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Chair

Mr. James Rajotte

Standing Committee on Finance

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•(0845)

[English]

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

This is meeting 102 of the Standing Committee on Finance. Our orders of the day are pursuant to Standing Order 108(2): a study of tax evasion and the use of tax havens.

This is the continuation of a study that the committee had undertaken in the last session of Parliament in 2010-11; we're building on the work done by the committee at that time.

Colleagues, I want to thank our witnesses for being here with us this morning. We're very pleased to have three organizations with us: the Canada Revenue Agency, the Department of Finance, and the Royal Canadian Mounted Police. My understanding—I hope I'm correct here—is that the Department of Finance will go first, then CRA, then the RCMP. You each have about five minutes for an opening statement.

I think we'll start with Mr. Ernewein, then, from the Department of Finance, and then go to CRA and the RCMP.

Mr. Brian Ernewein (General Director, Tax Policy Branch, Department of Finance): Thank you, Chairman.

My name is Brian Ernewein. I'm the general director in the tax policy branch of the Department of Finance, and I'm joined by a few of my colleagues from the department, who may join us at the table if a question should arise.

[Translation]

I appreciate the invitation to appear before the committee again today to discuss tax evasion and tax avoidance. This gives me the opportunity to report to the committee on the government's most recent efforts, both domestically and internationally, to address various aspects of those issues.

[English]

I propose to briefly highlight some of the policy initiatives that we have undertaken in the recent past to combat tax evasion and tax avoidance. My remarks will first be about tax evasion and then move on to tax avoidance.

Tax evasion and combatting international tax evasion—I take that to be more the focus of the committee, but perhaps the questions will take us in different directions—primarily concerns the vigorous enforcement of existing tax rules by the Canada Revenue Agency. You'll be hearing from my colleagues at the agency about their

experience in the administration and enforcement of Canadian laws. We take as a given that CRA's enforcement of our laws requires that the agency be provided with the right tools and be allocated sufficient resources to pursue those efforts.

[Translation]

Access to relevant taxpayer information is key to the effective enforcement of our tax laws. Internationally, bank secrecy laws are a significant obstacle to the exchange of tax information between tax authorities. In order to overcome that obstacle, it is important to have access to information on taxpayers who seek to avoid their tax obligations, especially in jurisdictions that maintain bank secrecy.

When I last appeared before this committee, in December 2010, I talked about the budget 2007 measures to improve tax information exchange and Canada's efforts to promote the OECD standards in transparency and effective information exchange. They have led to the negotiation of tax information exchange agreements and new or revised tax treaties.

[English]

I'm pleased to report that we've achieved significant progress in this regard since we were here a couple of years ago. Canada now has 16 tax information exchange agreements, or TIEAs, as we call them, in force, and is currently negotiating over a dozen more. Last week, we signed a TIEA with Liechtenstein, and we hope to be signing another later today. Almost all of Canada's 90 tax treaties currently in force now include the OECD standard on tax information exchange.

Of particular significance, the tax treaties that Canada has with other countries, which were identified as requiring changes during the Global Forum's peer review—and I'll talk in a moment about the Global Forum—have been or are being renegotiated.

We've had an amending protocol on exchange of information with Singapore that came into force in 2012. We have amending protocols with Austria, Barbados, Luxembourg, and Switzerland that have all been signed, and we have negotiations with Malaysia and Belgium that are in progress. From our perspective, a developed tax information network is an important cornerstone in combatting international tax evasion, and we're working to negotiate many more similar agreements in the future.

I said I'd talk for a second about the Global Forum, and I'll just take a second on it. The so-called Global Forum on Transparency and Exchange of Information now has 100 members—countries and subnational jurisdictions. It conducts rigorous peer reviews of the legislative framework and administrative practices of member states, including jurisdictions with which Canada has entered into TIEAs, or renegotiated tax treaties. This peer review helps ensure that Global Forum members abide by their obligations to exchange information in the manner that those TIEAs and tax treaties contemplate.

I'll say quickly that on the domestic front there are tools we can use to help the CRA in its work on dealing with tax evasion. One important example that's been in place for several years now is the Income Tax Act's foreign reporting rules, which require the disclosure of the value and location of property held outside Canada. These rules assist the CRA in detecting tax avoidance and evasion, and help to better target the CRA's audit efforts, both for individuals and for companies that own subsidiaries outside of Canada. These reporting obligations are backed up by penalties for failure to file the required return.

Finally, on the tax evasion front, additional funding has been provided to the CRA in past budgets in support of their enforcement efforts, particularly as regards international taxation and for the purpose of creating tax planning centres of expertise.

Moving over to the topic of tax avoidance—and I can be a little bit briefer on this point—I'd like to make mention of only recent initiatives that the government has made to address domestic and international tax avoidance. While tax evasion generally refers to the wilful concealment of income from taxation, tax avoidance is more in the nature of aggressive tax planning arrangements that reduce or eliminate tax, or purport to, which are presented as being consistent with the letter of the law but which produce results that are unintended and inconsistent with sound tax policy principles.

● (0850)

The government has put forward a large number of changes designed to address avoidance concerns and improve the integrity of the system. Just dealing with a few examples coming from the past year, Budget 2012 introduced measures to address aggressive tax shelters, to improve the integrity and fairness of our thin capitalization rules, and to restrict foreign affiliate dumping.

