



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Finance

FINA • NUMBER 083 • 2nd SESSION • 41st PARLIAMENT

EVIDENCE

Thursday, May 28, 2015

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Chair

Mr. James Rajotte

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• (0850)

[English]

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

This is meeting number 83 of the Standing Committee on Finance. Pursuant to the order of reference on Monday, May 25, 2015, we are continuing our study of Bill C-59, an act to implement certain provisions of the budget tabled in Parliament on April 21, 2015 and other measures.

Colleagues, we have two panels here this morning.

For the first panel we have Professor Frances Woolley from Carleton University. Welcome back to the committee.

From the Canadian Centre for Policy Alternatives we have the senior economist, Mr. David Macdonald. Welcome to you, sir.

From the Canadian Federation of Independent Business we have the senior vice-president, Corinne Pohlmann. Welcome back as well.

From the Canadian Manufacturers and Exporters we have the director of policy, innovation, and business taxation, Monsieur Martin Lavoie. *Bienvenue*.

From the Conference for Advanced Life Underwriting we have the chair of government relations, Mr. Terry Zive. Welcome to you, sir, as well.

You will each have five minutes for your opening statement. I think we're still trying to get a technical set-up for Mr. Macdonald, and hopefully we'll have that in place in time.

We'll start with Professor Woolley, please.

Dr. Frances Woolley (Professor, Carleton University, As an Individual): Thank you, Mr. Chair.

I would like to thank the chair and the members of the committee for inviting me today and giving me the opportunity to speak about the budget.

The 2015 federal budget is intended to be a balanced budget, a low-tax plan for jobs, growth, and security. U.S. experience shows that low taxes are no guarantee of jobs and growth. In fact, a recent study by the IMF found equality matters more for growth than low taxes. I quote, “lower net inequality is robustly correlated with faster and more durable growth.”

There's nothing inherently good for the economy about low taxes. What's important is to have a well-designed tax system which raises

revenue equitably and efficiently, providing both income security and the foundation for economic growth.

The question I wish to address here is this: Which of the tax measures announced in the budget help build a good Canadian tax system, and which ones fail to promote either economic efficiency or equity or both?

Two of the budget measures are particularly praiseworthy. The first are the measures taken to prevent the use of synthetic equity arrangements. The OECD, in its “Action Plan on Base Erosion and Profit Shifting” wrote:

Fundamental changes are needed to effectively prevent...cases of no or low taxation associated with practices that artificially segregate taxable income from the activities that generate it.

Base erosion and profit shifting seriously threaten the ability of OECD countries to tax economic activity. I'm very happy to see the budget taking steps to forestall the erosion of Canada's tax base.

The second welcome change is the reduction to required RRIF withdrawals. Life expectancies have increased and rates of return on investments have fallen. A change was needed. It's about time.

Unfortunately, the budget also contains tax measures that have more limited potential to create jobs and growth. The first is the reduction in the small business tax rate. Advocates of lower taxes on small business would have us imagine a future Bill Gates building the basis of a world-class enterprise out of his garage. Yet as University of Calgary economist Jack Mintz and his co-author Duanjie Chen have pointed out, reductions in the small business tax rate could actually discourage a future Bill Gates from growing his business by creating, as they put it, “a 'threshold effect' that holds back small business from growing beyond the official definition of 'smallness'”.

Moreover, low small business tax rates create possibilities for tax avoidance—the well-paid, self-employed professional who uses a corporate structure to reduce personal tax liabilities rather than grow an enterprise.

The reductions to the small business tax rate are projected to cost \$2.7 billion over the next four years. There are far better uses for \$2.7 billion, for example, reforming the corporate tax base, or raising the GST threshold so that more small businesses would be exempt from the GST under the small suppliers rule, or working with the provinces to reform and reduce provincial business taxes.

The other tax measure introduced in this budget that causes me grave concern is the doubling of the TFSA contribution limits. TFSAs were a welcome addition to Canada's saving systems. They provide tax-sheltered saving opportunities for many who are not well served by RRSPs, such as students or low-income people. However, there is no case for an increase in the TFSA contribution limit to \$10,000 per year. The long-term revenue cost is too great; there is too much potential for abuse of TFSAs.

Many economists advocate consumption taxation on the grounds that taxing investment income discourages savings and has serious efficiency costs. If this government wishes to move towards consumption taxation, and there are good reasons for doing so, we'd be better served increasing the RRSP contribution limits or relying more on the GST to raise revenue and less on income taxes. At the very least, there should be a lifetime limit on TFSA contributions.

The home accessibility tax credit is one final tax measure worth commenting on. I'm not convinced that this is the best way of helping the disabled or helping seniors remain in their homes. First, it is not refundable, so it will not provide help to those who need it most. Second, I've concerns about the implementation of this credit. What kind of home renovations count? Who decides whether or not any given bathroom or kitchen renovation improves accessibility?

Furthermore, linking the home accessibility tax credit to eligibility for the disability tax credit is problematic. My own research suggests that the disability tax credit is not well targeted. Some people with disabilities fail to receive the credit. At the same time there is some evidence that it may be abused.

It would be more sensible to help seniors and the disabled through direct program expenditures on housing, on community living programs, and on home supports. Canada doesn't need a low-tax plan for jobs, growth, and security; it needs a good tax plan for jobs, growth, and security.

This budget introduced important measures that go part of the way towards building a better tax system, but there is more to be done.

Thank you.

The Chair: Thank you very much, Professor Woolley, for your comments.

For technical reasons maybe we'll go to Mr. Macdonald last for his presentation, if that's okay.

We'll go to the Canadian Federation of Independent Business, please.

Ms. Corinne Pohlmann (Senior Vice-President, National Affairs, Canadian Federation of Independent Business): Good morning and thank you for the opportunity to be here.

CFIB is a not-for-profit, non-partisan organization representing more than 109,000 small and medium-sized businesses across Canada that collectively employ more than 1.25 million Canadians and represent about \$75 billion in GDP. Our members represent all sectors of the economy and they're found in every region of the country.

I provided a slide deck presentation to the clerk, and I'm hopeful you can have it in front of you when I walk you through it as we go through the presentation.

Our latest "Business Barometer" was just released this morning, and it shows that small business confidence remained cool in May, essentially staying unchanged since April at 60.6, as you can see on slide 2. While things have not gotten worse, they also have not improved, and so measures that can help boost small business confidence, such as some of the measures within part 1 of Bill C-59 are welcome.

Given the important role small businesses play in the Canadian economy, it should be no surprise that small business confidence is a pretty good indicator of real GDP, which you can also see on the chart on slide 2. Measures that can help boost small business confidence should also help improve Canada's economy overall.

How do you build that confidence? You address the issues of highest priority to the small businesses. As you can see on slide 3, the top issues of concern are total tax burden, government regulation, and paper burden.

Four of the measures contained in part 1 go some way in addressing these issues and will be what I focus on today. They are the reduction in the small business tax rate, the increase in the lifetime capital gains exemption, the new quarterly remitter category for small and new employers, and providing accelerated capital cost allowance for manufacturing and processing equipment.

As you can see in slide 4, in a recent survey 83% of small business owners said that reducing the small business corporate tax rate would be an effective measure in helping them to maintain or strengthen their business performance, with almost half saying it would be very effective. This has actually grown in importance, as we've seen the value of the small business tax gradually erode relative to the general corporate tax rate, which fell from 28% to 15%, while the small business rate only fell from 12% to 11% during that same period.

We believe there are good reasons to have a lower small business tax rate, as it helps to offset some of the increased costs borne by smaller companies. These include the higher cost per capita of dealing with red tape, the more difficult and higher cost to access financing, and the more limited ability for smaller companies to access certain tax credits and tax advantages that larger firms can. As a result we're very pleased to see this commitment to reduce the rate to 9% by 2019. The only thing that might have made it better is if it could have been done sooner to help boost confidence now.

The next measure we are pleased to see is the increase in the lifetime capital gains exemption for qualified farm and fish properties. The lifetime capital gains exemption is the most important retirement savings mechanisms for all small business owners, as you see on slide 5. Most small business owners do not have pension plans; therefore, they must rely on other sources of income to finance their retirement years. In fact, the lifetime capital gains exemption is especially important for those in the agriculture sector as even more of them, close to 90%, said it is a very important mechanism for their retirement savings.

As you can see on slide 6, addressing this issue now is critical, as more than two-thirds of small business owners are planning to exit their business within the next 10 years, and most of them, 85%, are planning to exit to go to retirement. However, it not only helps small business owners with financing their retirement, but it also becomes an important tool for helping to finance the next generation of entrepreneurs. In fact, about half of the respondents in a recent survey stated that securing financing for the successor is one of the key challenges facing businesses that are going through a succession process. To overcome that challenge, some have been using the proceeds from the lifetime capital gains exemption to help finance their successor as they take over the business. Therefore, increasing the lifetime capital gains exemption will be well received, and we can encourage government to consider expanding it to \$1 million for all small businesses in the near future.

A third item we welcome in the budget is the creation of a new quarterly remitter category that would reduce paper burden on brand new businesses just starting out. This may be a small measure, but it's hugely important in recognizing the increased cost that regulations and paper burden place on small companies.

Slide 7 shows that small businesses spend almost five times more per capita than larger businesses in dealing with red tape, and any measure that reduces that even just a little bit is welcome.

Even more important, when asked about the most burdensome federal regulations they face, CRA-related rules such as payroll tax remittances are at the top of the list, as you can see on slide 8. If you want to encourage more businesses to get started, we need to make the pathway as simple as possible so that they spend more time growing their business than doing government paperwork.

These small measures can have a significant impact on the ground, and we welcome more creative ways like these to reduce that burden on the smallest firms.

Finally, we welcome the extension of the accelerated capital cost allowance for investment in machinery and equipment used in manufacturing and processing. As you can see on slide 9, in a recent

survey more than half of all small business owners and about three-quarters of those found in the manufacturing sector stated it would be effective in helping them maintain or strengthen their business performance. We believe this is an important measure that can help stimulate a sector that has the potential to help boost Canada's economy in the months ahead.

All the measures I have mentioned—the small business tax reduction, increasing the lifetime capital gains exemption, creation of a new quarterly remitter category, and an accelerated capital cost allowance—are welcome, as each of these have the potential to help boost small business confidence, which will ultimately be good for Canada's economy.

Thank you.

● (0855)

The Chair: Thank you very much for your presentation, Ms. Pohlmann.

We'll go to Mr. Lavoie.

[*Translation*]

Mr. Martin Lavoie (Director, Policy, Innovation and Business Taxation, Canadian Manufacturers and Exporters): Thank you, Mr. Chair.

Members of the committee, I am pleased to be here with you today to discuss part 1 of the budget implementation bill.

Our organization, Canadian Manufacturers and Exporters, represents more than 10,000 companies in Canada. The companies we represent account for about two-thirds of Canada's annual exports and for more than one half of all private research and development expenditure. Our sector employs about 1.7 million people.

First of all, we want to express our appreciation to you for the support that has been shown to our sector by the government and the opposition parties over the years. The manufacturing sector is crucial for the development of our economy. Your support is important. We have covered a lot of ground since the dark years when some thought that the Canadian manufacturing sector was on its death bed. Not only is it not dead, it is back with a much more technological approach. I would be remiss not to express our appreciation for your support.

• (0900)

[English]

The most important measure of part 1 of the budget bill is the renewal of the accelerated capital cost allowance for the acquisition of machinery and equipment. Between 2007 and 2014, the federal government offered manufacturers a measure to depreciate their machinery and equipment over a two-year period using a straight line method of depreciation. This measure has been highly successful. By 2013, spending on machinery and equipment had reached pre-recession levels, at \$14.3 billion, and has been growing since.

There are some indicators that lead us to believe the timing is right for a new wave of investments in our sector. The industrial capacity rate is now over 80%, which means many companies will start looking at investments in industrial capacity, including plant expansions, adoption of automated production systems, and so on. The question is whether these investments will take place in Canada or not. That's why it's important to keep the marginal effective tax rate on new manufacturing investments very low.

The new measures in the last budget, the ACCA, had a 50% rate on a declining balance. It might not be as generous as the previous two years' straight line rate, but at least it provided a level playing field with other countries, such as the United States, for new manufacturing investments. The new 50% rate will allow companies to depreciate more than 95% of their investments within five years, which is much better than the 30% declining balance that was previously effective before 2007. Even more important, this 50% rate will be effective for 10 years, allowing companies to plan ahead for large investments that are planned over a period of between three and five years on average.

As Corinne mentioned, the budget bill also reduces the small business tax rate from 12% to 9% over four years' time. This is good news. Approximately 85% of our members are SMEs and will benefit from this tax cut. By 2019, the small business tax rate will have decreased by 46% compared to the 2006 level, a significant reduction that will help provide a more competitive tax environment for SMEs in Canada, which make up more than 98% of all businesses in the country.

Finally, I'd like to remind committee members there are still very important challenges ahead of us if we want our manufacturing sector to grow and better compete globally. One of them is access to capital, especially for the acquisition of machinery and equipment used mostly for research and development or for prototyping purposes. For example, one of the fastest growing sectors in our sector is what we call additive manufacturing, or 3-D printing, where 80% of the activities with those machines right now are taking place in prototyping. Very few of these machines are used for end product fabrication right now, which means they don't necessarily qualify for ACCA. These machines used to be eligible under the scientific research and experimental development tax credit as a capital expenditure for the tax credit, but it's no longer the case since the government's decision to eliminate capital expenditure under the SR and ED tax credit. This is becoming a major issue, and we hear that both from companies buying these machines and also companies selling those machines, because we know that early adoption of

these advanced manufacturing technologies is crucial for the future competitiveness of our sector.

Thank you very much again for inviting me, and I look forward to your questions.

The Chair: Thanks very much for your presentation.

We'll now hear from Mr. Zive, please.

Mr. Terry Zive (Chair, Government Relations, Conference for Advanced Life Underwriting): Thank you, Mr. Chair and committee members, for today's opportunity.

I'm Terry Zive and I appear before you today as a member of the CALU board of directors and the chair of CALU's government relations committee.

CALU and our sister organization Advocis represent approximately 11,000 insurance and financial advisers, who in turn provide financial advice to millions of Canadians. We're pleased to have this opportunity to comment on elements of the 2015 budget now contained in Bill C-59 that will assist Canadians as they retire and enter their ever-extending senior years. We would also like to comment on an additional proposal that CALU included as part of its pre-budget 2015 submission, which we hope will be given consideration during the 2016 budget process. It's never too early to start.

Demographically, we can all agree it is readily apparent that the boomer generation has had, and will continue to have, a significant socio-economic impact in Canada. Notably, the first boomers turned 65 years of age in 2011, and over the next 20 years, this group will expand the number of Canadians over the age of 65 to 23% of the population. As Canadians retire and age, two of their greatest concerns are receiving quality health care and the probability of outliving their personal savings. It is therefore critically important that all levels of government focus on encouraging Canadians to be more financially self-sufficient during their retirement years, and in doing so reduce their reliance on public programs and institutional support.

CALU is therefore very supportive of the reduction in the RRIF minimum factors announced in budget 2015 and now included in Bill C-59. These modifications, the first since the early 1990s, will help Canadians retain more of their savings and protect them from longevity risk. While CALU applauds the government for its action, we also strongly recommend the implementation of a regular review process of the payout factors, say every five years, to ensure that this important investment vehicle continues to provide the necessary financial support to aging Canadians when they need it most.

With a significant portion of the Canadian population moving into their retirement years, advancing age will drive the corresponding need for increased long-term care services. Last fall, the C.D. Howe Institute released a report that estimates that the total cost of long-term care will more than double to \$140 billion over the next 20 years, leaving all of us to ask who will bear this additional cost.

