the increased revenues will basically balance and be in line with the increased expenditures.

**Mr. Mike Wallace:** If I understand you correctly, this is only a charge that the airlines will pay based on the number of tickets they sell for security for people who are actually using the service. At the end of the day, it is really a user fee.

**Mr. Carlos Achadinha:** It is a user charge. Air travellers are the ones who pay for it. It's paid at the time you purchase an air travel ticket. It's in order to pay for the security you will receive when you go to the airport and for the benefits you will receive from flying safely.

**Mr. Mike Wallace:** Thank you, sir.

**The Chair:** Thank you, Mr. Wallace.

I have Mr. McCallum, Mr. Martin, and Monsieur Paillé.

I'd like to try to finish this round by one o'clock.

We'll go to Mr. McCallum, please.

**Hon. John McCallum:** I have one brief question. You said the revenues and expenditures were roughly in balance over the past years. What is the definition of "roughly"? Were the revenues higher or lower than the expenditures? In dollar terms, approximately what was the gap?

**Mr. Carlos Achadinha:** The air travel security charge was introduced in 2002. I think if you look at the budget of 2008-09, it basically reported at that point in time that revenues and expenses were roughly in balance on a cumulative basis. What does that mean?

I think there were the billions of dollars of expenditures and the billions of dollars of revenues for that period, because this was over a six-year to seven-year period at that point in time. I'm not sure, because I don't have the exact dollar figure in terms of what it would have been at that point in time. It may have been a little above or a little below, but it would have been roughly in balance.

• (1250)

**Hon. John McCallum:** So if the number is a billion dollars, it would have been just—

**Mr. Carlos Achadinha:** It would have been a marginal amount. It depends on what you think. But relative to the billions expended and the billions received, it would have been relatively small.

**Hon. John McCallum:** Okay. Thank you.

**The Chair:** Thank you, Mr. McCallum.

Mr. Martin.

**Mr. Pat Martin:** My only question is very brief too. If the goal is to hit revenue-neutral in five years, is there a sunset clause built into this particular increase in part 2? Does it cease to exist after five years, or will we have to chase it down and try to have it reduced?

**Mr. Carlos Achadinha:** The charge is intended to be an ongoing charge, so the intent is that it will finance the additional expenditures, the enhancements over time.

**Mr. Pat Martin:** Once the standards are paid for, though, you don't need that money.

**Mr. Carlos Achadinha:** We will continue to review the level of the charge to make sure it's consistent with expenditures. As I said, the charge has been adjusted in a number of previous years, and it's always been in relation to what the expenditures over time are, in order to try to keep them in line. This time, there was a subsequent adjustment in the charge level in order to help finance those additional enhancements and increases in the air travel security system and the additional benefits that will be derived.

**Mr. Pat Martin:** It's just a tax, isn't it? Taxes seem to go up and stay up. You raise taxes for a specific purpose, and then they never seem to go back down unless we're really vigilant. Did they contemplate a sunset clause, or is there any precedent for increasing taxes for a specific fixed period of time and then having them expire?

**Mr. Carlos Achadinha:** If you look at the charge itself, it was initially introduced at a level of \$12.

**Mr. Pat Martin:** I remember.

**Mr. Carlos Achadinha:** I'm just talking about the domestic rates, the one-way rate, which was \$12. That was based on trying to fund levels of security at that point in time. It's always based on the expectations for the future of passenger travel. You always try to estimate it based upon a certain level of travel.

**Mr. Pat Martin:** In general, though, have you ever heard of a case of a tax increase being for a fixed period?

**Mr. Carlos Achadinha:** For a fixed period, off the top of my head, I'm really not familiar with any specific taxes that have been introduced for some level or something.

**Mr. Pat Martin:** Income tax was to pay for World War I, wasn't it?

**Mr. Mike Wallace:** *[Inaudible—Editor]*...as a temporary add-on.

**The Chair:** Let's keep to the parts of the bill.

Monsieur Paillé.

*[Translation]*

**Mr. Daniel Paillé:** We are dealing with the theory but we will not have enough time to look at all that. I would have liked to deal more specifically with clause 1643 but we will obviously not have enough time.

You say that the tax is related to an expenditure. Mr. Wallace is looking into his little blue books but those are not net expenditures. They are expenditures and that is all. It is in the book of votes. There is no offset to revenue. Revenue might be lower, equal or higher, and that would change nothing to the expenditures that Mr. Wallace is looking at with considerable interest.

As Mr. Martin correctly indicated, this is a tax that will go into the Consolidated Revenue Fund. It has been set on the basis of the cost of air transport safety. Of course, there always has to be a basis for setting a tax. It is increased because safety costs more. We are being told that the tax takes the elevator when costs increase but, when they decrease, it does not take even the stairs to go down. I would like to remind you that there have been temporary taxes both in Canada and Quebec. That was in the 70s. I was there. But they became permanent.

I have no other questions, Mr. Chair. Mr. Wallace might cut me off and I do not want that to happen.

• (1255)

[English]

**The Chair:** Would you like to respond to that?

**Mr. Carlos Achadinha:** I'll just briefly mention, as I was going to say before, that the charge has been adjusted over time. It has been adjusted downwards previously. It's based on the level of traffic. If traffic substantially increases, then it's a flat-rate charge. If traffic goes up substantially, then the revenues will increase. As I mentioned to you, there's a constant review of expenditures and revenues over time. At certain periods of time—I believe on two occasions—the charge was adjusted downward. There are some fluctuations. That is part of the principle of keeping revenues in line with expenditures.