The second example, or list of examples, I will give you comes from Bill C-48, which is currently before the House. The Technical Tax Amendments Act does a lot of things. Among these, it contains legislative measures to give effect to a number of changes that were proposed in Budget 2010 to address aggressive tax avoidance transactions and to improve the integrity of the tax system. These included rules dealing with foreign investment entities and non-resident trusts, a reporting regime for aggressive tax planning transactions, and specific rules dealing with what were so-called foreign tax credit generators.

Just referring to those examples, I think they serve to show the tax system is being regularly reviewed and updated to address issues of tax avoidance. It's obvious that we must remain vigilant in identifying and pursuing issues as they arise, with a view to ensuring the fairness and integrity of the tax system.

Thank you.

The Chair: Thank you very much for your presentation.

We will now here from the CRA. I believe Mr. McAuley will be presenting on behalf of the CRA.

[*Translation*]

Mr. Terrance McAuley (Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency): Thank you, Mr. Chair.

[*English*]

Good morning.

[*Translation*]

Like Mr. Ernewein, I thank you for your invitation.

[*English*]

We have deposited with the clerk a copy of my opening remarks. In the interest of time, I will just summarize a bit of what is contained in that document.

I'd like to describe the Canada Revenue Agency's approach to combatting aggressive international tax planning and tax evasion. Tax evasion and tax avoidance are complex global issues facing governments of all countries. Countries around the world are taking action to combat this complex problem, and Canada is no exception.

The CRA has a multi-faceted approach to addressing aggressive international tax planning and tax evasion based on several focuses.

The first is obtaining information through the use of Canada's tax treaties, tax information exchange agreements, international networks, court orders known as unnamed person requirements, and of course our audit work.

The second is conducting audits and criminal investigations to verify and correct non-compliance and to build cases for prosecution of tax evaders. We are further enhancing our large business audit approach to place greater focus on higher-risk issues such as aggressive international tax planning, which includes reviewing of transfer pricing issues.

The third is working with our colleagues from the Department of Finance and the Department of Justice to identify where legislation is being misused—these are commonly known as loopholes—and with that in mind to design amendments to prevent further misuse.

The fourth is educating taxpayers through public communications such as tax alerts and news releases to help them avoid questionable schemes and remain compliant. We publicize cases of tax evasion to deter further abuse. Increased publicity is having the desired effect. More and more taxpayers are coming forward of their own accord to correct their tax affairs.

Fifth, this goes in line with promoting our voluntary disclosure program.

In conclusion, engaging with other jurisdictions and participating in international approaches—combined with our work to detect, deter, and address tax avoidance—and legislative action offer the best strategy to deliver value for Canadians.

Thank you.

• (0855)

The Chair: Thank you for your presentation.

[*Translation*]

Mr. Cormier, you may go ahead with your presentation.

[*English*]

Inspector Jean Cormier (Officer In Charge Operations Support, Federal Policing Criminal Operations, Royal Canadian Mounted Police): Good morning, Mr. Chair and honourable members of the committee. Thank you for inviting the RCMP to participate in today's meeting.

[*Translation*]

Good morning, everyone. Thank you for the invitation to participate in your meeting today.

[*English*]

I'm accompanied here today by Sergeant Stephen Corney, who is the national coordinator of the RCMP money laundering program at our headquarters. I am pleased to have this opportunity to say a few words about the RCMP, our involvement relative to the investigation of tax evasion cases, as well as our ongoing relationship with the Canada Revenue Agency.

As you already know, tax evasion is an issue that must be taken seriously, and we believe that efforts to prevent and recover lost revenue are increasingly important given current budgetary austerity. Tax evasion through offshore arrangements is an international crime conducted using advancements in technology, which allow everyone to move money anywhere around the world with speed and ease. This makes it much more difficult for law enforcement to scrutinize and thereby provides individuals and corporations with a new financial avenue to exploit.

As a result, it is important for law enforcement to work collaboratively with domestic and international partners to prevent, detect, and pursue those who engage in such activities. Cooperation between domestic and international partners must be supported by appropriate legislation. In August 2010, Bill C-9 amended the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, making tax evasion a designated predicate offence for money laundering.

The RCMP is rarely the primary recipient of tax evasion information, as the Canada Revenue Agency is the main recipient of such information and is well equipped to investigate these matters. The RCMP and the Canada Revenue Agency have a close and long-standing working relationship. More recently, the RCMP and the Canada Revenue Agency have been working together to develop an action plan to enhance our working relationship in an effort to leverage not only each other's strengths but also the strength of other

partners. The plan is to develop a more holistic approach to addressing tax evasion and the resulting money laundering problem.

Canada's anti-money laundering and anti-terrorist financing regime is a horizontal initiative comprised of both funded and non-funded partners. The RCMP and the Canada Revenue Agency are only two of those partners in the regime. Information sharing between the Canada Revenue Agency and the RCMP as it relates to tax information is mainly from the RCMP to the Canada Revenue Agency. Between 2007 and 2012, for example, the RCMP referred 2,470 cases to the Canada Revenue Agency for assessment. The aim of the regime is to detect and deter money laundering activity and the terrorist financing activities as well as facilitating the investigation and prosecution of money laundering and terrorist financing offences.