The C.D. Howe report concluded that the provinces will need to shift more of the cost to those who can afford to pay. This will be an additional financial burden in retirement for which most Canadians are not currently planning. While we recognize and support the introduction of several long-term care initiatives in the 2015 budget, including the home accessibility tax credit and extending compassionate care benefits, we believe the looming funding crisis must be addressed with greater urgency.

CALU believes that long-term care insurance can play an important role in helping address this funding gap. Long-term care insurance provides a cash allowance to individuals who are unable to manage the activities of daily living. Greater ownership of this type of insurance coverage is critical to helping manage private costs associated with long-term care services. CALU therefore urges the federal government to continue to take a leadership position in preparing Canadians for what lies ahead. This can be achieved by: first of all, educating Canadians about their financial obligations relating to long-term care services; second, by working with the provinces to develop a more unified approach to determine who qualifies for subsidized access; and finally, by enacting the tax rules that will encourage more Canadians to own individual long-term care insurance.

Mr. Chair and committee members, I thank you for your time and attention. I'd be pleased to respond to any questions you might have.

● (0905)

The Chair: Thank you very much for your presentation.

We'll now hear from Mr. Macdonald, please.

Mr. David Macdonald (Senior Economist, National Office, Canadian Centre for Policy Alternatives): I'd like to thank the committee for its invitation to speak today about Bill C-59. I'd like to limit my comments this morning to the proposed increase in annual contribution room in the tax-free savings account to \$10,000 from \$5,500.

I'd like to start with some critical information missing from budget 2015, without which I'm afraid the committee members may draw incorrect conclusions from the benefits of TFSA doubling.

The graph on the slide is reproduced directly from the federal budget 2015, and it purports to show that lower- and middle-income Canadians may gain more than wealthy Canadians from TFSA doubling. Unfortunately, the proportion of the population contained in each of these bars is not shown or included elsewhere in the budget, and this missing critical information for context to understanding what's happening here may lead to incorrect conclusions.

For instance, if the first bar on the left—for those making under \$20,000—represented only 1% of the population, but received 15% of the benefits from TFSA doubling, as shown in the graph, this would certainly be a good deal for this group. Unfortunately, those

making under \$20,000 represent 34% of the population, but only receive 15% of the benefits—not an especially good deal.

On the other hand, those making over \$250,000, representing the top 1% of the population, receive 4% of the benefits—definitely a good deal for them. In fact, the bottom 25% of the population in this graph—those making under \$10,000—receive only 8% of the benefits of TFSA doubling; however, the richest 10% of the population receive 22% of the benefits of TFSA doubling.

However, looking at the distribution of benefits alone belies a larger fact, that very few Canadians are actually maximizing the TFSA room they already have.

This slide shows the percentage of Canadians who are maximizing their TFSAs in 2013, the most recent year available. It also displays bars of 10%, or deciles of the population, so as not to under-represent low-income Canadians, as the previous graph did.

For the bottom half of the population—those making under \$30,000—maximization rates for TFSAs are vanishingly small. In every decile, the maximization rates are at or under 5%, meaning that 95% of the bottom half of the population haven't maximized the room they had in 2013.

Maximization rates are predictably higher at higher income levels, and they peak for the top 1%, where roughly one-third have maximized their TFSAs.

Underlying low maximization rates are low take-up rates in opening a TFSA account in the first place, particularly for low- and middle-income Canadians. For the bottom half of Canadians, only 30% have even opened a TFSA account; in other words, three-quarters of the lower half of Canadians don't have a TFSA. In contrast, 70% of those in the top 1% making over \$250,000 do have a TFSA.

The final slide shows that since 2010 maximization rates have been falling. For the poorest 10% of Canadians making under \$5,000 a year, only 4% maximized their TFSA in 2010, and that's fallen to only 1% in 2015. For the middle-income earners—this is the sixth decile—the maximization rate has fallen from 12% in 2010, when the maximum was \$10,000 for a TFSA, to only 5% in 2015, when the cap was the much higher \$36,500. This is prior to the doubling being discussed here.

The purported purpose of the TFSA program is to help low- and middle-income Canadians save for retirement and in particular to avoid the GIS clawback upon retirement. However, take-up rates, much less maximization rates among low- and middle-income Canadians have been poor, and the program has been much more rapidly taken up by the rich.

In order that this program does not produce TFSA millionaires who are eligible for programs meant for low-income seniors, like the guaranteed income supplement, it's important that the TFSA program have two caps put in place. First, a lifetime contribution cap should be set at \$150,000, and second, a maximum amount of assets in a TFSA should also be set at a cap of \$300,000.

I encourage the committee to include these caps in budget 2015.

Thank you, and I look forward to your questions.

● (0910)

The Chair: Thank you very much for your presentation.

Colleagues, I think we can do six-minute rounds if everybody stays tight to that.

With that, we'll start with Mr. Cullen, please.

Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP): Thank you to our witnesses for being here this morning.

Ms. Pohlmann, this graph that you bring out around business confidence is important. I just want to distinguish between causation and causality. Is it when the economy picks up, then small businesses feel better, or is it that small businesses feel better and they help the economy pick up?

Ms. Corinne Pohlmann: It would be hard for me to comment on which causes the other, but when we have tracked small business confidence to GDP, and as you can see it tracks fairly well, it's hard to know the difference.

We're asking our members in this particular question how they see their business doing over the next year: better, same or worse. They're doing their own outlook for their own business, not for the economy.

Mr. Nathan Cullen: Timing is important. I think one of your comments was around the need to reassure and instill confidence in small businesses right now because we've had a zero growth economy for some time. We've had less than 1% for 16 months now, which is the largest period outside of a recession that Canada's ever seen since we've taken these stats.

I have a question about how fast the government is moving on doubling the TFSA limits and allowing for income splitting. When did those measures come into effect?

Ms. Corinne Pohlmann: Are you asking me that? Neither are issues we've commented very much on, so I don't know exactly when they....

Mr. Nathan Cullen: Mr. Macdonald, when did those measures come into effect, the doubling of the TFSA and the allowance for income splitting?

● (0915)

Mr. David Macdonald: The income splitting has come into effect for the 2014 tax year, and the TFSA doubling is in effect at present.

Mr. Nathan Cullen: So they're effective either immediately or retroactively in some cases.

That's my curiosity about lowering the small business tax rate. Priority is shown by urgency sometimes. What choices you make first show where your priorities are. The NDP has suggested that

lowering the small business tax rate be done immediately and then again by another point almost immediately after that. My concern is that from the current plan of what the government has proposed around small business taxes, they are going to take three to four years to do it. Where's the urgency? If this is what you're showing us in terms...it matches both the economy being quite stagnant and confidence within small businesses that are creating eight out of ten new jobs, hopefully, to change this graph, why move so slowly?

Ms. Corinne Pohlmann: That was one of my comments. The only thing that could have made it better is if it could have been implemented immediately. We believe that would help in boosting the confidence of small businesses, which we think ultimately would help the economy overall.

Mr. Nathan Cullen: The tax code has gone up significantly in complexity and cost of compliance, 60-odd per cent since 1998 according to the Fraser Institute. The costs associated with that per small business are extraordinary. Are we getting better or worse? How is the trend doing in terms of the costs of just filing taxes for small businesses in Canada?

Ms. Corinne Pohlmann: Our members are telling us it's getting worse. We did some research back in January that found the cost of compliance overall is costing the Canadian economy about \$37 billion a year.

Mr. Nathan Cullen: It's \$37 billion a year?

Ms. Corinne Pohlmann: For all levels of government, not just federal.

Mr. Nathan Cullen: Just to fill out taxes.

Ms. Corinne Pohlmann: Just to fill out forms. Not just tax forms, but all kinds of compliance. It's \$37 billion a year, and we believe that's a conservative estimate.

Mr. Nathan Cullen: Small "c".

I'm wondering, Mr. Lavoie, if you could talk to me a little about the SR and ED program as it is right now and its effectiveness for your members. It only applies to labour, not capital. We have been urging an expansion of SR and ED to apply to capital, particularly on the manufacturing side, because it allows people to do the investments that are needed to modernize and increase productivity in Canada. Is this still a problem within this particular program?

Mr. Martin Lavoie: Yes, the capital expenditure has been eliminated from the tax rate this year, January 1—

Mr. Nathan Cullen: Why?

Mr. Martin Lavoie: —as a decision of the Conservative government following the Jenkins report.

We hear about it a lot because a lot of the R and D in our sector is dependent more and more on capital, on machinery and equipment, as I said: additive manufacturing, automation, all these things. Yes, I think we support that and given that the capital side of SR and ED was costing the government...Finance officials said it was about \$30 million a year, so it wasn't that much.

Mr. Nathan Cullen: Thank you.

Mr. Macdonald, this graph you've shown us just in terms of the maximization rates dropping off for all income sectors, even wealthy Canadians, in terms of the government crowding about its popularity, not only does it disproportionately help wealthier Canadians, but it seems to be becoming less and less popular, according to the government's own stats. The concern we have is the cost of this program as it's going out and its inequity. It tends to help people who don't necessarily need the help. What does this do for the savings rate so far for Canadians? Is it increasing savings? The PBO says it isn't.

Mr. David Macdonald: I haven't studied that so I'd refer you to the PBO on that front.

It wouldn't surprise me if TFSA has cannibalized RRSP savings. I think for wealthy younger Canadians in particular, it makes a lot more sense to invest in a TFSA, because upon retirement, you gain full access to the guaranteed income supplement and old age security because TFSA withdrawals don't count as income the way RRSP withdrawals do. One of my longer-term concerns, besides the cost—although there's a study that...more extensively than I have—is we will easily have TFSA millionaires in 20 years who would access the full benefit values of the guaranteed income supplement.

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

We'll go to Mr. Saxton, please.

Mr. Andrew Saxton (North Vancouver, CPC): Thanks to our witnesses for being here today.

My first questions will be for the Canadian Federation of Independent Business.

Ms. Pohlmann, some people, especially members of the opposition, have said that reducing the small business rate creates a disincentive for small businesses to grow for fear of crossing over the threshold. Do you agree with that?

Ms. Corinne Pohlmann: No, we do not agree with that. We're certainly hearing that argument more and more, but we believe that the number that seems to bunch up around that threshold is relatively small compared to the huge advantages it gives to so many other small businesses. We also don't know if those people stay at that threshold or if they do that for a year or two as they grow, and then they move on into the next threshold level. I think that argument doesn't really fly.

• (0920)

Mr. Andrew Saxton: That's like individuals saying that they don't want to make more money because they're going to be paying more tax.

Ms. Corinne Pohlmann: Exactly.

Mr. Andrew Saxton: On the flip side, how will lowering the small business tax rate encourage entrepreneurs to pursue their dreams and launch their own businesses?

Ms. Corinne Pohlmann: Certainly, as I said, launching a business can be expensive, and things like the cost of red tape and getting access to financing can be very difficult. By having a lower small business tax rate, you're allowing those businesses to keep more of their own money and to invest it back into their business, rather than having to look externally for that financing, and to deal more easily with the red tape. We believe those things are important in order to encourage more small businesses to grow.

Mr. Andrew Saxton: Thank you very much.

My next question is for Mr. Lavoie of the Canadian Manufacturers and Exporters.

Mr. Lavoie, can you elaborate on how manufacturers will be better able to take advantage of the accelerated capital cost allowance now that it's been extended from two to ten years?

Mr. Martin Lavoie: There are two things. In general, the shorter the time for depreciation, the more incentive you have to renew your machinery and equipment over that period of time. That's the first one. The second thing, as I said, is that now that we have a 10-year stable tax measure instead of a two-year renewal, it's even better, because a lot of our members have expansion or acquisition plans that on average take between three and five years to happen. Two years at a time was not giving them enough long-term planning time to make their acquisitions. That's a good thing as well.

Mr. Andrew Saxton: How important is it for the manufacturing sector to invest in new plants and equipment in order to remain competitive globally?

Mr. Martin Lavoie: I'll just give you a statistic. In Canada, for every hour of work, we produce \$45 of goods. In Germany and the United States, it's over \$60 of goods for the same hour. If you don't invest in machinery and equipment, you'd better be in a low-cost jurisdiction for labour, because otherwise what do you do? That's been a bit of Canada's problem. First, there are the demographics. Second, there is the skills shortage. Third, labour costs are quite high. The only long-term solution to that has to be investment in machinery and equipment, automation, and higher productivity.

Mr. Andrew Saxton: Can you explain how the reduction in the small business tax rate is going to help manufacturers?

Mr. Martin Lavoie: As I said, 85% of our members are SMEs, and I totally agree with that. I'm a small business owner myself and nobody in our sector will say that they don't want to grow their business because their going to pay more taxes. There are going to be more taxes, because you're going to be making more money. I've never met anybody in five years at CME who said, "I don't want to grow because I'll pay more taxes".

Mr. Andrew Saxton: I haven't either. Thank you very much.

My next question is for Mr. Zive from CALU.

Mr. Zive, can you explain how the changes to the RRIF rules are going to help seniors? These rules haven't been changed in 40 years. How has the investment industry changed in 40 years?

Mr. Terry Zive: These rules had not been reviewed in 30 years, and clearly since that time, two key factors have changed. The first is longevity. People are living much, much longer. Second, rates of return in today's environment bear no resemblance to the rates of return in the early 1990s. The issue is, very simply, that at the current withdrawal rates under the old withdrawal schedule, people were going to run out of money. This change will allow them to retain a certain level of funds and income for the remainder of their life.

Mr. Andrew Saxton: Can you explain to me how important it is for Canadians to be saving now for their retirement?

Mr. Terry Zive: It's quite obvious that if you don't put money away now and allow it to compound over an extended period of time, then you will find that you will not have sufficient funds in retirement to pay for a lifestyle, let alone health care needs, which will be inevitable. The time to start saving is now. The combination of capital and time creates a much better solution.

Mr. Andrew Saxton: Would you agree that the tax-free savings account is a good vehicle in order to save for your retirement?

Mr. Terry Zive: I must say that CALU has not done any work on the TFSA, so I really can't comment other than to say that if you'd like us to do some further research, we would be prepared to do so and report back.

• (0925)

Mr. Andrew Saxton: Thank you very much.

The Chair: Thank you, Mr. Saxton.

Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Mr. Zive, the potential for more investment in long-term care insurance is an important one, and that's driven, as you said, by the demographic shift that is going on. In our family, my father is 91 and lives at home. My mother passed away a couple of years ago after a long bout with Alzheimer's. She was able to pass away at home because they had savings and were able to do that.

Are there ways, from a public policy perspective, to enable more people to save for the future? For instance, if there's a tax benefit for investments in long-term insurance, how can we make that progressive, such that not just wealthier people who have the money to invest but all Canadians can actually benefit from that? Have you considered how to make that more progressive?

Mr. Terry Zive: Thank you for the question, Mr. Brison.

First of all, there has to be a recognition that between 60% to 70% of Canadians feel that long-term care is covered under the Canada Health Act. We determined that in the research we did, so clearly we have a significant misconception among Canadians in terms of the fact that they think they are covered for long-term care. That obviously is not the case.

The first challenge is obviously to communicate to Canadians in a positive fashion the benefits of long-term care and why they should be interested in taking care of themselves. Second, there needs to be a significant dialogue with the provinces, because clearly the

different formulae that are available in each of the provinces are not consistent across the country.

Hon. Scott Brison: Thank you very much.

It's...[*Technical Difficulty—Editor*] Given that demographic shift, it's also important that we help the provinces to protect their fiscal capacity in the future.