**The Chair:** Okay, it looks like we've finished 3 of 24 parts today.

I do want to very much thank the witness for being here.

Colleagues, you may want to hear this. We have 21 parts left of the bill. We have 62 witnesses who have been requested on this bill. There are some time sensitive issues here that need to be done, at least in the government's view, by June. So I want some quick direction from committee members.

Do members want to continue with officials on Tuesday, April 27? The other option is to go to the witnesses, hear from the witnesses starting on Tuesday, April 27, and then bring the officials back after we hear from the witnesses. These are the two options, and I just want some direction from committee members as to which option they would prefer.

Mr. Pacetti.

**Mr. Massimo Pacetti:** Through experience, Mr. Chair, normally after hearing from the witnesses we'll have more questions for the officials. So I would recommend that we have the officials come at the end.

We will have 62 witnesses, as you just stated, so I would recommend having the officials come afterward.

**The Chair:** Thank you.

Mr. Martin, please.

**Mr. Pat Martin:** My only observation, on the NDP's part, is that you could always split the bill as a third option. You didn't have to stuff in all of these controversial things that have really nothing to do with the budget, like the environmental assessment review, etc.

Break out the time-sensitive parts of this bill and I think it would pass speedily, and leave the controversial stuff for further analysis later on.

**The Chair:** I appreciate that, but as you know from reading your O'Brien and Bosc book, a committee has to deal with a bill as sent to it by the House of Commons. So we have no choice as a committee other than to deal with the bill in its present form.

Mr. Wallace, please.

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

I'm of the opposite opinion of Mr. Pacetti.

Based even on today's meeting of the three sections and the quality of the questions, which I agree were quality questions from all sides, I think it's important for us as members to have an education. Whether we agree with officials or not, that's neither here nor there. But to ask good quality technical questions, have them come first and continue with the officials' piece. Then have witnesses in, to be able to say, well, this is what the officials are saying. I'll be frank with you, witnesses will have an opinion on things. They may not have the technical background, but we would be able to receive that from officials if we went the officials route first and then have witnesses and then go clause by clause.

Thank you.

**The Chair:** Thank you.

Mr. McCallum.

**Hon. John McCallum:** Yes, I agree with Mr. Pacetti, in terms of having the witnesses at the end....

But I also would like to raise for some future meeting, not now, the idea that since we have so many more witnesses than we expected...I don't see why we have to have double meetings every Tuesday and Thursday and three hours every Wednesday. I think the deadline we'd set for completing the bill, May 6, is somewhat artificial. I think we should just have the hearings on the bill extended over a longer period of time.

**The Chair:** Well, we do have our schedule set, so if we extend over a longer period of time, we're still adding additional meetings.

**Mr. Mike Wallace:** Or we could reduce the number of witnesses.

**The Chair:** Even if we sit into June on the bill, we're still adding additional meetings.

**Mr. Mike Wallace:** So why don't we reduce the number of witnesses?

**Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC):** That's a great idea.

**The Chair:** I just want direction on this first.

Monsieur Paillé.

• (1300)

[Translation]

**Mr. Daniel Paillé:** I agree with my colleague from the Liberal Party. Indeed, we do ask good questions. Thank you very much, Mr. Wallace. It is because we have studied the Bill and because we know taxation. Like Mr. Pacetti, I would agree with the Committee first hearing witnesses from Quebec and Canada since they might be able to show the government why some of the proposals in his Bill should be changed. Then, we might hear the people from the Department of Finance, whom we want respectfully to question.

[English]

**The Chair:** I appreciate everyone's comments. The problem is there's no consensus here.

Mr. Hiebert, did you want to comment?

**Mr. Russ Hiebert:** Yes, I was just going to comment on the timing of the meetings. Mr. McCallum—

**The Chair:** Really, with respect, I just want to have.... If I can't get direction on this, we can address it this afternoon as well. There's another committee at one o'clock here, so....

**Mr. Mike Wallace:** Well, that said, bring it up at the next meeting.

**The Chair:** I'm going to encourage members to speak prior to the meeting this afternoon. We'll try to get direction to the Department of Finance and other departments as to which way we want to go on April 27, but I'd prefer to have a consensus of the committee if we can. We'll probably have to have a vote this afternoon.

Go ahead, Monsieur Carrier.

[Translation]

**Mr. Robert Carrier:** Mr. Chair, you are looking for a consensus but I believe that most of us think we should hear the witnesses first. Their testimony might raise new questions that might be important. Experience shows that we would prefer meeting with the department people after having heard the witnesses, in order to clarify various points. We might vote on this and that would avoid you having to determine if there is a consensus or not. Most of us agree with hearing the public servants at the end.

[English]

**The Chair:** I didn't put this forward to have a divisive motion, so I'm going to ask folks to speak between now and the meeting this afternoon, and if we need a vote this afternoon we'll take it at that time. Okay?

Thank you all for being with us here today.

The meeting is adjourned.

---









**MAIL  POSTE**

Canada Post Corporation / Société canadienne des postes

Postage paid

Port payé

**Lettermail**

**Poste-lettre**

**1782711  
Ottawa**

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

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

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

### **SPEAKER'S PERMISSION**

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

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

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

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

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

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

### **PERMISSION DU PRÉSIDENT**

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

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

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

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

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