Whether occurring domestically or internationally, money laundering has a devastating impact on the financial integrity of a country. It directly impacts individuals, communities, businesses, economies, and international reputations as well, which can't be taken lightly. Proceeds of crime and money laundering investigations are complex and can be difficult to prove. They are time consuming and labour intensive to investigate and prosecute. We've seen investigations that have consumed thousands of person hours, involved millions of documents, and incurred hundreds of thousands of dollars in forensic accounting costs. Our ability to carry out this work is strengthened by our partnership with regulatory and other law enforcement and government agencies within Canada as well as internationally.

The RCMP has 43 resources that specialize in money laundering investigations across the country. These resources are mainly situated in Vancouver, Calgary, Toronto, Ottawa, and Montreal.

When you cannot generate a profit, there is no longer an incentive to commit profit-driven crime. Therefore, one of the main objectives of the RCMP's fight against organized crime is to identify, restrain, and confiscate illicit and unreported wealth accumulated through criminal activity. Across the country, the RCMP also operates in partnership with other law enforcement agencies. Although not every province has specialized money laundering investigators, other investigators are also responsible for investigating those crimes.

Although international cooperation has come a long way in establishing standards to prevent and detect tax evasion, continued efforts must be maintained. Although the Canada Revenue Agency has the main role in the enforcement of tax laws in Canada, the RCMP is the central enforcement agency for the investigation of possession of proceeds of crime and money laundering related to those crimes.

• (0900)

We believe that everyone has a role to play in the detection and deterrence of tax evasion activity. It is our belief that targeting the tax evasion activity suppresses a criminal's ability to profit from his or her illegal activity. Therefore, the legislation that I have mentioned must be combined with strong domestic and international partnerships as tools in the fight against those who exploit these financial avenues.

As the committee is aware, the RCMP has a number of other initiatives as part of our financial crime programs. I would like to point out that the Bank of Canada started to issue more secure polymer bank notes in 2011. The government, however, still has to consider the risk that counterfeiters will either attempt to dispose of older notes or take advantage of the unfamiliarity of Canadians with the new notes.

Budget 2012 provided a three-year investment of \$9.6 million to ensure the RCMP continues with the national counterfeit enforcement strategy. First announced in Budget 2006, it provides resources for enforcement, prosecution, and prevention of currency counterfeiting. Since the launch of the strategy, counterfeiting has fallen to 34 parts per million in 2001 from 470 parts per million in 2004—so a substantial decrease.

The RCMP is committed to protecting Canada's economic integrity by continuing to contribute to efforts to detect and deter cases of tax evasion and the use of tax havens that have an impact on Canada.

I would like to thank you and the committee, and I look forward to answering your questions.

The Chair: Thank you very much for your presentation.

We'll begin members' questions with Ms. Nash, please.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Mr. Chair.

I just want to alert the members that, as you know, I have a motion on the Parliamentary Budget Officer, on extending his term until a qualified replacement is found. I'll be moving that towards the end of the meeting, if that's all right with you, Mr. Chair.

The Chair: Sure.

Ms. Peggy Nash: I'd just like to begin by thanking our colleague, Mr. Mai, who introduced the motion that was adopted that led us to continue this study on tax havens. Unfortunately, he can't be here to continue this work.

I want to thank the witnesses for being here, and I'd like to begin with Mr. Ernewein.

It's our understanding that the OECD has reported that in 2010 some countries produced significant results for recovered tax revenues associated with increased transparency. We understand that Germany has recouped \$4 billion, the U.K. \$600 million, \$1 billion for France, and \$5 billion for Italy, and that was very early on in the process.

I'm wondering if you or someone else could tell us, first of all, how much Canada has recouped to date from increased transparency, and what do you estimate to be the range of the picture for potential dollars that we could recoup for our tax system?

Mr. Brian Ernewein: I think this probably is a question that falls more to my colleagues at the Canada Revenue Agency in terms of tax collection, so I'll ask Mr. McAuley to respond.

• (0905)

Mr. Terrance McAuley: Just in terms of the last five years or so since 2006, in terms of the recoveries that we've identified for aggressive international tax planning, it has ranged to approximately

\$4.6 billion since 2006. In addition, with respect to the work we do internationally with transfer pricing, again approximately \$4.6 billion has been recovered in terms of additional income that has been identified.

Ms. Peggy Nash: How big is the scope of the problem? How large? I appreciate that you can't put a precise dollar amount on it, but what is the scope of what we're looking at if we're aggressive and effective in collecting taxes that ought to be paid now but are not being paid?

Mr. Terrance McAuley: Canada does not identify the scope of the issue. Our approach is to look at the issue, to identify where we find aggressive international tax schemes, and to address those, identify the taxpayers who are involved in them and then shut them down. We put our energy into detecting and addressing, as opposed to identifying, the problem. The methodologies there are difficult.

Ms. Peggy Nash: Let me address that same question to you, Mr. Ernewein.

Mr. Brian Ernewein: I think the answer is that there isn't a calculation of an international tax gap done by Canada, either by Finance or by the Canada Revenue Agency or elsewhere.

Ms. Peggy Nash: So we have no idea how much money is out there? We have no idea of the scope? Surely there must be an estimate of the scope of this problem so that we understand the extent of the dollars we're trying to capture.

Mr. Brian Ernewein: To our knowledge, no country actually does a calculation of the international tax gap. There are some that have attempted a measurement using a lot of assumptions of a domestic tax gap, which is sometimes thought of as the underground economy, but not on the international tax front.