Professor Woolley, you've spoken of the impact of TFSAs or of expanding TFSAs on the fiscal capacity of government to invest in health care in the future. It also has a significant impact, according to the analyses of the PBO and others, on provincial governments. Consistent with Mr. Zive's important assertion that we need to help Canadians protect themselves and save for the future, do we also need to protect the fiscal capacity of future provincial governments to invest in health care? Is the TFSA increase going in the wrong direction in that sense?

Dr. Frances Woolley: I'm very worried about the long-term fiscal situation of the provinces. Right now, even though the first baby boomers have already hit retirement age, we're still in a sweet spot demographically.

The provincial budget situation over the medium and long terms is not good. The federal government is much better at raising taxes than provincial governments are. I think it's essential that the federal government retain its tax base and prevent the erosion of its tax base. TFSAs have a serious potential to erode the tax base for both levels of government, and I think that's a very serious problem going forward.

Hon. Scott Brison: You've echoed what other economic analysts, including the IMF, have said about how progressive tax systems are better for growth. Also in terms of inequality, we've had TD Economics and others discuss the importance of leaning against inequality.

Would you say that our tax system has become more progressive or less progressive in terms of many of the measures introduced over the last 10 years in Canada in terms of our tax system?

Dr. Frances Woolley: That's a tough question.

Hon. Scott Brison: Take refundable tax credits, as an example.

Dr. Frances Woolley: Yes. I think the big changes are with investment income. Going outside of what we're talking about today, I think one of the big changes in this act that's not regressive is the move from... The introduction of the family tax cut... One of the best things this government did when it was first elected was the introduction of the child tax credit amount. I'm very disappointed to see that being replaced by income splitting. It's a very regressive move.

It's a complicated question, but yes, there are important initiatives that have made the tax system less progressive than it was.

• (0930)

Hon. Scott Brison: If we were to cut taxes on low- and middle-income Canadians, would that be more stimulative than cutting taxes on the wealthier?

Dr. Frances Woolley: Of course.

Hon. Scott Brison: It would be better for growth.

Dr. Frances Woolley: If you cut my taxes, do you know what I'll do? I'll put the money in the bank. It's not going to do anything for the Canadian economy. If you give money to lower- and middle-income Canadians, they spend that money in local businesses, and that is much better for economic growth.

The Chair: Do you have a very brief question, Mr. Brison?

Hon. Scott Brison: Have you done any analysis of the GIS loophole that is created by the TFSAs and potentially worsened by increasing them, in that you can delay your CPP and RRSP income until the age of 70 and as such get the maximum GIS for three years while living off your TFSAs? Is that creating a significant problem for the future, in terms of higher-income people benefiting from the GIS?

Dr. Frances Woolley: I would rely here on the PBO's analysis, which suggests that yes, this is a very serious issue.

The Chair: Okay, thank you.

Thank you, Mr. Brison.

Ms. Bateman, please.

Ms. Joyce Bateman (Winnipeg South Centre, CPC): Thank you to all of our witnesses this morning. I very much appreciate the commentary.

I want to ask the same question to a few of you at the start. Perhaps I could start with Mr. Lavoie.

The effective tax rate by 2016 for small business people for new investment will be 9.1% in Canada. That compares with 31.7% in the United States at the same point in time and with 26.4% in Germany. Those are considered strong economic players in our global economy. How is that rate structure going to impact and perhaps help Canadian business?

Mr. Martin Lavoie: You're right. I think Canada's is now the lowest in the G-7 by far.

As I said, I think the structure of our economy is also more dependent upon small businesses than may be the case in some other countries. We haven't seen a huge shift in our sector, but definitely the large companies that had plants in the past may have fewer plants in Canada than they used to.

To us, this measure is a no-brainer. We agree with CFIB on this. It's a stimulus. As a small business owner myself, I can tell... Tax is tax is tax. It's the first thing you pay. This is a measure not only to help SMEs grow, but also to have more people starting their own businesses.

Ms. Joyce Bateman: Great.

Ms. Pohlmann, could you comment on the rate structure and how it's going to impact your membership?

Ms. Corinne Pohlmann: Certainly, it makes them much more competitive. One thing we certainly want to encourage is more growth in the Canadian economy through getting businesses to start their businesses. One thing we've discovered is that the cost of doing business is still pricey. Anything that helps reduce that cost is going to be important in encouraging more people to potentially go into business and in encouraging more businesses to potentially look at exporting or trading into other countries. Having a lower tax base here may potentially allow them to do so much more easily. I think there are many advantages to having a lower tax rate for small businesses.

Ms. Joyce Bateman: Great.

Will it help us stay at the top of the pack in the G-7?

Ms. Corinne Pohlmann: Hopefully it will. I think it's important.

Again, I want to give kudos to Canada for recognizing that there are higher costs for small businesses. This is one way to help alleviate some of those costs. I think it's important and a measure that needs to be kept, because it's something that really does give us an advantage and is one of the reasons we have so many start-ups in Canada that at least get going on the ground.

Ms. Joyce Bateman: How does Canada perform in start-ups? You've just said that our low-tax culture is the reason we have start-ups. How are we performing globally on our start-ups?

Ms. Corinne Pohlmann: I haven't looked at the most recent data, but I know that Canada does relatively well in new start-ups. That's what you want. You want to encourage that kind of growth and that sort of turnover. Of course, businesses go under as well, but that's the kind of churn you want to have. Eventually many of these are going to bring more jobs into their communities. I think it's particularly important in some of the smaller, more rural parts of the country, too. That's where you want to see growth happen, because we want to keep people in every part of the country, and sometimes it's small business growth and the development of small business in those communities that keeps them vibrant and growing.

• (0935)

Ms. Joyce Bateman: I agree with you.

I'm just curious, if we could change the question a little, about the accelerated capital cost allowance. It is something that has been discussed for a long time. This committee has spearheaded it as an important factor, and we made very significant changes in this budget.

Could you comment on how these are going to impact your membership?

Ms. Corinne Pohlmann: We agree with the CME.

We ourselves have more than 12,000 manufacturing businesses as members, and they're all Canadian-owned companies. More than three-quarters of them felt that this is a good measure for them, to help them grow, maintain, and sustain the viability of their businesses. It certainly helps encourage people to invest in new equipment, which is going to become even more important to productivity as we move forward.

I think the fact that it's a 10-year window is going to be very important as well, because it gives some stability to the sector: they know they can invest over time. I think that's also an important feature of what this announcement brings.

Ms. Joyce Bateman: Mr. Zive, this budget was very focused on helping many Canadians, but a sectoral issue which you have spoken to previously and today briefly is how we help our seniors.

Could you give the highlights of how we're helping seniors with this budget and the comments from CALU?

Mr. Terry Zive: Very specifically, with respect to the RRIF withdrawal limit, reducing it allows seniors to retain more money in a tax-sheltered environment, which will allow them to be in a position to ensure that they do not run out of money in the future. That is a significant assist.

As I indicated in my remarks, I would hope that this review would continue to take place more frequently than every 30 years, so that we can ensure that seniors will remain solvent from a financial perspective.

The Chair: Thank you, Ms. Bateman.

[*Translation*]

Mr. Dionne Labelle, you have the floor.

Mr. Pierre Dionne Labelle (Rivière-du-Nord, NDP): Thank you, Mr. Chair.

Mr. Macdonald, I have here your table showing the maximization of the TFSA.

We see that the median family income in Canada is \$74,000 or \$76,000. I also see that 10% of average families have maximized their TFSAs whereas households earning more than \$250,000 per year are three times more likely to have maximized their TFSAs.

According to what I read in the parliamentary budget officer's report, by 2060, high-income earners, those in the highest quintile, that is, will use TFSAs 10 times more than people with lower incomes. Those with the highest incomes will benefit from this program 10 times more than those with low incomes.

You want a maximum amount to be set for the TFSA system so that the program does not produce millionaires. How did you establish the two levels of \$150,000 and \$300,000 that you proposed? Can you break all that down for us?

Mr. David Macdonald: Thank you, Mr. Dionne Labelle.

[*English*]

I just want to point out that the graphic you're referring to is not of households; it's of individual tax filers, and so there are going to be some differences there. For individual tax filers, median income is about \$30,000.

That being said, I think—and others have looked at this as well—that it's very predictable that we will have TFSA millionaires, without some reform to the system, in the next 20 years.

The amounts I've chosen are for the lifetime contribution, 30 years of contributing at \$5,000 a year—that's a fairly straightforward calculation—and providing people with a maximum of a doubling of that contribution, to have a hard asset cap at \$300,000, whereby once

people's TFSA is worth \$300,000, they then have to take any excess amounts they receive in income out and hold that money in some other place.

I think this is a fair way to restrict TFSAs, such that low- and middle-income people, who should be benefiting—although the take-up rates are abysmal—can still benefit from this, but also to limit the benefits that high-net-worth individuals can make from TFSAs.

● (0940)

[*Translation*]

Mr. Pierre Dionne Labelle: A number of people have expressed concern about the impact of TFSAs on provincial finances, and I am one of those people.

According to the Parliamentary Budget Officer, in 2080—that seems a long way away, but time flies—the federal government will be deprived of an amount of \$77 billion in revenue and the figure for the provinces will be \$39 billion.

In your view, what burden will that put on the provinces? What do you think about the fact that there were no discussions between the federal government and the provinces before this loss of income was forced onto them? For the provinces, this is something unexpected that they had not foreseen. One witness mentioned health care costs, which are going to continue to climb. That weight is going to be on the backs of the promises given that the health sector is in provincial jurisdiction. Is that reality a concern for your organization?

[*English*]

Mr. David Macdonald: Certainly, and the Parliamentary Budget Office has done more estimates of this than I have. The same type of problem applied equally to income splitting or some of the earlier versions of income splitting, and I'm glad to see that the government has revised it such that the fiscal impact is purely on the federal government and not on the provincial governments. But it is one of the impacts of changing the definition of income, which is what would happen under TFSAs in contrast to RRSPs, where withdrawals from RRSPs count as income, or where savings are kept outside of tax sheltered accounts, and therefore folks pay taxes on capital gains or on interest and dividend income.

I think it's an important point that decisions at the federal level on what counts as income impact provincial finances. In some cases, those amounts can be quite substantial, as they will be over time with TFSAs.

[*Translation*]

Mr. Pierre Dionne Labelle: Mr. Zive, I have to put my name down in the “no” column in terms of your desire to promote private insurance for long-term care. I feel that it is a very bad idea. We have a universal health care system that is free and accessible to all here. Long-term care is part of the universal system in Canada. Rather than trying to promote private insurance, it seems better to me to devote our energies to strengthening our Canadian health care system. I do not subscribe to your comments at all.

Thank you.

[*English*]

The Chair: Just a brief response, please.

Mr. Terry Zive: I don't think that this would be forced upon anyone. This would be voluntary in the event that one chose to purchase long-term care insurance. Clearly, the numbers that have been shown from the C.D. Howe Institute's study indicate that this is an issue the provinces will not be in a position to deal with, based on the demographic shifts and the incidence of longevity and illness.

The Chair: Thank you.

[*Translation*]

Thank you, Mr. Zive.

[*English*]

We'll go to Mr. Cannan, please.

Hon. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair, and to our witnesses, good morning and welcome.

Ms. Woolley, just for clarification, in your opening comments you made reference to a balanced budget. Do you think it's important to have a balanced budget?

Dr. Frances Woolley: Right now I'd like to see the federal government in surplus. I think things over the longer term are not good. There's no right answer to what the budget balance should be; it all depends on the context.

Hon. Ron Cannan: I just want to get clarification about savings. Do you think it's important that the government encourage Canadians to save for the future?

Dr. Frances Woolley: There are lots of obstacles to savings. I think the kind of obstacles...a lot of it is psychological, things like people who get into credit card debt.

Savings are important, but I don't think expanding the TFSA is a good way of helping the people who need to save more, save more.

Hon. Ron Cannan: There are a variety of ways. I just want to know if the fundamental philosophy of helping Canadians... You said we're pulling the money. The money actually goes into investments which are then used to pull capital to help stimulate the economy and keep the economic cycle going. As an economics professor, you understand that, correct?

• (0945)

Dr. Frances Woolley: Well, I'm a micro-economics professor. In a global economy, the links between domestic savings and domestic investment are seriously weakened.

Hon. Ron Cannan: That's a good segue to Mr. Lavoie.

We are in a globalized economy, 60% of our GDP. We're looking at our trade aspect and one of the aspects within our budget is fostering and enhancing trade partners. We have 43 different trade agreements now, 38 new ones since 2006.

I just wanted to know if there is comment from the exporters on the additional funding for trade commissioner services and export development enhancement.

Mr. Martin Lavoie: That is very important. As you said, not only are we a globalized economy, but we're also a small country in a global world. In talking about entrepreneurs and small businesses, very often when some of our members make a new product, they have to export. The market is not big enough for them in Canada. Trade commissioner services for a small business that doesn't have a

sales force outside Canada or outside North America are crucial. How do they go and find new customers in Asia or Europe if they don't have a sales force there or distribution?

The new program announced for helping SMEs participate in trade missions and so on is very important, too. As we know, before you export to one country, you may have to visit that country between eight and ten times. That requires a lot of time and money, so I think this help from the government is well appreciated.

Hon. Ron Cannan: Thanks for the clarification.

Ms. Pohlmann, on your "Business Barometer", I looked at your website, and it says, "Business owners are least optimistic in Alberta, where index levels dropped slightly to 45.7." That was just last month. Is that because of what happened, the lack of stability and confidence with the change of government?

Ms. Corinne Pohlmann: Well, no. I think it's been going on since the oil prices dropped. We've seen that the confidence in Alberta has been dipping for the last three or four months. It has not necessarily improved; it continues to be fairly low. We've started to see a little bit of improvement in Saskatchewan where there was also as big a dip, but this confidence level is very varied across the country. Some parts of the country, like B.C., are doing very well, but in Alberta, unfortunately at this point in time, the confidence is quite low.

Hon. Ron Cannan: One other aspect of small business is that we have our Kelowna Chamber of Commerce, that just won B.C.'s Chamber of Commerce award this past week. Congratulations to them. It is the economic engine that drives our local economy.

Working with Minister Kerry-Lynne Findlay and the red tape reduction panel since 2001, your organization awarded the Golden Scissors Award to Minister Findlay for the reduction of red tape.

I believe, within the budget, there's also a next phase. Maybe you want to expand on what your plans are to further reduce the red tape.

Ms. Corinne Pohlmann: Yes. This is extremely important, as we've talked about. The second highest priority of small business in Canada is to find ways to reduce the paper burden. In particular, CRA and Minister Findlay have done an excellent job in trying to at least start moving the needle a little bit, because CRA really has the biggest impact on small companies in Canada.

She was awarded the Golden Scissors Award for the work on bringing more accountability so that when you actually ask a question in writing to CRA, the response you get back will be honoured, even if its later found to be incorrect. This is because the businesses have done everything they can to make sure that they're in compliance, but if CRA has given them the wrong information, they shouldn't be held responsible for that. Doing that was the first step. That's what that was about.

We'd like to see more of those kinds of initiatives take place. I think this quarterly remitter category that's being created in this budget for new businesses is really an important first step.

They're so small, these things, but they have such an impact on the ground. People feel it. Some of the biggest feedback we get is when things like reducing the number of times they have to remit payroll taxes are introduced. That's when we get the feedback that it actually makes a difference.

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

Mr. Côté, *s'il vous plaît*.

[Translation]

Mr. Raymond Côté (Beauport—Limoilou, NDP): Thank you very much, Mr. Chair.

My thanks also to the witnesses for joining us today.

Ms. Woolley, when you testified as part of the prebudget consultations, you were very critical of income splitting. You said this about it:

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

As you said later in your testimony, most of the benefits go to higher-income families.

As I understand it, that seems to suggest that one of the two spouses could quite easily exclude themselves from the workforce, which clearly would mostly involve women. So you were talking about the potential for inefficiency.

Could you talk to us about the fact that hundreds or thousands of people could exclude themselves from the workforce?

• (0950)

[English]

Dr. Frances Woolley: I just want to highlight two issues.

There's been research by economist Tammy Schirle that has found that the universal child care benefit has had a significant negative effect on women's participation in the labour market. I think this income splitting could have even a more significant negative effect on women's economic participation. That's a very serious concern. My concern is that this is not going to help a lot of families. It's going to deliver more help to families who need it least as compared to the child amount credit that it's replacing.

Another thing that I think hasn't been mentioned and which I would like to highlight is that women have liability for taxes on

income that they never receive, right? That's a feature of the pension income splitting, too. That's a very, very serious problem.

[Translation]

Mr. Raymond Côté: Thank you, Ms. Woolley.

Now I am going to turn to Ms. Pohlmann and Mr. Lavoie.

Businesses need qualified staff and a decent pool of workers. Are Ms. Woolley's comments a concern for you? Are you monitoring how the availability of labour is evolving subsequent to these tax measures?

[English]

Ms. Corinne Pohlmann: Certainly, we follow closely what's... The shortage of skilled labour is very important. It has continued to grow despite the fact the economy has cooled somewhat. It's one of the factors we look at in our "Business Barometer". In this month it's probably the second highest issue that's causing business constraints at the moment, in that they have a lack of skilled labour and trouble finding the people they need.

Definitely, it's something we track very closely. It's something we work on in terms of trying to match people with the skills that are out there and the needs that are out there. We are looking at things through the immigration system, as well, and potentially doing some work on improving things like the temporary foreign worker program, as well as permanent immigration. We are also making sure the skill matches and that people can move from one province to the other and not have to go through a whole set of new skills or training to do that.

Yes, there's lots of work being done and it's something we watch very closely.

[Translation]

Mr. Martin Lavoie: Of our members, 57% say that they are facing labour problems that are limiting their ability to consider expanding, to produce and sell more. However, I do not at all share the view that the income splitting measure would automatically have a negative effect.

Income splitting is capped at \$2,000. I am not prepared to say that someone is going to give up a job paying \$30,000, \$25,000 or \$20,000 a year because of a measure like that. I am not sure I can connect the dots there. We have seen no evidence that it will happen. We will have to see.

Mr. Raymond Côté: Fine.

Mr. Macdonald, the last table particularly struck me, the one that shows the maximization rates since 2010. It is really interesting to see the very marked drop in TFSA maximization, even for those with very high incomes. We know that Canadians have a high rate of household debt. In fact, the ability of families to handle the cost of living has gone down considerably. Is there a link to be made there?

[English]

Mr. David Macdonald: I'm not sure about that.

I think the drop in the maximization rate has much more to do with the fact the maximum you can put in has grown by \$5,000 a year. When the total amount you could ever put in a TFSA was \$5,000 or \$10,000, you saw much higher maximization rates. Now, once you're at \$36,500, people are less likely to have that much money lying around that they could put in a TFSA. It's not surprising at all that folks in the lower-income bracket who are making the bottom 10%, or who are making under \$5,000, don't have \$5,000 a year to put into a TFSA, which is why you see the maximization rates extremely low at 1%.

• (0955)

[Translation]

Mr. Raymond Côté: So raising the ceiling is a very bad idea, especially since the maximization rate for incomes of \$100,000 and more has been reduced by half.

Thank you.

[English]

The Chair: Thank you.

We go now to Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you all for being here. Many of you have appeared before. Sometimes we hear the same story and that's good. I think we need to hear some repetition, and that encourages us to do the right things.

That's a stunning statistic, Mr. Lavoie, that you gave us about productivity. I'm curious as to what is your organization's analysis. Why do we have such low productivity rates as opposed to the Americans and the Germans?

Mr. Martin Lavoie: I think for a long time we've had an economy structured by a low currency. When you have lower labour costs, you don't need as much automation as when you have higher labour costs. Some other countries, and we talk about Germany and the U. S., have been coping with high currencies for many years. We had so much catch-up to do suddenly when our currency started to go high very rapidly. The problem is not that we have a high or low currency; it's the volatility of it and how fast it can go up and down.

For manufacturers, productivity has started to do better after the financial crisis. Starting in 2011, the manufacturing sector has been driving productivity growth in the country, mostly because of automation and investment in machinery and equipment. We need to do more.

If you look at the level of adoption of automation in general in the Canadian manufacturing sector, it's lower than in some other countries. It's going to be a long-term problem given the demographics and given the skills issues. We need to automate more. Even if we were automating more, we would still be facing some issues like that. As I said, for every hour worked we produce \$45 of goods. We need to bring that up to \$55 or \$60 if we want to be competing against the other countries.

Mr. Dave Van Kesteren: I'm a big advocate of studies and mining the numbers. I'm curious: has there been a study done enabling us to point directly at what is causing this? I suspect there may be something more here, with just what you're telling us about our success with small businesses and medium-size businesses. We

have lost manufacturing. All major economies have lost manufacturing. I don't think we're unique in that sense, but it's interesting. You made a comment about some of the larger corporations. I would suspect those would be the German corporations that are founded in Germany, and the Americans. Is it because of regulations and such that manufacturers seem to leave? What would be the cause? Is it the high labour cost? Why wouldn't we be doing so well? That's the first part of my question.

The second part of my question is this. Maybe you could just tell the committee again why it's so important to grow those small and medium-size businesses, because the labour that's produced is 95% of the workforce, and how we can continue to be successful. That's an exciting story, I think, that we've done so well. So maybe you could elaborate on that for the committee.

Mr. Martin Lavoie: In terms of studies, I would be careful with that, because there are lots of studies. There are people saying if we have a high dollar, we should have a lot of investment in machinery and equipment. Well, that's only part of the story, because what's really driving investment, any investment, particularly in machinery and equipment, is cash flow.

You're going to see a lot of investment, and I'm actually expecting more investment now that we have a bit of a lower dollar and companies have better balance sheets. That's pretty much the better context for investment in machinery and equipment.

Why is it important to grow businesses? As I said, manufacturing is about 10% of our economy, but it's 63% of our exports. It's important to export because it brings foreign money into the country. We all agree we need to export more, but we can export only as much as we produce. If we don't produce more, we cannot export more. That's my point here. If you have a small food processor in your riding that can sell that much every month, and then you ask what if a billion people in China could buy your tomato soup, well, if they want to buy it, you need to produce it. That's my point. If you don't grow those businesses, we're not going to produce more. We're not going to export more. We're going to be stuck at a low economic growth level. It's as simple as that.

• (1000)

Mr. Dave Van Kesteren: With regard to the strategy by the government to expand our markets and to lower the taxes to encourage small businesses, I'm thinking about companies within my own riding. For instance, in the greenhouse industry we've been quite successful, but that strategy has to continue. We need to focus on making it more attractive for small businesses, encouraging them to start up and then giving them the markets. Would you agree with that?

Mr. Martin Lavoie: Absolutely. We've heard for many years that we need to diversify our exports. That strategy has worked, because now we're less dependent on the United States than we used to be before. That is working. We just need to be more aggressive in certain regions. I think Asia is the next one, with the TPP, but also keep South America in mind. A lot of countries are doing well there, and there is more stability. We're talking about Cuba, but there is a bunch of other countries as well in South America that are doing well, with more stable governments. I think we need to keep an eye on those as well.

Mr. Dave Van Kesteren: Doing the trade deals.

Mr. Martin Lavoie: Doing trade deals.

The Chair: Thank you, Mr. Van Kesteren.

Mr. Adler, go ahead please.

Mr. Mark Adler (York Centre, CPC): Thank you all for being here today.

I want to begin my questioning with Ms. Pohlmann from the CFIB.

The proof is really in the results here in Canada. Since 2006, we have followed a rather moderate path to growth and to balance. As you remember, the first thing we did when we came to government in 2006 was to pay down \$38 billion of the national debt, which of course gave us the fiscal flexibility to respond in an effective way during the economic downturn.

I do want to ask you how important it is that the budget contain a number of confidence-building measures. How important is that for your members?

Ms. Corinne Pohlmann: It's extremely important. As I showed you, today's business barometer continues to show that at least it's not getting worse. Things are starting to improve slightly, but they aren't necessarily improving as quickly as we'd like, and with confidence comes growth, I believe.

By putting in measures, as I said, the small business tax rate is a big one. The only thing that could have made it better is if it had been implemented sooner than 2016. That is a huge factor in instilling confidence, and certainly some of the other measures that I talked about are really important, such as the lifetime capital gains exemption going to \$1 million, which is for fishers and farmers, at the moment. Not only are we seeing it used as a retirement vehicle, but we're seeing it used as a financing vehicle for the next generation, which is really important because we're going to have a huge succession process that's going to take place over the next 10 years. Demographics hit employers just as much as the rest of the population.

Certainly the red tape reduction measures are key as well. That one remitter category is definitely just one of a few that were announced in the budget.

Mr. Mark Adler: I'm glad you mentioned a number of those. Certainly the reduction in the CRA payroll remittances, the times that you have to remit, is important. The small business tax credit, of course, will save some \$550 million in EI premiums. Reduction in credit card processing fees is also very important. These are all, as

you indicated earlier, important in terms of building confidence in our business community.

How many members do you have?

Ms. Corinne Pohlmann: Across Canada, we have 109,000 members.

Mr. Mark Adler: One hundred and nine thousand. How many employees would you estimate work for your members?

Ms. Corinne Pohlmann: We've estimated about 1.25 million are working for our members.

Mr. Mark Adler: One and a quarter million.

Ms. Corinne Pohlmann: Yes.

Mr. Mark Adler: I'm just curious. Have any of those 109,000 members ever.... You're polling your membership all the time. Is that correct?

Ms. Corinne Pohlmann: Yes.

Mr. Mark Adler: Have they ever asked for higher taxes in any—

Mr. Martin Lavoie: Come on.

Ms. Corinne Pohlmann: I can't say they've ever asked for it, no.

Mr. Mark Adler: Okay, thank you.

Dan Kelly, the president of the CFIB, gave this budget an A, and said this is a terrific budget for small business. Is that correct?

Ms. Corinne Pohlmann: That's correct, yes.

Mr. Mark Adler: Thank you.

I do want to now move to Mr. Lavoie at the CME.

How many members does the CME have?

Mr. Martin Lavoie: We have 10,000.

Mr. Mark Adler: Ten thousand. How many employees?

Mr. Martin Lavoie: Well, the whole sector is 1.7 million. I would estimate maybe about 200,000 are members at present, because not all manufacturers are members of ours.

● (1005)

Mr. Mark Adler: Of course. When you reach out to your membership, none of them has ever asked that the government should be increasing taxes in any way, shape, or form.

Mr. Martin Lavoie: No, we never bothered asking them.

Mr. Mark Adler: And they've never offered, have they?

Mr. Martin Lavoie: No, no.

Mr. Mark Adler: Of course not.

I do want to pose the same question to you. How important is it that the budget contained all these confidence-building measures for business?

Mr. Martin Lavoie: It's very important. It's very important also especially for companies that are maybe headquartered outside this country. We have a lot of members where decision-making happens maybe in a boardroom in Connecticut, or somewhere else. I think it's the right message we need to send to these people, because they know little about Canada. They know what their guys here tell them, and I think it's important for them to hear good news about us, like the low-tax environment, all the big-picture items.

Mr. Mark Adler: I suspect they do hear good news about it. We are leading the G-7 in terms of economic performance, some 1.2 million new jobs created since the depths of the recession in 2009, and we are rated by the World Economic Forum as having the most secure and safest financial system. They are hearing good news about Canada, are they not?

Mr. Martin Lavoie: They're hearing very good news about low taxes.

Mr. Mark Adler: Low corporate taxes.

Mr. Martin Lavoie: There are other factors they hear about that are maybe more negative, such as high labour costs, stuff like that.

Mr. Mark Adler: These are all important factors in attracting investment and creating jobs in our country. Is that correct?

Mr. Martin Lavoie: Right.

Mr. Mark Adler: Thank you.

Mr. Zive, I just want to ask you a quick question.

Mr. Mark Adler: In 2006 when we first came into government, the Canada health transfer was \$20 billion. I suspect that's because in the previous 13 years, the Liberals had reduced that to balance the budget. We've increased it this past year to the point where it's now \$34 billion. The health transfer will grow 6% until 2016-17, and at 2017-18 will increase with a three-year moving nominal GDP guaranteed increase of at least 3% in line with normal GDP.

In your comments, you had mentioned how important that is for our senior population. Could you please comment on the significance of our increase, of what that will mean for our senior population?

Mr. Terry Zive: I'm sorry, Mr. Chair.

The Chair: A very brief comment, maybe 10 seconds.

Mr. Terry Zive: I think I would take that offline. I don't have a comment.

The Chair: Okay, thank you.

Thank you, Mr. Adler.

I just wanted to follow up with you, Ms. Pohlmann, on four points you mentioned on page 10 of your presentation. I'll take them in reverse order.

First of all, it's just a comment on the accelerated capital cost allowance for investment in machinery and equipment. I'm pleased you mentioned that as CFIB, and I'm pleased Mr. Lavoie pointed out that 85% of his members are in fact small and medium-sized enterprises. I think that's very important to point out.

On the third point, in terms of the creation of a new quarterly remitter category for certain small, new employers, I know your

members know it, and you know it very well, but can you explain to non-small-business owners why that is an important measure?

Ms. Corinne Pohlmann: Yes. When you're first starting out in a business, CRA wants you to build a bit of a history with them, and so they require you to actually remit anything that business has to take from their employees and remit to the CRA, so payroll taxes, income taxes, all the rest of it. They have to do it on a much more frequent basis in their first year in order to build a history with CRA. After that it gets based on how much they actually have to remit, and they can go to a much smaller number of times. This allows them, in their first year, to not have to remit as often, because remitting is a lot of paperwork. It's taking the money from the employees or taking it out of their paycheques, making sure the right paperwork is being done and that it's being submitted to CRA at a point in time. If you don't do it at the right time or you don't have the right amount, you could get penalized. It's a very stressful part of that process. Doing that less often in the first year is going to make a difference so they can spend more time growing their business and less time on government paperwork.

The Chair: Perfect. I appreciate that clarification.

We'll go to your second item. In terms of increasing the lifetime capital gains exemption to \$1 million for qualified farm or fishing properties, I think you said that this should be extended to all small businesses.

My farming relatives would probably argue that they are unique, that farmers and fishers are unique small businesses. I think they would make that argument. I'm pretty sure they would.

Could you make the argument as to why it should be applied to all small businesses equally rather than just certain unique categories?

Ms. Corinne Pohlmann: Its primary purpose from a small business perspective is as a retirement savings vehicle. When we ask our membership about what they're doing to save for retirement, by far and away, the proceeds from the sale of their business and the lifetime capital gains exemption is how they're going to finance their retirement. That's not unique to just the agricultural sector; that's pretty much across the board.

I think there is slightly more, 90% versus 80%, in the agriculture sector, who are saying it's a very important vehicle for them to save. Secondly to that, we're also seeing it as an important potential tool for financing the next generation, and again, that's not just the agriculture sector but for all businesses. We think that being able to extend that to \$1 million for all business owners is going to be important. We would certainly ask for that.