I understand that this is, or is intended to be, a continuation of hearings that were held a couple of years ago. During that set of hearings, you heard from Mr. Jeffrey Owens, the head of the tax section at the OECD. He said then—and I'm paraphrasing a little bit—that trying to measure the tax gap is prone to conceptual difficulties and leads to practical difficulties. If you could measure it accurately, you could probably tax it quite simply.

That's probably a fair assessment of the issue.

Ms. Peggy Nash: Let me move to a different question for Mr. McAuley.

Mr. McAuley, you did talk about additional resources to create greater transparency and to crack down where there are problems now. As part of the Conservatives' cuts to the public service, 400 auditors in the compliance branch of CRA are scheduled to be cut. How will these cuts impact our ability to tackle tax havens in Canada?

The Chair: Could we have just a brief response, Mr. McAuley, please?

Mr. Terrance McAuley: The aggressive international tax planning and all of our international work are priorities for the agency, and there will be no cuts to auditors associated with aggressive international tax planning.

Ms. Peggy Nash: So the 400 auditors that are being cut in CRA will not be working on the tax haven issue? Is that what you're saying? They'll be doing domestic taxation?

Mr. Terrance McAuley: Any reductions will not be associated with international taxation.

The Chair: Thank you, Ms. Nash.

Mr. Jean, go ahead, please.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chair.

Gentlemen, thank you for your attendance today.

First of all, just to clarify, there is a difference between tax evasion and tax avoidance. Tax evasion, for instance, I see from your brief, is the suppression or falsification of information. Tax avoidance is using technical applications, getting a good accountant and so on, to avoid taxes legally if you can.

Is that fair to say, gentlemen?

Mr. Terrance McAuley: In terms of the definition, every taxpayer in Canada is entitled, within the purview of the Income Tax Act, to reduce and minimize their tax. There is an element of tax planning that is permissible. What we find is that there is a point in time where the tax planning becomes aggressive, and then it moves into the tax avoidance area, where the spirit of the act has been broken but the letter of the act is correct, as opposed to tax evasion, where you find a taxpayer who has purposely attempted to hide income, for example.

Mr. Brian Jean: That is, of course, what you're attempting to do.

You used the figure \$4.6 billion since 2006. Just by way of example, what would a comparable figure be for 2004-05, as far as collection goes?

• (0910)

Mr. Terrance McAuley: I do not have those figures with me. I can certainly attempt to get them.

Mr. Brian Jean: Did it surprise you to find out that it was \$174 million in 2005? Would that be correct?

Mr. Terrance McAuley: I cannot speculate.

Mr. Brian Jean: Would it be fair to say that the enforcement and compliance part of your department has become more aggressive? Would it be fair to say that since 2005 or 2006, since the Conservatives came into power, there has been a tremendously larger focus on this particular part of the department?

Mr. Terrance McAuley: This is definitely a focus for the agency. Aggressive international tax planning is the number one priority for the agency, and has been the focus.

Mr. Brian Jean: Has long has that been for, sir?

Mr. Terrance McAuley: It certainly has been for as long as I've been with the agency, which is four years now. I can't speak to the situation before then.

Mr. Brian Jean: In fact, voluntary disclosure by taxpayers has actually increased somewhat dramatically as well. Is that fair to say?

Mr. Terrance McAuley: Yes, sir. The number of voluntary disclosures has increased substantially over the last five years. Domestically they're up by about 60%, and internationally the disclosures we're receiving are up by well over 140%.

Mr. Brian Jean: By my gross calculation I will just advise you that my understanding is that \$174 million was collected in 2005, and about \$766 million has been collected per year since that same timeframe. That's almost five times more per year.

Have you seen an increase in international cooperation since you've been in the department? I understand, of course, that it's a very important part of the collection and compliance part of the act that we put together.

Mr. Terrance McAuley: Yes, the agency participates heavily in cooperation and collaboration with other jurisdictions. The Forum on Tax Administration has put a public focus on countries collaborating and cooperating with each other, and Canada participates heavily in the OECD. We participate heavily in the joint international tax shelter initiative and other programs designed specifically to develop cooperation between countries.

Mr. Brian Jean: In fact, with this new cooperation and the international treaties, I understand we have now about 100 tax agreements worldwide. With this change we are tightening the noose on those people who would try to evade taxes. Is that fair to say?

Mr. Terrance McAuley: There are fewer and fewer places to hide money now, yes.

Mr. Brian Jean: Would the RCMP have anything to add in relation to compliance and how we're doing relative to what we were doing six or eight years ago?

Mr. Cormier.

Insp Jean Cormier: I actually looked at statistics yesterday in preparation for appearing here today, and I can state that in regard to the change in legislation we had in 2010, we are now getting reports—for example, from FINTRAC, which is reporting suspected cases of money laundering involving tax evasion—that show that the new legislation that has been put in place is working.

In the past, those matters would not have been reported to us.

Mr. Brian Jean: Excellent. Thank you very much, sir.

The Chair: Thank you, Mr. Jean.

Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you to each of you for joining us today.

Following on the work of Senator Percy Downe on this file, there was an ATIP to CRA, and according to the CRA documents, the commitment by the previous government in 2005 of \$30 million in additional resources to address aggressive international tax planning allowed CRA to assess over 5,400 cases between 2005 and March 31, 2009, with the total fiscal impact of \$2.7 billion. It was a \$30 million investment of resources that yielded \$2.7 billion.