•(1010)

The Chair: I appreciate that as well.

The final one goes to your first point in terms of decreasing the small business tax rate from 11% to 9%.

There are serious people across this country who argue in fact that there ought to be just one business tax rate, that there ought not to be a difference between the small business rate and the larger rate, and that in fact this is not what the government ought to be doing. You obviously argue differently.

Put on the record CFIB's argument in terms of why there ought to be two rates in this country that apply to businesses.

Ms. Corinne Pohlmann: Yes.

The Chair: You've argued very well as to why the rate should be lowered, but why should there be two rates for businesses in this country?

Ms. Corinne Pohlmann: We believe that there should be two rates, and a lower rate for smaller companies, simply because the cost of doing business as a smaller company is generally higher per capita than it is to do business as a larger company. It allows smaller business to retain more of their income and actually invest it in those areas that are of higher cost to them.

The first is the cost of dealing with regulations. I showed you with a chart that it's up to five times more expensive for small businesses just to deal with the red tape than it is for a larger company.

Access to financing is much more difficult as a smaller company than it is for a larger company. In fact, when they do get financing, it's often more expensive because they can't necessarily get the same rates as a large company can. This allows them an opportunity to retain some of their own income and invest it back into their firms.

Those are just two, and we could go on with others as well, really key factors that we think are important as to why there needs to be a lower rate for smaller companies.

The Chair: I appreciate that very much.

I'd like to continue this discussion. It's been an excellent, informative discussion.

Thank you all for being with us.

Colleagues, we will take about a five-minute break as we switch the panels. We'll thank all of our guests here this morning and we'll bring the next panel forward.

•(1010)

_____ (Pause) _____

•(1015)

The Chair: I call this meeting back to order. This is meeting number 83 of the Standing Committee on Finance, and we are considering Bill C-59.

I want to welcome our second panel. First of all, we have, presenting as an individual, Mr. Jason Heath. From the C.D. Howe Institute, we have Mr. Alexandre Laurin. Mr. Aaron Wudrick of the Canadian Taxpayers Federation is here. From the Macdonald-Laurier Institute we have Philip Cross. We have, from YWCA Canada, Ms. Ann Decter, director of advocacy and public policy.

Welcome, everyone.

Each of you will have five minutes for your opening statement and then we'll have questions from members.

We'll begin with Mr. Heath, please.

Mr. Jason Heath (As an Individual): Thank you, Mr. Chair.

My name is Jason Heath. I am a certified financial planner and the managing director of Objective Financial Partners in Markham, Ontario. I am a fee-only financial planner, meaning that I provide financial advice to clients, but unlike the typical financial planner, I do not sell investments or insurance. I am also a personal finance columnist for the *Financial Post*, which is the business section of the *National Post*, as well as *MoneySense*, which is Canada's personal finance magazine.

Most importantly though, I am daddy, or dada, or much to my dismay these days, dad—which makes me feel very old—to five-year-old Joel, six-year-old Jayden, and six-year-old Mila.

The Criminal Code of Canada dictates that leaving a child under the age of 10 alone is considered abandonment, suggesting that older children are able to take care of themselves. The Canadian Red Cross babysitting course is for children age 11 and up. It therefore seems odd that a parent would be allowed up to a \$5,000 annual tax deduction and a \$2,500 annual tax refund for child care for a 16-year-old. A portion of private school fees for a child in grade 11 may qualify for this deduction, for example. The proposed limits for the child care expense deduction fall well short of the actual cost of child care in many Canadian cities, particularly for younger children. It would not be unreasonable to pay over \$20,000 annually for infant child care in Toronto, for example.

Accordingly, I would be inclined to consider a modification to the child care expense deduction to allow up to \$12,000 for children under the age of six and \$6,000 for children age six to twelve. A child care expense deduction for teenage children is unnecessary in my opinion, except in the case of a disabled child. On that note, I think that \$11,000 is not nearly enough of an eligible deduction for a child that qualifies for the disability tax credit. I suggest a \$24,000 deduction limit for disabled children as it would not be uncommon for a family to spend this much, or more, on a live-in nanny, for example. It is also twice my suggested limit for the child care expense deduction for children under the age of six.

The cancellation of the Canada child tax benefit is a double-edged sword. It seems better to limit the administration of tax benefits for children to one single benefit instead of paying two benefits, with the resulting administrative government costs to manage both programs. On the other hand, it seems unfortunate, in my opinion, to cancel a means-tested benefit like the Canada child tax benefit in favour of a non-means-tested benefit like the universal child care benefit.

The result of the changes to these benefits may be a reallocation of tax dollars out of the hands of people who truly need and count on the money and into the hands of those who may not. The cancellation of the Canada child tax benefit also has a negative impact on single parents that is not offset in this bill by the family tax cut credit. I would be inclined to instead consider an increase in the Canada child tax benefit to provide more benefits for low-income and middle-class Canadians while reducing or negating benefits for those whose income exceeds a certain threshold. This could be done by instead cancelling the universal child care benefit and using the resulting savings to enhance proportionately the Canada child tax benefits for those whose income is below a certain threshold.

The Income Tax Act distinguishes between families that have more than one child in the claiming of tax credits like the amount for children, the children's arts amount, the children's fitness amount, and deductions like the aforementioned child care expense deduction. It seems odd that the family tax cut credit would not do the same. I would prefer to see it be based on the number of children under the age of 18 and suggest a limit of \$25,000 of split income per eligible child.

In addition, I would prefer to see this credit even further benefit a young family contemplating having a stay-at-home parent for some period of time. This could allow a two-income family to temporarily become a one-income family and have a parent as a caregiver for a young child instead of both parents having to go to work and hiring a third party. This could be done by allowing the splitting of income for parents with children under the age of six without subjecting them to the \$2,000 tax credit limit. I propose, instead, a \$10,000 tax credit limit.

Finally, single parents do not benefit from the family tax cut credit. I would like to see single parents be able to claim the family tax cut credit by notionally splitting income with their youngest child under the age of 18.

Thank you, Mr. Chair.

• (1020)

The Chair: Thank you very much for your presentation.

We'll now go to Monsieur Laurin, *s'il vous plaît*.

[Translation]

Mr. Alexandre Laurin (Director of Research, C.D. Howe Institute, As an Individual): Thank you, Mr. Chair.

I am very pleased to be here with you today. Thank you for the invitation to appear before the committee.

[English]

Back in 2011, following the federal election, I authored a study with Professor Kesselman of the C.D. Howe Institute on the family tax cut, or what was at the time the income-splitting proposal. Our study took place four years ago, so it was based on the assumption that provinces would follow suit, that provinces would also adopt income splitting, and there was no limitation other than the \$50,000 limit to be split.

Today, I'll be very quick, and I'll simply present what were our main conclusions from that original study and what has changed

since, because we now have a new income-splitting proposal that is very different.

Originally in our study we said the proposal was expensive, especially because of the cost to provinces that adds up to the federal. The benefits and the costs were highly concentrated mostly in the hands of single-earner families with a high-income earner. It created work disincentives for the lower-income spouses, so that means economic efficiency costs. We also discussed the theory around welfare and single-earner families enjoying some welfare gains by not having to pay for child care or for the value of any other family services that are provided by the at-home spouse. But those services have to be purchased by the dual-earner families, where both spouses work, so it creates gains for the single-earner families and costs for the dual-earner families. Dollar for dollar, in theory, the equality of tax burdens between single-earner and dual-earner families does not necessarily achieve tax fairness. That's the theoretical principle that we discussed in that study.

Finally, for families with children, we calculated that after-tax economic resources available for consumption, factoring in the cost of child care for any families that incur child care costs, and EI and CPP contributions, too, which are often forgotten, on average, across a wide range of family incomes, there was no obvious horizontal fairness problem to be solved. I can elaborate later what I mean by horizontal fairness, but I want to keep going because I only have five minutes.

The new provisions, the provisions in this bill, are significantly different. It's a different kind of income splitting because, first, it's a tax credit, so provinces don't have to participate. It changes a lot. The value is capped at \$2,000, which is critical. These new provisions do mitigate many of the drawbacks we had originally identified. First, it is less expensive, and it still has that benefit of making the system fairer for one particular case: those dual-earner families that are identical in many or all respects but for their income splits—one is earning more than the other, and so they have different tax burdens. This new income-splitting provision will address that fairness problem, obviously. The tax savings are very spread out across eligible families, now that we have a cap, since the cap greatly—and I say greatly—limits the gains at the top. Before, in our original study, when the provinces were included in the calculation, the maximum gain for a single-earner family in Ontario was \$11,000. That's much more than \$2,000.

Tax benefits now being capped also means that single-earner families will still pay more taxes than dual-earner families when they have identical levels of income. That's consistent with the principle that I mentioned before: single-earner families enjoy welfare gains that dual-earner families do not.

Finally, the work disincentive problem is substantially mitigated with the \$2,000 cap, since the lower-income spouse can now earn up to \$22,000 in income before any disincentives kick in.

•(1025)

In conclusion, there are still some drawbacks, but the new provisions are better than the original proposal.

Thank you.

The Chair: Thank you very much for your presentation.

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

Mr. Aaron Wudrick (Federal Director, Canadian Taxpayers Federation): Good morning, Mr. Chair and committee.

My name is Aaron Wudrick, and I'm the federal director of the Canadian Taxpayers Federation. Thank you for the opportunity to appear today to speak to part 2 of Bill C-59, the provisions of which the CTF is generally supportive.

CTF is a federally incorporated not-for-profit citizens group founded in 1990 and with over 84,000 supporters. We are dedicated to three key principles, those being lower taxes, less waste, and accountable government. Perhaps unsurprisingly we appear today largely pursuant to that first principle of lower taxes.

I did want to take a very brief moment to commend the government on balancing the budget this year. We at the CTF have been very critical of the many years of deficits, so we only feel that it's fair to also give credit where it's due and applaud the government for having the discipline to get back to balance. We do wish it had done so at a lower level of spending, but we're content to leave that debate for another day.

With respect to the measures in part 2 of Bill C-59, first is the increase in the child care expense deduction. We are strongly in favour of this measure. Indeed, we proposed an even greater increase in the deduction last fall. We also believe the government should consider modifying this deduction to allow a parent to pay a stay-at-home partner and claim that deduction in the same way.

With respect to income splitting, one of the CTF's guiding taxation principles is advocating for broad-based tax cuts. Our first preference is always cuts to the general tax rates so all Canadians who earn income can benefit. That being said, income splitting is not a terrible second best. What it adds in complexity—and as very diligent observers of the ever-expanding size of our tax code, I can assure you it is already very complex—it compensates for in equity.

We believe it is entirely reasonable to ensure the tax codes treat like as like, and a household that, for example, earns \$80,000 a year should not pay vastly different amounts of tax depending on how that earning is divided up among spouses.

This government first introduced income splitting for seniors and has now done so for families. We would hope the next objective would be to introduce income splitting for everyone else in order to broaden the benefits of such a policy, including possible provision for single persons to split income with dependants in certain circumstances.

With respect to the universal child care benefit, it is again no secret we at the CTF prefer tax relief instead of entitlement programs. Taxing citizens and then returning the money with a bow-wrapped cheque courtesy of the Government of Canada is not our

preferred model. Having said that, we are in agreement with the government that parental choice is paramount, and putting money back into the hands of parents to spend on the form of child care that works best for them is better than a policy of creating, as some have proposed, a large government-run day care system.

In summary, with the caveats we've already identified, we are generally supportive of the provisions contained in part 2 of Bill C-59. While we will never stop pointing out that complex boutique measures clutter up the tax code, raise administrative costs, and generally confuse Canadians when not necessary, the fact remains overall the federal tax burden faced by Canadians continues to go down, and we welcome that development.

Thank you. I'm happy to take any questions.

•(1030)

The Chair: Thank you for your presentation.

We'll now hear from Mr. Cross, please.

Mr. Philip Cross (Senior Fellow, Macdonald-Laurier Institute): I'd like to thank the finance committee for inviting me to this hearing.

Before I get started, just some background. From what I saw with the previous panellists and from this panel, I think what you're mostly going to get from them is micro-analysis of the individual proposals. I'm going to bring you some macro-analysis about the broad trends and the tax and transfer system that might help put these changes in context. The overview is based on a detailed report I wrote for the Macdonald-Laurier Institute called "Giving and Taking Away: How Taxes and Transfers Address Inequality in Canada", which members can refer to for more details.

The main conclusion is that the tax and transfer system became markedly more progressive between 1976 and 2011. The progressivity of transfer payments had a much greater impact than taxes on the redistribution of income. The greater role of transfers partly reflects that cutting income taxes does little to help low-income people, as the lowest income quintile effectively pays no income tax, with an effective rate of 2.4%. Instead, it is transfers and government that provide over half of their tax income.

As we move up the income quintiles, taxes progressively increase and transfers steadily decrease up to the highest quintile for whom transfers are as negligible, at 3%, as taxes are for the lowest quintile, while the effective tax rate for the highest quintile reaches an average of 22%.

Looking at combining the impact of tax and transfers, it shows that only the highest two income quintiles pay more into the tax and transfer system than take out, while the other three lowest quintiles are net beneficiaries. The highest income quintile pays 80% of the total net redistribution going on within the tax and transfer system. So the system is quite progressive, even if it's not completely offsetting the growing inequality of market incomes over the last 35 years.

Despite rising incomes earned in the marketplace, net transfers to the middle class have increased. This was particularly the case for the second-lowest income quintile, where net transfers rose from 2% to 17%. Only the highest quintiles saw a net contribution increase. So overall, the tax and transfer system has become more progressive in redistributing income from the highest income earners to the lowest and middle incomes.

For 35 years Canada has moved to a system of higher transfers and lower tax rates for 80% of the population being paid for by the highest 20% of earners. We may be nearing the limits of the amount of resources that can be transferred from one quintile to the other four. As noted by Professor Kevin Milligan in a recent study for the C.D. Howe Institute, raising the marginal tax rate further on high-income earners risks reducing their labour supply and may even lead to lower tax revenues. Advocates of higher tax rates for upper-income earners should take note of the growing contribution of the tax and transfer system over the longer term. Critics of the benefit that income splitting may give to some of the highest quintiles should also be aware of this trend.

Finally, the focus of all parties on aiding the middle class at some point risks becoming either a transfer from some parts of the middle class to other parts of the middle class, or worse, from the left pocket to the right pocket of the same person.

Thank you.

• (1035)

The Chair: Thank you very much for your presentation, Mr. Cross.

We'll go to Ms. Decter, please.

Ms. Ann Decter (Director, Advocacy and Public Policy, YWCA Canada): Thank you.

Good morning. I'm Ann Decter. I am the director of advocacy and public policy at YWCA Canada.

As the country's oldest and largest women's multi-service organization with member associations serving women and girls in nine provinces and two territories, YWCA Canada is pleased to share its remarks on part 2 of Bill C-59, which will implement the provisions of the budget tabled on April 21, 2015.

In our brief to this committee during pre-budget consultations, we recommended policies to support women, girls, and families, including a national child care system and increasing the national child benefit to reduce poverty. We specifically urged the federal government not to adopt income splitting in federal budget 2015 or at any time in the future as the benefits of this policy do not flow to vulnerable families. Our point of view has not changed.

According to the summary of Bill C-59, division 1 of part 2 implements income tax measures that introduce the government's family tax cut, known more commonly as income splitting.

Supporting women, girls, and families requires adopting policies that work for women, policies that are based on women's present-day lived realities, including high workforce participation rates. With a 65% employment rate of women with infants and toddlers—that would be a youngest child under three—and two-thirds of mothers with a youngest child in preschool or kindergarten, access to affordable quality child care would be a key support for families. Instead, it remains a social policy gap unaddressed by the federal government, and provincial governments struggle to offer a patchwork of responses across the country.

Families need child care, and child care needs federal government leadership.

According to a range of sources, the family tax cut as implemented by division 1 of part 2 will cost between \$2 billion and \$3 billion per year and will disproportionately benefit families with higher incomes. YWCA Canada would recommend withdrawal of this measure, maintaining the federal tax base, and using those tax dollars to increase the availability of affordable quality child care for Canada's families.

There are currently about 450,000 regulated child care spaces in Canada and 2.1 million children under six years of age. Increasing child care spaces will reach a greater number of families in need of support. It will support working mothers, who are the vast majority of mothers, and single mothers in particular.

Analysis of Quebec's low-cost, broad-based child care system has confirmed that child care is a social policy that strongly supports mothers, and single mothers in particular, to move out of poverty by dramatically increasing their access to employment. Between 1996, when low-cost child care was introduced in Quebec, and 2008, almost 70,000 additional mothers joined the workforce; employment rates for mothers with children under the age of six increased by 22%; the number of single mothers on social assistance dropped from 99,000 to 45,000; the after-tax median income of single mothers rose by 81%; and the relative poverty rates for single-parent families headed by women declined from more than a third to less than a quarter.

YWCA Canada would add that the mothers fleeing domestic violence with their children—who use our services across the country—can land on their feet in the community much more quickly when they can access affordable child care.

Division 2 of part 2 of Bill C-59 retroactively amends the Universal Child Care Benefit Act effective January 1, 2015, to increase the universal child care benefit to \$160 per month for children under six and to create a new benefit of \$60 per month for children from six to seventeen years of age, inclusive.

YWCA Canada's presentation to this committee during the pre-budget consultations recommended that the federal government streamline tax system supports for families into a single increased national child benefit with a maximum of \$5,400 per year. Along with our partners, Campaign 2000, we recommended that the universal child care benefit be absorbed into the national child benefit. Bill C-59 does the opposite.

Nineteen per cent of families in Canada live in poverty. Campaign 2000's proposal focused this investment where it is most needed: on lower-income families. According to the Parliamentary Budget Officer, 51% of universal child care benefits will flow to "families with no child care expenses and families with older children".

On behalf of the women and children who turn to the YWCA for help and support on a daily basis, we would encourage the government to reverse their thinking, increase access to affordable, quality, regulated child care, and focus transfer payments on families in financial need.

Thank you.

•(1040)

The Chair: Thank you very much, Ms. Decter.

Colleagues, we'll do five-minute rounds for this panel.

We'll start with Mr. Cullen, please.

Mr. Nathan Cullen: Thank you to our witnesses this morning.

I'll start with you, Mr. Heath. I go by "dada" these days, by the way. It switched a few months ago.

What kind of child care will \$160 a month get you ?

Mr. Jason Heath: Not much. I live north of Toronto. I think back to when my kids were starting day care when they were one year old. It was probably at least \$1,500 a month, \$18,000 per year per child.

Mr. Nathan Cullen: So \$1,500 a month per child.

Mr. Jason Heath: So \$160 doesn't cover much.

Mr. Nathan Cullen: When we ask the government what their plan is to assist in building child care spaces in Canada, they say that \$160 a month will do it. Would you put your kid in \$160-a-month child care?

Mr. Jason Heath: I wish I could find it financially, but I would not like to find it from other perspectives, so I would say no.

Mr. Nathan Cullen: One of the things we've been hearing from the OECD and from a number of international economists is that growing inequality actually hampers an economy. Inequality grows and the economy and productivity drops, and competitiveness drops.

Mr. Laurin, I wonder if you've had any research at the C.D. Howe Institute showing the impacts of inequality.

Mr. Alexandre Laurin: We've had no recent study on this topic particularly, not that we've published at the C.D. Howe Institute.

Mr. Nathan Cullen: That would be a good thing to pick up.

Mr. Alexandre Laurin: It's in our plans, though.

Mr. Nathan Cullen: Good.

One of my questions for you is that there have been changes to the way income splitting has been designed. What percentage of Canadian households does it help in its redesign?

Mr. Alexandre Laurin: The redesign will not change the proportion of families who benefit or don't benefit.

Mr. Nathan Cullen: So we're still at 15% of Canadian families, or a little less than 15%.

Mr. Alexandre Laurin: Of census families, yes, that wouldn't change, but then you would include all census families. It also includes seniors and whatever.

Mr. Nathan Cullen: Mr. Wudrick, how much have the Conservatives added to the national debt since taking power?

Mr. Aaron Wudrick: Approximately \$150 billion.

Mr. Nathan Cullen: Approximately a little north of \$150 billion, \$4,500 or so for every man, woman, and child in the country, I think, according to your group.

Did the Conservatives run a deficit this year?

Mr. Aaron Wudrick: No.

Mr. Nathan Cullen: The previous year?

Mr. Aaron Wudrick: Yes.

Mr. Nathan Cullen: About \$2 billion, give or take?

Mr. Aaron Wudrick: Yes.

Mr. Nathan Cullen: Income splitting is essentially a retroactive policy costing about \$2 billion.

Is it a good move to borrow \$2 billion in order to bring in a program that helps 15% of Canadian families?

Mr. Aaron Wudrick: I think generally our position is that borrowing to spend is a bad idea.

Mr. Nathan Cullen: This was borrowing to spend.

Mr. Aaron Wudrick: Yes. I suppose the question is are there other ways for them to save money. There are some things we prefer to spend on than others. As I said, we're certainly big critics of the fact that they've spent more than they've brought in for quite some time.

Mr. Nathan Cullen: We've seen that women's participation in the workforce is at its lowest rate since 2002 in Canada. Other G-7 OECD countries are struggling with this exact challenge. Should we be doing something about this in Canada? Should we be finding ways to help women participate more in the workforce?

Mr. Aaron Wudrick: I think the question here is, if you're referring to income splitting and whether or not it discourages women from entering the workforce, I think there are two ways to look at it. You could say you're encouraging people to stay home, or you could take the view that you're simply removing an obstacle to people who would like to stay home.

We don't take a position at the CTF on whether women should work or not. We think that's up to every individual woman, every family. I think most people agree with that. It really depends on whether you view it as empowering them to make a decision they wouldn't make otherwise or—

Mr. Nathan Cullen: Thank you.

Ms. Decter, your numbers out of Quebec are somewhat striking: almost cutting in half the number of single moms on social assistance, greater participation of women in the workforce, and a greater productivity for the province overall. TD and others have pointed out that investment in affordable child care actually delivers back \$1.70 for every dollar put in.

•(1045)

Ms. Ann Decter: It's really a net revenue generator.

Mr. Nathan Cullen: A net revenue generator.

Ms. Ann Decter: It's preventive. It reduces costs down the road.

Imagine you take half of the single mothers living on social assistance and their children go to child care. They get the benefit of all that happens every day in day care, and all of the literature is now clear that it's very beneficial. At the same time, you get the mother going to work. They grow up with an example of someone who goes to work every day. They get out of that kind of poverty trap. I think we all know that when we were growing up, whatever our parents did was something that we thought was a normal thing to do. Well, if the normal thing to do is to receive a cheque, and there's no chance of getting out of that hole, then kids grow up with that kind of attitude—or they can grow up with that kind of attitude.

The Chair: Thank you, Mr. Cullen.

We'll go to Mr. Saxton, please.

Mr. Andrew Saxton: Thanks to our witnesses for being here today.

My first question is for Mr. Heath.

Mr. Heath, do you believe that the family tax cut helps to ensure tax fairness between two- and one-income families?

Mr. Jason Heath: I believe it endeavours to do so, but I think it only does it partially because of the \$2,000 tax credit limit. In particular, there's a big difference between a family earning \$100,000 per year as a single income earner and two \$50,000 income earners. The big discrepancy between income tax payable in a lot of average families like that I don't think is necessarily rectified by the \$2,000 tax credit limit.

Mr. Andrew Saxton: Should we increase that limit?

Mr. Jason Heath: I would be inclined to consider increasing it. My suggestion was to increase it more for the people who might be encouraged to do other good things for society, like stay home with a young child. I suggested, in particular, raising the limit to \$10,000 for parents with children under the age of six. It's more a social reason than a tax reason to suggest increasing the limit.

Mr. Andrew Saxton: Thank you.

Mr. Wudrick, do you agree that the family tax cut helps to ensure tax fairness between one- and two-income families?

Mr. Aaron Wudrick: Yes, we do. We think, as I stated earlier, that it's a question of like versus like. If you have a household earning x dollars, we don't think that household should pay different tax depending on whether it's being earned by two spouses, one spouse, two spouses earning about the same or two spouses earning a vastly different amount. From a household perspective we think the expenses are comparable and so we think they should be treated the same from a tax standpoint.

Mr. Andrew Saxton: Thank you.

Does the Canadian Taxpayers Federation also agree that the tax-free savings account is a helpful vehicle for people to save for the future?

Mr. Aaron Wudrick: Yes, we're supportive of the TFSA. That's my understanding outside the scope of this part of the bill. We're supportive of mechanisms that empower Canadians to make decisions about saving for their own future rather than the government doing so.

Mr. Andrew Saxton: Thank you very much.

Mr. Laurin, can you explain the private sector practices with regard to sick leave and how the private sector differs from what the government is now proposing with changes to the public service sick leave?

Mr. Alexandre Laurin: In the private sector it's rare to have a policy whereby sick leave can accumulate to another year. Even in the public sector it's becoming increasingly rare.

Mr. Andrew Saxton: Would you agree that these changes make it fairer for younger or newer employees?

Mr. Alexandre Laurin: I'm not sure if it's a question of fairness among employees, but it would be a question of fairness for the compensation package that public sector employees receive in comparison with the total compensation package that private employees with similar qualifications receive. If there's too wide a discrepancy, that's a problem.

Mr. Andrew Saxton: Do you agree with these changes that are being proposed to the public service sick leave regime?

Mr. Alexandre Laurin: I think the new powers being acquired will greatly help the negotiations and will help this new long-term disability regime to be put in place, and that's a positive if we lose \$1.5 billion from the debt.

• (1050)

Mr. Andrew Saxton: Thank you very much.

Mr. Cross, can you please explain your organization's opinion on the difference between voluntary and mandatory savings vehicles? In particular, you have the tax-free savings account, which is a voluntary vehicle. Do you agree this is a good vehicle to help Canadians save for the future?

Mr. Philip Cross: I think when it comes to pension savings, we're very much of the view that voluntary is better than mandatory.

One of the problems with pensions in this country—and Malcolm Hamilton now researching at the C.D. Howe Institute, has done a lot of work on this over the years—is that people are scared a lot by financial institutions into saving too much. I did a study last year and I looked at what chartered banks recommend and when they had something on their websites, they universally said replace 75% to 80% of your income. Most people outside of banks say 50% to 60% is more than enough. The result is we end up with a lot of people saving too much. Malcolm has openly said that the number one problem with savings among older people in our society is that people die with too much money.

The Chair: Thank you, Mr. Saxton.

Mr. Brison, go ahead please, for your round.

Hon. Scott Brison: Mr. Cross, your statement that the number one issue is people dying with too much money doesn't necessarily reflect the reality in Cheverie, Hants County, where I live.

You say the issue is that people are being scared by the banks into saving too much. Are you suggesting that Canadians ought to perhaps save less than what the banks are recommending?

Mr. Philip Cross: I think it's obviously in the self-interest of banks to scare people into saving more. Who benefits from that? Banks do. They want people to park large quantities of money with them at low interest so they can lend it out.

I should make it clear that, when I say “too much money”, it's not as if these people are living in palaces or anything; the point is that people are dying with positive savings. People in this country are not running out of money, for the most part, before they die. The idea that we're not saving enough and we have to increase savings because people are going to run out of money in their retirement, which is behind a lot of these plans to expand savings—

Hon. Scott Brison: So why would you support expanding the TFSAs from the current level?

Mr. Philip Cross: If people on their own want to be scared by financial institutions into saving more, fine. People are always responsible for their own actions. But, for people to tell government —

Hon. Scott Brison: Well, why would government facilitate them doing what you say would be the wrong thing, by expanding the TFSAs?

Mr. Philip Cross: Some people are always going to do the wrong thing. I don't think it's government's role to prevent people from doing anything in our society.

Hon. Scott Brison: Your analysis is fascinating, Mr. Cross.

I want to ask a question of Mr. Wudrick of the Canadian Taxpayers Federation.

Gregory Thomas, your previous president, wrote an op-ed in *The Globe and Mail* on September 26, 2014, titled “Drop income splitting and hike the deduction for childcare”, that income splitting “fails the fairness test in many ways”.

He wrote that on behalf of your organization, saying it reflected the views of your members. So you agree with that analysis, that—

Mr. Aaron Wudrick: No, I think he was taking a position that it is not the preferred option of the Canadian Taxpayers Federation. I've been consistent in saying that income splitting is not our first choice. It is not. We would prefer a broad-based tax cut.

But if the specific question you're asking us is whether we would take a tax cut like income splitting over no tax cut, we would take income splitting.

Hon. Scott Brison: But you agree with the analysis that income splitting “fails the fairness test in many ways”. That's a direct quote.

Mr. Aaron Wudrick: It's entirely reasonable to say, in isolation, looking at income splitting without any measures addressing any other inequities in the rest of the tax regime, you could make that argument.

Hon. Scott Brison: Thank you.

Ms. Decter, thank you very much for joining us today.

You've referred to the Campaign 2000 analysis of the importance of investing in helping families with children and lower-income families, and you took a \$5,900 figure. Our plan, the Liberal plan for a new Canada child benefit, would actually provide \$6,400 per child and it would be income tested. It would continue to be received up to \$200,000 per year of family income, but it would be more generous to those in the lower income brackets.

Do you believe that addresses what Campaign 2000 has been calling for, progressive support for families with children?

• (1055)

Ms. Ann Decter: I believe it does. In the announcements it produced in its pre-budget consultations—I can't remember the exact figure—it had a specific number of children who would be moved out of poverty by getting to the \$5,900 limit, so certainly \$6,400 would do the same thing.

Hon. Scott Brison: It would help establish a baseline, sort of like a guaranteed annual income for children.

Ms. Ann Decter: Right, well, it's for families really. Children don't live on their own.

Hon. Scott Brison: No, certainly.

Thank you very much.

Mr. Heath, I appreciate your comments on families, that those who need help the most are those who actually have children under the age of.... We have twins who are 15 months old, and so I understand the cost of child care.

Would you also agree that families in a lower income ought to benefit more, that we should have progressive supports for families based on income level?

Mr. Jason Heath: I would agree with that wholeheartedly, because I think those are the people for whom it would actually make a difference, whereas for higher-income earners it's just a handout that doesn't really have an impact in their day-to-day lives.

Hon. Scott Brison: Thank you very much.

The Chair: Thank you, Mr. Brison.

Ms. Bateman, please, for your round.

Ms. Joyce Bateman: Thank you to all of our witnesses this morning. It's wonderful.

I want to start my questions with Mr. Cross. I have to say I enjoyed your op-ed in the *National Post* on April 22 about compressing the size of government. I particularly appreciate your comments in your presentation today about the tax and transfer system and how progressive Canada's tax and transfer system truly is. Perhaps we will study further your recent report on how taxes and transfers work in Canada. I'll certainly be reading that one.