How was that investment used? How was that targeted? It seems to have been quite successful.

Mr. Terrance McAuley: With regard to the funding that was received in 2006, 80% of that funding went into audit directly and 20% went into research. We are finding that research is a tremendously important part of dealing with aggressive international tax planning.

Hon. Scott Brison: That's interesting.

Are you suggesting that perhaps the research investment, the 20%, actually may have yielded a greater result, potentially, than the audit function?

Mr. Terrance McAuley: The research component is designed to obtain information domestically and internationally on potential schemes. We have created centres of expertise that actually receive that information and review it, the view to which, if that problem exists in Canada, is to identify what the indicators are that a scheme is out there, and then identify the taxpayers and provide that information to the audit community so that the audit community, in the course of doing an audit, will be able to identify if there is aggressive international tax planning.

• (0915)

Hon. Scott Brison: The research in some ways would have been identifying, if it were a positive activity, best practices, but in this case, I suppose, you could say the worst practices of international tax evasion.

Mr. Terrance McAuley: The focus, again, is to simply understand these plans and get that information to the auditors.

Hon. Scott Brison: Would you believe this is a case where that research has effectively given you a pretty thorough understanding of the schemes that are out there, or is it the tip of the iceberg? If you had more resources to pursue more research specific to this, might you find, on an ongoing basis, new and creative approaches and schemes that the audit function could then identify and close?

Mr. Terrance McAuley: We're finding that the approach we have is an excellent way of moving forward. In other words, having a component piece dedicated to research to feed the audit community and feed that current knowledge is having the impact it is designed for. I'm very comfortable with the approach we've put together.

Hon. Scott Brison: The CRA's October 2010 internal audit noted that due to resource constraints some tax service offices chose to focus on straightforward cases as opposed to the more complex cases of non-compliance. We're seeing more cutbacks across all program activities this year.

How does a reduction in resources affect your capacity to go after what are increasingly complex cases?

Mr. Terrance McAuley: In terms of looking at our programs for criminal law, aggressive international tax planning, transfer pricing, and other serious audit, there have been no reductions that have taken place, so those reductions in budget within the agency did not impact those areas.

Hon. Scott Brison: On those areas.

If you had—

The Chair: You have 45 seconds.

Hon. Scott Brison: —more resources, would you invest them with the same ratio, 80% audit, 20% research? Do you think that's an effective model?

Mr. Terrance McAuley: One of the keys we use is to completely review our programs on an ongoing basis to determine what level of resource is necessary. At the moment, we're comfortable with the

resources we have. We have to keep looking at the environment shift to determine whether that's appropriate in the future.

Hon. Scott Brison: Thank you.

The Chair: Thank you, Mr. Brison.

Mr. Hoback, please.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair.

Thank you, witnesses, for being here this morning.

My question is on how you interact among yourselves and with the international partners you work with.

I'm curious. What kind of case would be involved where CRA would actually say this is now an RCMP file? Have you any example of what that would look like, and then vice versa, when you have a situation where the RCMP stumble across something and say this should maybe go to Revenue Canada?

Give me an idea of how that information flows back and forth or what it is.

Mr. Terrance McAuley: Certainly.

In the course of our review, we do an analysis. Once a file is referred to our criminal investigations division, we start to review that file. If we see there are circumstances that impact the RCMP, using the provisions of section 241 and the exception, we can contact the RCMP to enter into a joint forces approach to review a criminal law problem. That's one of the classic examples of what we do in terms of our interaction with the RCMP.

When the RCMP is aware of a certain issue that may involve tax evasion or tax fraud, they will contact us and provide us with that information so we can commence our own investigation. We have to be a bit careful. The provisions of section 241 are very clean in how we can pass information back and forth, and we need to live within the confines of that.

Mr. Randy Hoback: Okay.

When we're dealing with our international partners in these treaties, how do they know which association or agency to contact if they come across something that would be of interest to us in Canada?

Mr. Terrance McAuley: The treaties are specifically with us, so the treaty partners would contact us.

Mr. Randy Hoback: Okay. So if I'm assuming right, it goes to Revenue, and then you would do your initial analysis and say this has a criminal content. Then you'd bring in the RCMP and you'd form a joint task team to look at it.

Is that correct?

Mr. Terrance McAuley: At times that would be the approach we would take. It would depend on the facts of the case.

• (0920)

Mr. Randy Hoback: Okay.

With the RCMP, in your scenario, if you came across some criminal activity that looked like tax evasion, as a possibility to help get prosecution, how is the process to flow back to Revenue?

Insp Jean Cormier: Sorry, how is the process...?

Mr. Randy Hoback: How do you contact Revenue, and how do you—

Insp Jean Cormier: The Canada Revenue Agency, yes. We've had a long-standing working relationship, as I stated in my opening remarks. CRA is an integral partner to our RCMP integrated proceeds of crime unit, obviously, and communication with CRA is pretty well ongoing.

Certainly the numbers I provided, as well as the number of cases we have referred to CRA.... That referred to cases that had to go to CRA for civil assessment. But for the criminal investigation, we would certainly communicate with them, and we would engage together in the criminal investigation to make sure the tax component was well addressed with their expertise.

Mr. Randy Hoback: Is there anything as far as the interaction between the two associations, CRA and RCMP, that would make that collaboration better and more efficient?

Insp Jean Cormier: No, I can't point to anything in particular.