I'd like to ask you specifically in this context, and feel free to expand within...you have a few reports you've written on this. I'm very interested in hearing, within the context of our progressive tax and transfer system, the importance of voluntary saving mechanisms and whether that would be a voluntary saving mechanism where I could choose to use a tax-free savings account, or I could now choose to voluntarily augment my CPP.

Could you expand on that briefly, sir?

Mr. Philip Cross: The distinction between voluntary and mandatory sometimes is overdrawn. We've seen in the past, for example, in the late 1990s, a lot of Canadians didn't believe CPP was on a sound footing. As a result, you could see one reason the savings rate was high in the 1990s was people didn't think CPP would be there. When CPP was put on a sound footing with the reforms in 1997 or 1998—I forget—you could see almost immediately

voluntary savings came down. People had confidence, all of a sudden that those mandatory savings would be there for their pension. Sometimes the distinction between the two is overdrawn. It's not necessarily that...sometimes one is done in anticipation of what the other is going to do.

In the case of CPP, I've written extensively that I've been against the idea of mandatory contributions because I'm not convinced—certainly it is not a problem now—there's going to be a problem in 20 or 30 years. If people on their own want to take out an insurance policy against what's going to happen in 20 or 30 years, God bless them. Am I so confident there's going to be a problem in 20 or 30 years from now that I want to impose and make that mandatory today? No.

Ms. Joyce Bateman: Thank you. Obviously that's the conclusion of our caucus. If somebody feels so passionately about it, they would choose to do that with their own resources, great, but not to make it mandatory given the lack of need, as you have indicated.

What are your thoughts on the balanced budget legislation? I'd be very interested if you could expand on that.

Mr. Philip Cross: I'm rather cynical about it and my cynicism is bred in particular by.... I actually burst out laughing recently when I read that Ontario had balanced budget legislation, and you think, "Ontario today lives under balanced budget legislation?"

• (1100)

Ms. Joyce Bateman: Ontario?

Mr. Philip Cross: That goes to show with all these pieces of legislation, the holes that are available in them are large enough to drive huge convoys through. I wonder, what's the point?

Ms. Joyce Bateman: Fair enough.

At the end of your presentation—and you didn't do it verbally, but you provided it to all committee members—you talked about studying the share of income. You wrote:

The best policies are those that would encourage our ability to fully benefit from more vigorous economic growth in the U.S., notably through fostering a better climate for business investment.

Could you expand on that, sir?

Mr. Philip Cross: In the debate about the economy, everything seems to be fixated on redistributing income, and I think we've become so wrapped up in that analysis and a lot about who's going to benefit from income splitting and so on, we forget the number one solution to all these problems is good economic growth. The one key to that, and I think the Bank of Canada's emphasized that in its research, the thing that's been missing from the recovery so far has been business investment. I think we should be doing more to stimulate business investment in this country.

Ms. Joyce Bateman: In your message, we get that good economic growth is very important, so thank you very much.

Forgive me, but we were just talking briefly about people getting buried in the numbers. A previous witness had made a reference. Could you expand on the econometric piece we were talking about earlier?

Mr. Philip Cross: There are a couple of things. People talk about our knowing the marginal impact that the changes in income splitting are going to have to the labour supply of women as if we know it to the decimal point. One of the problems with that type of analysis, one reason I was never a fan of this when I was at Statistics Canada and am still not a fan, is that it assumes other things are equal. Well, other things aren't equal.

We know, for example, that the lowest women's labour force participation in the country is in Alberta. Why? It's because with husbands who earn more than \$100,000, women tend to stay home more often.

That's changing rapidly in Alberta. If Alberta raises the minimum wage from \$10 to \$15, that's going to have big impacts on labour supply.

There are many other things moving.

The Chair: Thank you, Ms. Bateman.

[*Translation*]

Mr. Dionne Labelle, you have the floor.

Mr. Pierre Dionne Labelle: Thank you, Mr. Chair.

Ms. Decter, I appreciated your testimony a great deal.

I am going to share my experience with you. I feel it may be helpful for everyone here who may have not lived in Quebec.

I have been in two different situations with this issue. In the first, there was no daycare service and we had to find people to look after our child in a basement. We did not know whether we were going to get daycare at the right time. My wife was incredibly stressed because she did not know whether she was going to be able to work or not.

With my daughter, the experience was the opposite. There was a daycare in the early childhood centre, the CPE, as we call it in Quebec. It had set hours and the people who took care of my daughter were college- or university-educated. The groups were set up in an intelligent way. The hours allowed my wife to work and then to come back to pick up our daughter in safe places that were designed for the purpose.

It is pure ignorance to think that a daycare system like that is not superior to having to chase around in a way that undermines the confidence of parents looking for support.

In your testimony, you mentioned some figures that showed the impact that the daycare system had on women in Quebec. For those listening to us, and even those not listening to us, I would like you to repeat those figures, because they illustrate the positive impact of that daycare system.

[*English*]

Ms. Ann Decter: This is for the period between 1996 and 2008, the first 12 years of low-cost child care. Almost 70,000 additional mothers joined the workforce; it was, I think, 69,700. Employment rates for mothers with children under the age of six increased 22%. The number of single mothers on social assistance dropped from 99,000 to 45,000, so by more than half. The after-tax median income of single mothers rose by 81%. The relative poverty rates for single-parent families headed by women declined more than a third—the figure is actually 36%—to less than a quarter. It was down to 22%.

From YWCA Canada's point of view, with child care I believe we are at the point that the country was with public schools in the late 1800s, when that was a system that was coming in and that was going to be accessible to everyone. You see it across the country: provinces struggling to make a response, increases in full-day kindergarten.

We'll never have an equal system unless the federal government shows some leadership. We're not talking about the federal government providing child care; clearly that has to come through provinces and locally. But as with other things for which there is shared responsibility, the government can work on agreements and they can support this. We just think the money is much better spent in that direction, because the fact is you have between 66% and 80% of women in the workforce.

● (1105)

[*Translation*]

Mr. Pierre Dionne Labelle: I completely agree with you.

I told you about my personal experience and about the quality of the services we received in that kind of network. My vision is completely opposed to what has been presented to us in this budget, that is, an amount of \$160 for child care costs. Introducing a measure like that and telling parents that it could help them in their search for child care, is almost an insult to their intelligence.

It is incredible that people can think in that way, given how amazing the experience in Quebec is. Everyone benefits, and the economy benefits too. The 80% increase in income for women is incredible for a dynamic consumer economy. Do you have any figures on the economic impact of women's participation in the workforce?

[*English*]

The Chair: Make just a brief response, please, Ms. Decter.

Ms. Ann Decter: That same study indicated that with women's greater participation in the workforce, GDP in Quebec rose by \$5.1 billion, or 1.7%. Quebec's investment in low-cost child care generated \$104 for the provincial government for every \$100 investment, plus \$43 for the federal government without any federal investment whatsoever.

The Chair: Thank you.

We will go to Mr. Cannan, please.

Hon. Ron Cannan: Thank you, lady and gentlemen, for being here this morning.

My first question is for Mr. Laurin, just following up on the issue of child care. I am the father of three adult daughters and have three grandsons now ages eight, three, and one. Two of my daughters are married. This aspect, child care, is an issue for all of us.

We respect the jurisdictional aspect of the social transfer payments to the provinces. Transfer payments, as Mr. Cross and others alluded, are at record highs.

I am just wondering, Mr. Laurin, whether from your experience and research you find that providing funds to families for their child care needs is the most efficient way to help alleviate the cost of having children.

Mr. Alexandre Laurin: Child care is one of the costs of having children. There are other costs.

I tend to agree that the UCCB is not going to cover the cost of child care for even one kid. It's not enough, but it's a benefit. It helps.

Quebec has gone a totally different way, whereby child care is almost totally subsidized by taxpayers, and that has led to some economic benefits. I don't think it's self-financing, but the evidence is there.

Quebec also started at the low point, when mothers had one of the lowest participation rates in the country, so Quebec had some catching up to do.

Now, if you're asking me whether the UCCB is a support to families with children, obviously it is.

Hon. Ron Cannan: Thanks.

Let me go over to Mr. Wudrick from the Canadian Taxpayers Federation. I know Jordan Bateman, from British Columbia. I represent Kelowna—Lake Country in British Columbia. I appreciate the work.

I always say that there is only one taxpayer and that we all need to maximize tax dollars and respect that they are the taxpayers' funds and not government's. Taking that into consideration, do you believe that allowing Canadians to keep more of their money is not only the right thing to do, but the logical thing to do, since it is indeed at the end of the day the taxpayers' money?

• (1110)

Mr. Aaron Wudrick: I think the debate fundamentally comes down to a debate about who is best placed to make these decisions. I respect the view of some of our progressive friends who suggest that it's the government's role to fully subsidize the care of children. We dispute that. They've been bandying about the fact that \$160 does not cover the full cost of child care. That is not necessarily a bad thing. We think it's entirely appropriate that the government support families and make it easier for them; we don't think it's necessarily incumbent on them to bear the full cost of child care. That's a fundamental difference in the point of view.

Hon. Ron Cannan: Totally. It's a balancing act, and I respect.... It is the freedom of democracy. We can agree to disagree on the fact that parents have a choice, we believe, of how they would like to raise their children.

Moving on, another section of the budget implementation act concerns the Canada Small Business Financing Act. It's something

that's very important to small business owners. We had the Canadian Federation of Independent Business, in the panel before, say that small business is the economic engine that drives our communities across the country.

In the bill, we're proposing, within small business eligibility criteria, to increase the limit for purchasing or building real property from \$500,000 to \$1 million, of which \$350,000 could be used for leasehold improvements or equipment. These measures are expected to enhance the ability of start-up entrepreneurs and small businesses across Canada to secure much-needed capital, generating economic growth and job creation.

I wonder whether you've had a chance to look from a small business financing perspective at whether that's a positive initiative.

I'll start with Mr. Laurin and then go across the panel.

Mr. Alexandre Laurin: There are already many subsidies to small business in the tax system. I didn't review the part of the bill that you just mentioned.

At the C.D. Howe Institute we published a study on the small business tax deduction very recently and came to the conclusion that it was not an impediment to growth, as many economists have been saying, but that nonetheless the small business deduction, which is a tax preference for small businesses, was not providing a marginal benefit that is superior to the marginal cost of the preference.

With respect to the part of the bill you mentioned, I wouldn't have any comment specific to it.

Hon. Ron Cannan: I appreciate it. It's access to financing, which we hear often is a challenge for small business.

Thank you.

The Chair: Thank you, Mr. Cannan.

[*Translation*]

The floor is yours, Mr. Côté.

Mr. Raymond Côté: Thank you very much, Mr. Chair.

My thanks also to the witnesses for joining us today.

Mr. Cross, you heard me laughing just now when we were talking about the bill on balanced budgets. I gather that we somewhat see eye to eye on that. In my opinion, that bill demonstrates a lot of hypocrisy on the part of the government. However, that is not the subject I want to raise with you.

I was sitting on the Standing Committee on Finance in 2013 when we passed Bill C-48, which expanded the Income Tax Act by 1,000 pages. Canada's tax system is quite staggering in its complexity. This is nothing more than fiscal clientelism, the effect of which is a huge fragmentation of the real clients. Tax breaks for families is one example of that. Unfortunately, they make things more complicated.

One phenomenon that I find disturbing is that fewer and fewer individuals are doing their tax returns themselves. I do not know which organizations measure that, but the fact remains that only a third, a little less than 40%, of individuals prepare their tax returns themselves. The rest go to professionals or to family members to do those returns.

Could you talk to us about that complexity and what families lose as a result? Canadian households actually often have to pay for their taxes to be done.

Mr. Philip Cross: I completely agree with you. The tax system is too complex. I do my personal tax return myself. It is quite simple. However, my business is set up as a company. As a result, I have to pay an accountant \$3,500 a year for him to be aware of all the details. It kind of brings us back to what we were saying about the tax rate of small businesses in comparison to large businesses. As we were saying earlier about family income, there is no real justification for the fact that the tax rate is different depending on whether one person or two people are involved. I agree with that.

Following the same logic, the gap between the tax rate for small businesses and large businesses should be smaller. At the moment, the gap is a major one. It is difficult to see the economic logic in the fact that the tax rate is so different for one as opposed to the other. That is sometimes an incentive for businesses to remain small.

• (1115)

Mr. Raymond Côté: Do you know if any studies have been done on the losses that individuals or companies have suffered because of the complexity of our tax system?

Mr. Philip Cross: I think that Alexandre could better answer that question.

Mr. Raymond Côté: Okay.

Mr. Philip Cross: I think that studies done in the United States talked about huge losses for that reason.

Mr. Raymond Côté: Thank you.

Mr. Wudrick, I gather that you are very critical about the complexity of the tax system. The complexity means that individuals are unable to find their way around it by themselves.

[English]

Mr. Aaron Wudrick: Yes, thank you.

We've long been critics of the complexity of the system. We think the system is needlessly complex. We are not fans of continued what we call boutique credits targeted at very specific groups. We think broad-based tax relief is the way to go. As I said, it puts us in a difficult position because we are an organization that likes lower taxes, but we don't like more complicated taxes. We're often presented with lower but more complicated taxes, and it puts us in a spot where we are not unhappy but not entirely thrilled either.

[Translation]

Mr. Raymond Côté: Talking about balanced budgets, Mr. Wudrick, you were very critical of the use of the surplus in the employment insurance fund. There is also the fact that, because part of the contingency fund was used to achieve that balance, Canada has been deprived of resources set aside to support the provinces and the municipalities in times of disaster.

I would like to hear your comments about the detrimental aspects of the methods used to achieve a balanced budget.

[English]

Mr. Aaron Wudrick: This is a long-standing problem. It actually precedes this government as well. We think that treating EI receipts as a spare fund to dip into is a serious problem that needs to be rectified.

Going forward, we welcome the lowering of EI premiums being collected in order to ensure that money isn't being treated as a spare bag of cash for governments to use to balance budgets.

The Chair: Thank you.

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

Mr. Dave Van Kesteren: Thank you all for being here with us this morning. It's been an interesting conversation.

I'd just like some clarification. Mr. Côté was talking about the complexities of filing returns.

Mr. Cross, I think you were not disagreeing, but I think the premise of the question was that the people who are not filing their returns are not filing because of the complexity. Would you agree with that? I think you said, if I heard you right, that there is a fair amount of complexity for corporations and businesses; however, they're not stopping the return of their taxes.

Mr. Philip Cross: You're right. I've never seen polls on why people for their personal income taxes are referring to H&R Block. It might be the increased complexity. It may be the growing lack of numeracy in our population. I don't know.

Mr. Dave Van Kesteren: Thanks. I would agree with that. I think that maybe has to be studied. We certainly can't say emphatically that it's complexity and that's why people aren't doing it. Thank you.

I want to get this straight, too. Mr. Cullen has gone now, but he made mention of productivity dropping when inequality rises. Now, that's a broad statement. I don't know if anybody commented on it, but I personally feel that that's.... I look at a country like the United States, which has a huge variance in incomes, and we learned in the last panel that they have a much higher productivity rate. A statement was made. I don't think anybody challenged it.

Is there anybody here who would agree with that statement?

Mr. Alexandre Laurin: I tend to disagree. There's no consensus in economic studies that shows there's a negative impact on the economy from increased inequality in developed economies. I can point you to a number of studies to that effect.

• (1120)

Mr. Dave Van Kesteren: Okay. I don't think we need to belabour that point any further.

Mr. Heath, congratulations. You have two kids?

Mr. Jason Heath: I have three.

Mr. Dave Van Kesteren: Three kids. Wow.