As I stated as well in my opening remarks, we are currently working together to try to enhance our relationship. But that's more specific to being able to maximize the use of the new legislation that was issued in 2010—it's relatively new—and to leverage each other's strengths to make sure we can pursue these investigations fully.

Mr. Randy Hoback: So it's fair to say that you need the legislation in order to proceed. You could spend all the money in the world, but if you don't have the proper legislation in place, it doesn't help much, does it?

Insp Jean Cormier: Exactly. As we all know, obviously, tax law is very secret. The way tax information can be shared with law enforcement is limited, but there is legislation that does allow it.

Certainly if there were legislation that I would suggest could be improved, it would be the sharing of tax information for other than the limited offences that are currently listed, where tax information could be obtained so it could be useful in other investigations. But relative to tax evasion, I think the tools are in place that allow us to work together.

Mr. Randy Hoback: Okay.

The Chair: You have 45 seconds.

Mr. Randy Hoback: Thank you, Chair.

[Translation]

The Chair: Mr. Caron, go ahead.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you, Mr. Chair.

Most of my questions will be for Mr. McAuley.

My colleague, Ms. Nash, asked a question about quantifying and assessing the impact of tax evasion and abusive or aggressive planning. You said that you did not know of any such assessments being carried out, in Canada or anywhere else. Is that right?

I have the report of Great Britain's auditor general published in November 2012. In that report, the following is stated:

[English]

Part of H[er] M[ajesty's] Revenue & Customs' (HMRC's) vision is to close the tax gap, the difference between the tax that is collected and the tax that should be collected. HMRC estimated the tax gap in 2010-11 to be £32 billion, of which £5 billion was due to avoidance.

[Translation]

If Great Britain can assess and quantify, why can't Canada?

Mr. Terrance McAuley: I will ask Mr. Montroy to answer.

Mr. Richard Montroy (Deputy Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency): Good morning.

Thank you for the question.

As Mr. Ernewein explained earlier, Canada's approach regarding the OECD does not include any specific calculations of the tax gap. You are correct in saying that Great Britain and the United States have tried to calculate that gap, but there is still no specific calculation on the international level to determine the exact difference between the contributed taxes and the total tax base.

Mr. Guy Caron: It is possible to assess that tax discrepancy for Canada without having the exact figures. We could at least have an assessment and some idea of what that amount may be.

Mr. Richard Montroy: Canada's approach is similar to those used in other countries. An estimate is worth what it's worth and, instead of making estimates, as Mr. McAuley explained earlier, we identify and address cases of tax evasion and international tax issues.

● (0925)

Mr. Guy Caron: Still, the British study was conducted by the auditor general. He spent a great deal of time on that assessment in collaboration with the country's revenue agency. Would it be useful to quantify that in order to eventually assess the amounts that could be recovered by dealing with the issue appropriately?

Mr. Richard Montroy: Thank you very much for the question.

Should the government estimate the tax gap? That is a matter of tax policy. I don't want to pass the baton to my colleague, but this is, after all, something the government should decide on. It is up to the government to determine whether an estimate is worthwhile and useful.

Mr. Guy Caron: Thank you very much.

Again, my comments are for the Canada Revenue Agency representatives.

Over the past few meetings, Brigitte Alepin, a well-known tax expert who deals with tax evasion and tax heavens, said before this committee that the efforts to resolve this issue focus too much on individuals and not enough on corporations, and especially multinationals. Is that the case in the current context? Would you agree with her?

Mr. Richard Montroy: We audit both individuals and companies. If I understand the question, you are asking me whether more focus is being placed on one category than the other. The answer is no. What's important to us is to identify cases of tax evasion, regardless of who is committing the violation.

Mr. Guy Caron: I have one last question. Please be brief, as I have only 45 seconds left.

You are surely familiar with Disclosure of Tax Avoidance Schemes, or DOTAS, a program used in Great Britain. That program uses informers to help the department identify more quickly those involved in aggressive or abusive tax planning, and even anticipate their actions. Do you think that program is a success? Can that program's principles be adapted to Canada to anticipate planners' actions, instead of always being a step behind?

Mr. Richard Montroy: If I have understood your question, you are talking about voluntary disclosure.

Mr. Guy Caron: I am talking about the British program.

Mr. Richard Montroy: I am not in a position to discuss Great Britain's system. However, I would tell you that the Canadian voluntary disclosure program has been very successful thanks to all the work we have done internationally—be it when it comes to information exchanges or our tax agreements with various countries. Fewer and fewer places allow people to hide their money. That is why many people disclose voluntarily.

[English]

The Chair: Merci.

Mr. Adler, please, for five minutes.

Mr. Mark Adler (York Centre, CPC): Thank you, Chair, and I want to thank all the witnesses for being here this morning.

Just before I begin my line of questioning, I understand, Mr. Ernewein, you had some additional information on the tax gap.

Mr. Brian Ernewein: If I may, I would just correct a misperception that appears to have arisen when the previous honourable member raised a question. I think he was attributing the comment to my colleague, Mr. McAuley, but it was actually I who said that there wasn't any international calculation of the international tax gap. There are attempts to calculate the tax gap domestically, and indeed in the U.K. they do have an estimate of this. My numbers are \$42 billion, or about 8% of the theoretical tax base. But on the international tax gap, there isn't, to our knowledge, or at least to the best of my personal knowledge, any calculation of that amount.

Thank you.

Mr. Mark Adler: Thank you.

I'd like to begin by first asking Mr. Terrance McAuley about the voluntary disclosure. How successful a program has that been?

Mr. Terrance McAuley: We are finding that the voluntary disclosure program is very successful. As we start to close down the capacity for taxpayers to work offshore and we start to tighten, among taxpayers who have not complied with their obligations, we're finding as we promote this program the numbers are going up exponentially.

Just to give you an example, to look at the disclosures received in 2007-08, there were just over 9,000, and last year, in 2011-12, over 15,000 disclosures came in, totalling approximately \$310 million in additional taxation. If you look at that from an international perspective, in 2007 we had just over 1,500 disclosures internationally, and in the past fiscal period they've gone to over 4,000.

So our effort in terms of attempting to bring taxpayers back into the compliant world is really starting to pay off.

• (0930)

Mr. Mark Adler: Thank you.

I'd also like to know, following along the available tools that government has to enforce various aspects of public policy, going from voluntary and moving down the scale, is there a correlation between the level of taxation and the rate of tax evasion? For example, in a country that taxes more, would there be higher levels of tax evaders than in a country that taxes less?

Mr. Terrance McAuley: I'm not aware of any research on that, but as the tax rate goes down for corporations, for example, within Canada one could suspect that there would be less energy that would have to go into moving assets offshore. But again, I don't have any particular information on that.

Mr. Mark Adler: This is to any of you. How does Canada compare with other jurisdictions? Where are we at in this? We all met at the G-20 and we all made commitments in Washington, Pittsburgh, London, and Toronto to combat tax evasion. Where does Canada fit in, say, with the other G-20 countries in terms of the level of tax evasion?

Mr. Terrance McAuley: I'm not aware of any recognizable standard that compares one country to another. One of the challenges we face is that each country will define how it identifies its results independently, so there's no standard upon which we can make sure, to use the phrase, "apples to apples" are being measured.

In terms of looking at some of the softer areas, we have a very good track record in terms of identifying the treaties that are in existence, the TIEAs that are coming on board. We are very active partners in working with other tax jurisdictions to identify what they're doing, and to make sure, to the extent that's necessary, we bring those practices back to Canada.

Anecdotally I would say we're doing fine.

The Chair: You have 30 seconds.

Mr. Mark Adler: In terms of increasing bank transparency globally, is it making your job any easier, or are you finding it more and more difficult, more complex?

Mr. Brian Ernewein: I will start, and then Mr. McAuley may have more to add.

I will just make the point that with the tax information exchange agreements and with the revisions to our tax treaties—to make sure that all countries with which we have a relationship, and we are hoping to get a relationship with every country and subnational jurisdiction where they have separate responsibility for taxation—we're trying to get the template in place that allows our colleagues at the Canada Revenue Agency to get the information they require.

So the framework is supposed to be in place, and as I mentioned earlier, there is actually a peer review process to try to make sure not only that we sign these agreements but that the other countries we sign them with have the legal capacity and have, frankly, the willingness to, on the ground, give effect to change of information.

A lot of these, particularly the tax information exchange agreements, have been signed, and in some cases ratified, only very recently—they've come into effect only in the last year or so—so I think Canada Revenue Agency's ability to use these and to make requests under these exchange of information agreements is very nascent. That's how things are positioned.

The Chair: Thank you.

Do you have just a very brief add-on to that, Mr. McAuley? We're over time.

That's it. Thank you.

Mr. Rankin, go ahead, please.

Mr. Murray Rankin (Victoria, NDP): Thank you Mr. Chairman.

I would like to thank the witnesses for their very thoughtful testimony this morning.

I have a question building on what my colleague, Mr. Caron, was mentioning with respect to the United Kingdom. Apparently the U.K., among other countries, has put a burden on tax advisors so that they can be prosecuted for advising, if it turns out in favour of tax evasion.

I would like to know your thoughts on that approach. Is there anything Canada should be doing or is doing specifically in that context?

• (0935)

Mr. Brian Ernewein: Let me talk specifically about what Canada is doing in that context. I've lost track of when it was done, but sometime in the last decade or 15 years, there were rules, so-called third-party penalties, introduced for tax advisors—civil penalties. There have been for many years possible criminal sanctions that could apply to those complicit with tax evasion, those who conspire to engage in tax evasion even on another's behalf. But there was a perceived gap, in that there was no ability to proceed civilly against tax advisors who would engage in what we'll call domestic tax avoidance.

More recently, actually in the 2010 budget, and, as I've said, as part of Bill C-48 currently before the House of Commons, we have an aggressive tax reporting regime. It essentially gives an early warning or notice to CRA of transactions that have an avoidance motive, which the taxpayer evidently believes works. Nonetheless, where there are certain hallmarks of a tax avoidance transaction, such as a contingency fee or the like, there's a reporting regime in place that requires the taxpayer or the tax advisor to formally advise CRA of the existence of the transaction, which thus allows CRA to step in. They can take a look at the transaction and challenge it early. Perhaps if they think there's a real concern for the fisc and that in some sense the transaction may work, they can let us at Finance know as well and we can take stock and decide whether a change should be required.

Mr. Murray Rankin: That would be in the context of criminal prosecutions, but there's no such ability now to go after people, for example, for civil penalties, for fines and the like, who are too aggressive in their tax advice?