I'm glad you're here. You made some statements, and everybody's entitled to do that, but can I be so bold as to say that maybe you're not an expert on the subject. I have eight kids and 32 grandkids and I can tell you—

Mr. Jason Heath: I'm much less expert than you, for sure.

Voices: Oh, oh!

Mr. Dave Van Kesteren: —if I were to have anyone of our kids sitting here, they would say, “God bless you for that new tax credit.” They love it. The mothers love. The dads love it. I'm not saying that everybody is in agreement—Mr. Dionne Labelle, for instance, thinks it's a bad idea—but is it safe to say that there are lots of moms and dads out there who just think this is a great idea?

Mr. Jason Heath: Do you mean specifically the family tax credit? I would say that there are, but given how few people will actually be able to benefit from it specifically, and given how small the benefit is, I don't know that people are exactly jumping for joy. I certainly haven't seen it within my own day-to-day working with clients and speaking to people. I just don't know if it's a compelling enough benefit to—

Mr. Dave Van Kesteren: You're speaking on a personal level.

Mr. Jason Heath: I'm speaking on a personal level.

Mr. Dave Van Kesteren: And I'm speaking on a broader personal level, and I'm telling you that there's just a great response. It's an opinion.

Mr. Jason Heath: It's an opinion. I get that.

Mr. Dave Van Kesteren: Okay, thank you.

Mr. Cross, I want to tell you that I really appreciate your testimony. You've been here a number of times and you've always had some great testimony for us.

Mr. Wudrick, you were a little critical on the balanced budget.

Mr. Wudrick, wouldn't you agree that if in my household I had an unbalanced budget and if I was spending more money, you really wouldn't care if you were the bank? You would say, “Balance this thing”. Sometimes we might not agree with how people do it, but at the end of the day, if I'm taking in \$1,000 a month and I'm spending \$1,200, I have a problem, and I have to address that.

Would you address that about the balanced budget?

Mr. Aaron Wudrick: Let's be absolutely clear that we're supportive of balancing budgets. We don't think it's a wise idea to continue borrowing for the sake of borrowing. We wish it hadn't taken this long. We wish, for example, the stimulus hadn't occurred. That's all in the past. As I said, we've been critical, and we think the government deserves equal credit for clawing its way back.

Mr. Dave Van Kesteren: Okay, thank you.

Thanks, Mr. Chair.

The Chair: Thank you, Mr. Van Kesteren.

Mr. Adler, please.

Mr. Mark Adler: Thank you to all the witnesses for your presence today.

Mr. Wudrick, I want to begin with you. We as a government have lowered taxes 180 times since 2006. We've lowered the corporate tax rate, lowered the small business tax rate, lowered the GST, and lowered EI premiums. All of these measures we've undertaken empower individuals and businesses to make decisions to either spend or save. It gives them a choice.

For business, what they primarily tend to do with the added money is expand and create more jobs and employment and more economic opportunity for Canadians.

We've heard from other quarters that when we cut taxes as our government has been doing, it is a cost to the government, which to me is a little puzzling, and I hope you can clarify this. When we as a government cut taxes, is that a cost to the government, as in the government owns that money, or is it just putting more money back into the pockets of hard-working Canadians?

Mr. Aaron Wudrick: Thank you for the question.

I obviously agree with your characterization. The money is Canadians' money. The default position is it's their money. The government then takes it from them. To suggest that giving it back to them means that government has lost money, I think is a mischaracterization. I think that for every time we hear the government forgoes \$2 billion in revenue, what we hear is that's \$2 billion back in the pockets of Canadians.

We can debate what the right level of revenue is, but to characterize that primarily as a loss for government rather than a gain for Canadians is misleading, I think.

• (1125)

Mr. Mark Adler: Thank you. I'm glad you said that.

Mr. Laurin, I want to talk a bit about sick leave. Letting employees indefinitely bank sick leave is becoming anachronistic, would you not say? We don't really see this in the private sector. Even in the public sector we see that in the OSSTF, the Ontario teachers' union, new hires are now not allowed to bank sick days.

Could you comment on this whole concept of banking sick days and how anachronistic that is? Do you think we should be moving away from that kind of a model in the public sector?

Mr. Alexandre Laurin: As I said before, it is simply a non-wage benefit, and it's a non-wage benefit that has a cost. It's a cost in the total compensation package of employees.

I know I'm repeating myself, but what's happening here is that the average total compensation cost—and that includes non-wage benefits of federal employees—is now totally out of proportion with the average employment cost of a private sector employee with similar qualifications. The best way to resolve that problem is to reduce a little bit through time some of the non-wage benefits, and sick leave is definitely a great place to start.

Mr. Mark Adler: So you advocate then that we really need to level the playing field between the private and the public sectors.

Mr. Alexandre Laurin: Yes.

Mr. Mark Adler: Okay.

Could you comment on our government's decision to increase the TFSA contribution level from \$5,000 to \$10,000?

Mr. Alexandre Laurin: I'm in favour of it. I think it's a good policy.

TFSA's have great benefits for seniors and also for people at lower income levels who would like to save for their retirement—I'm sure there are some—and right now they don't really have the incentives because the benefit they will get in retirement from those savings that are tax deferred will be greatly clawed back, so they basically don't really do it.

What the TFSA does is that, if there is a big chunk of money coming their way, it could be an inheritance or anything else, they will be able to put it in there and have a tax-efficient retirement. I don't see why that's a bad thing.

Another thing to consider is that the interest rates right now are extremely low, and if you want people to be able to save and earn in safe financial instruments and earn a decent income, then TFSA's are a great way to do that.

The Chair: Thank you, Mr. Adler.

Colleagues, we have at least 15 minutes left, so we'll go to Mr. Côté, *s'il vous plait*.

[Translation]

The floor is yours.

Mr. Raymond Côté: Thank you very much, Mr. Chair.

Mr. Laurin, in your written presentation, we read that, if the objective of this tax relief for families is to provide support to families with children, this will give still more benefits to those who likely need them least.

Is that still your position?

Mr. Alexandre Laurin: It is a fact, as I see it. The financial benefit will clearly be greater for high-income families because the very nature of income splitting makes it so. If the objective is to provide families with support, this may not be the best way to go. But if the objective is horizontal fairness, in this case, the changes, the new income splitting measures, are much better than in the original proposal.

Mr. Raymond Côté: Thank you very much.

Mr. Heath, my neighbour is an accountant and a tax expert. Clearly, he did a huge number of tax returns this spring. We get on well. We have known each other for four years. He was telling me about warning his daughter about the changes to the universal child care benefit or the replacement of the Canada child tax benefit. He told her not to spend the whole cheque that she will be receiving in July because she is going to have to get used to the idea of sending a cheque to the federal government in the spring of 2016.

Do you want to comment on the Greeks bearing gifts, or should we say the government bearing its new formula?

• (1130)

[English]

Mr. Jason Heath: My understanding may be wrong. The Canada child tax benefit, as I understand it, is set to expire as of July 1. I thought it was to be cancelled as of July, as opposed to next year, but I think it's an unfortunate situation. Those taxpayers that are receiving, and have become accustomed to receiving, the Canada child tax benefit now, upon losing it, presumably may have access to the new universal child care benefit or the enhanced universal child care benefit, but it might not be as lucrative as it was previously. I think that's unfortunate, as part of this change, that it could mean a reallocation of moneys from low-income single parents, in particular, who would have received a higher Canada child tax benefit. For people like myself, for example, I've never received the Canada child tax benefit. I'll benefit from the universal child care benefit, but quite frankly, I don't need it and it won't make an impact on my day-to-day life.

[Translation]

Mr. Raymond Côté: Thank you very much.

Ms. Decter, thank you for your presentation.

There have been reports all over Canada about the difficulties that families are having in finding private daycare where no public daycare is offered.

I remember a story on Radio-Canada about the situation in Newfoundland and Labrador that was quite disheartening. Clearly the universal child care benefit is a long way from making up for the costs that can result. I was astounded by the astronomical costs and the major disparities there can be from one end of the country to the other. If I recall the report correctly, Newfoundland and Labrador has the misfortune of being the province with the second highest daycare costs.

Can you testify as to the huge burden placed on families who have no other option but to have their children looked after in a private daycare when there is no public daycare program that can provide affordable places for them?

[English]

Ms. Ann Decter: You're correct. The costs are extremely high, and for many families the option of having one person stay home and take care of the children is not viable. We know while the wage gap between men and women has narrowed, the salary gap over a lifetime has not. That is usually because women take time out of the workforce and forgo advancement in employment. I think if we saw men taking up more of the child care responsibilities, we might be in a different situation, but we're not seeing that. At the same time, women surpassed men as graduates of universities in 1990. You have a very educated female population. As public policy you want them to have labour force attachment. You don't want them forgoing their careers.

The Chair: Thank you.

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

Mr. Heath, I appreciate your columns. I read them quite regularly.

I want to get you to respond to Mr. Cross's analysis, though, because I think you and others on the panel are suggesting we should not move to more programs or benefits that are universal in nature, that we should means test them.

One of your statements was, "I would be inclined to instead consider an increase in the Canada child tax benefit to provide more benefits for low-income and middle-class Canadians while reducing or negating benefits for those whose income exceeds a certain threshold."

How do you respond to Mr. Cross's analysis, which says that the progressivity of transfer payments and taxes has led to a situation whereby the top two quintiles are putting more in than they're certainly getting out, and the bottom three are certainly receiving more benefits than they pay in taxation.

He has launched a fairly substantive analysis here. Do you disagree with his analysis, or do you think we should go even further in terms of...

• (1135)

Mr. Jason Heath: I don't know that I can either agree or disagree with his analysis. I take it at face value that the analysis is sound.

I would consider myself to be a high-income earner. Many of my clients are. Many of the people who read my columns are.

I didn't realize that we were giving so much to other parts of the Canadian population through transfer payments, but I can tell you that having three children ages five, six, and six, where the universal child care benefit would have otherwise stopped and all of a sudden now I'm going to get it for the next 10 years for all of them, I don't need that money and I know it's coming out of the pockets of people who do need it, people whose Canada child tax benefits were probably much higher than anything they're going to get from the universal child care benefit.

That part of it seems unfair from a personal perspective.

The Chair: That's your analysis, because the analysis by the Department of Finance is those people will not be receiving it. In fact, they will be receiving more benefits under the new program.

Mr. Jason Heath: Oh, that's interesting. Okay.

Perhaps then I'm making an assumption that is not justified.

The Chair: Okay. In your opinion as a financial planner, I wonder whether there's a certain point where you get concerned because the marginal rate of taxation becomes too burdensome on those in the upper incomes, so they work less and thus the issue of it affects overall economic growth, which obviously affects us all.

Mr. Jason Heath: Yes. I think it's fair that you reach a point where the high-income earner is overtaxed to the point where there is a disincentive to work. That's probably not something that you want to do, in particular when some of those high-income earners are people like doctors, for example, who are important to us as a society, or entrepreneurs, who may otherwise be taxed at a high rate and again could otherwise build jobs and companies and contribute in another economic way to our society if they weren't so heavily taxed.

I see both sides of the coin, but I have a hard time getting my head around the reallocation or potential reallocation of moneys for children from people who need it to people who don't.

If it's such that the low-income earners, based on the Department of Finance's research, are not left high and dry and are in more or less the same situation, I would still prefer to see more moneys going to those people, if anything, at the expense of people like me.

The Chair: I don't have the page in front of me, but a page in the budget shows who has benefited from which tax measures, including a million lower-income Canadians being taken off the tax rolls completely, items like that. I'd be happy to talk to you about that later.

Mr. Cross, can you respond on that item as well, and further substantiate what you said in your presentation?

Mr. Philip Cross: I would encourage people to read the paper. I don't have anything to elaborate on what's in the summary there.

If I can indulge the chair, I would like to say something about sick leave.

The Chair: Sure. I have 30 seconds left.

Mr. Philip Cross: There have been two questions asked about it, and if I don't say something I'm going to damage some internal organs here.

The Chair: Be very brief.

Mr. Philip Cross: Let's put the context of public service sick leave benefits in the context of overall benefits. When I retired, I had six weeks vacation, three weeks sick leave, a professional development day, a family support day. I got Monday and Friday at Easter. I got Remembrance Day. So it's put in the context of overall benefits. It's not just sick leave that's out of line. It's the whole wave of benefits in the public service.

There's also the way that sick leave is used. I was quoted in the *Citizen*. There's a very famous case in StatsCan of somebody putting up a sign saying "I'll be sick every Friday the rest of the year". That culture has to change, that this is a joke, that it's a free day off.

The Chair: Okay, thank you. I appreciate that.

Mr. Brison, do you want a two-minute round?

Hon. Scott Brison: Mr. Heath, you're advocating particularly for families with children and doing more for the families who need the help the most. Does that help summarize some of what you're saying?

•(1140)

Mr. Jason Heath: I would agree, and also advocating for those families who could do better or differently as a family.... What I mean by that is my suggestion to remove the \$2,000 tax credit limit for families with children under the age of six and increase it to \$10,000 I think could be a very strong incentive to a young family who has a young child to become a one-income family for some period of time. In many of Canada's big cities that's simply not an option, but if there was a significant enough financial benefit to a mother or a father staying home with a young child where the family wasn't hurt that badly because of an up to \$10,000 tax credit, I think it could enable perhaps a better outcome for families.

You don't see very many one-income families these days. You see mothers going right back to work and sending a child off to day care, perhaps to the detriment of our society.

Hon. Scott Brison: So income testing around benefits with a gradual phasing out of some of these benefits, say at higher income levels, makes sense from your perspective.

Mr. Jason Heath: Yes. You would have to have some sort of a limit, particularly for a high-income earner. But I think the main intention in my opinion would be to have a husband and a wife be able to make the decision to be a one-income family without having to mortgage their house, and have a parent be there for a young child rather than institutionalizing them at a young age so they can go back to work.

Hon. Scott Brison: You proposed one way to help provide more fairness for a single-parent family, but another way is instead of doing income splitting simply having more progressive and generous and simpler measures to actually benefit families with children across the board.

Mr. Jason Heath: I would agree with that, and there are different ways to do it. One of the things that I do sometimes is look south of the border where they have joint tax returns, where a family can in theory file a tax return and report all of their income, rather than here where you have a potentially high-income earner, a low-income

earner, and a big inequality when you compare them to another family that has the same income with equal amounts of income.

Hon. Scott Brison: I suspect you don't admire the American policy of taxing worldwide income necessarily quite as vigorously.

Mr. Jason Heath: Nor estate taxes and other things, but there are pros and cons on both sides of the border.

Hon. Scott Brison: Certainly.

Our tax system has become more complicated in the last 10 years. There have been a lot of boutique tax credits added and many of these are not progressive because they are non-refundable. Should we aim for a fairer and more progressive, but also a simpler, tax system overall? We haven't done a real study of the tax system since 1971 with the Carter commission. Should we do that?

Mr. Jason Heath: I'll chime in just very quickly.

I have clients who file taxes in the United Kingdom and South Africa, and I have seen tax returns from other countries where you pretty much just write your name, fill in a few boxes, and send it in under a self-assessment system. I do personal income taxes for a lot of my clients, and I'm amazed at the complexity. I think that when they're doing it in other places in the world, it probably suggests that a simpler tax system is something we should consider.

Mr. Aaron Wudrick: I'll quickly add that I also definitely am in favour of a simpler system. I lived in Hong Kong briefly and did my taxes there. It was one page. I'd love to see us get back to something like that.

The Chair: I thank all of you for a very interesting discussion at this panel. If you have anything else to put forward, please do submit it to the clerk. We will ensure all members get it. Thank you so much.

Thank you, colleagues.

The meeting is adjourned.

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