Mr. Brian Ernewein: No, excuse me, it's the contrary. Both of these regimes are really in the civil context. The third-party penalty rule was, as I said, to fill a gap instead of having only the option to proceed criminally against the tax advisor. So it created the opportunity to actually proceed on a civil penalty basis for tax advisors engaging in, essentially, gross negligence, in transactions that amounted to gross negligence on behalf of the client.

The more recent aggressive tax reporting regime is about letting CRA know. I think almost by definition it's civil, because if there's no prospect of the transaction working, then it's not sensible for taxpayers to pursue it.

Mr. Murray Rankin: In the United States, Senator Levin and then Senator Obama brought in a bill called the Stop Tax Haven Abuse Act in 2011, and one of the things was to prohibit certain fee arrangements, the kinds of contingency fee arrangements that you've discussed. There's no such prohibition in Canada?

Mr. Brian Ernewein: This regime that is currently before Parliament has some elements of that. It also shares some features with some Quebec legislation that's in place, and it does look at these hallmarks...sorry, I'm drawing a blank in terms of the three hallmarks it has. But if you had two out of the three of those, that would represent an aggressive tax transaction, which requires reporting.

So at a very high level there is a parallel there.

Mr. Murray Rankin: I understand Project Jade was the ability of the CRA to go after those who came out of the Liechtenstein tax evasion situation in 2008. Apparently, 106 Canadians were involved. It was expected that millions of dollars in back taxes and penalties would result. Could you update us on what happened with respect to that?

The Chair: You have one minute.

Mr. Terrance McAuley: That project is virtually complete now. You're correct in identifying the 106 names on that list. We have gone through the list and we have conducted 47 audits and identified \$22.4 million in outstanding tax from a base of approximately \$100 million in raw assets. From that, we are now in the process...we have finished collecting approximately \$8 million of that. With respect to the balance, roughly \$14 million is currently before the courts. So we have basically finished that project.

The Chair: Thank you, Mr. Rankin.

Mr. Van Kesteren, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you all for appearing before us today.

Mr. Ernewein, I will talk along the same vein as Mr. Rankin, because I'm a little uncomfortable about that. I'm hearing from you that the government's approach is to clarify the rules rather than to prosecute. As a businessman I know there are times when we're advised on certain issues, and those sometimes are challenged, and then we could go back.... Isn't that a much better direct route to go, to clarify the rules so that we don't run into those situations whereby somebody may be accused of evading taxes when they really thought they were complying with the law?

• (0940)

Mr. Brian Ernewein: I think there's a conflation of evasion and avoidance in the discussion we've been having. With respect to avoidance, yes, absolutely. The clearer the rules can be to tell people where they can go and where they're going too far, I think that's all to the greater good. In relation to evasion, it's about ignoring the rules. In that context, it's not the situation you describe.

So putting evasion to one side again and going back to avoidance, these are rules where the third-party penalties are where people are really pushing the envelope in terms of purporting to be having an avoidance transaction, but one that would not be upheld in terms of current law. It's not evasion because they're telling you, but they're taking a position that seems almost beyond the pale. To the extent that you can narrow the range of situations that arise, that's better, yes.

Mr. Dave Van Kesteren: Mr. McAuley, I want to close the loop. Mr. Jean brought up the energy and the direction of the government to give you the tools to go after those who are evading taxes. First of all, the result is that you've been successful in prosecuting and probably finding them, but what really is intriguing is the fact that it's created a culture—and I want you to verify this because this is what I'm hearing—that encourages people to do the right thing. Now the government has the tools to go after them, and chances are they're going to get caught.

Am I right? Did I interpret that correctly?

Mr. Terrance McAuley: We're certainly hopeful that we're on the right track, and I believe we are on the right track. When you look at the exchange agreements and the treaties that are in place, when you look at the new reporting requirements that Mr. Ernewein has talked about and our capacity to use tools to get information domestically and internationally from taxpayers, it's becoming much more difficult to put that information aside. Information is the real challenge in international tax planning. The more we have that gives us that access, the better.

Mr. Dave Van Kesteren: We've talked about tax evasion, but I need a bit of information on the transfer. The United Kingdom has carried out a similar parliamentary study, and an issue that's caused concern is transfer pricing. Can you talk a little about transfer pricing? How big an issue is that? Is that a new, looming problem that we have in the tax world, or is it something that we've got a good handle on?

Mr. Terrance McAuley: In a very basic sense, transfer pricing is a very important part of the work that all tax administrations have to do, because the economy is becoming global and taxpayers are working internationally all the time. As a result of that, when you have organizations and structures where an organization is either entering into a sales transaction or a transaction with one of its related companies offshore, what you find is that there are times when the companies are trying to take advantage of certain sales that should take place at fair market value that are being either undervalued or overvalued for a tax advantage.

So it's becoming, and is, a big issue. For example, at the OECD right now, Working Party No. 6 has an entire area devoted to transfer pricing to set out guidelines on an international level to make sure that all countries are working toward a solution for transfer pricing.

Mr. Dave Van Kesteren: Just very quickly, can you narrow that down to specific corporations? Is it in the extraction industry, is it in the manufacturing industry, or is it pretty much broad-based?

Mr. Terrance McAuley: It's across the board. It's large corporations, it's multinationals, it's small corporations. Any time there is a transaction across the border involving a related second party, it's possible now.

Mr. Dave Van Kesteren: Thank you.

The Chair: Thank you, Mr. Van Kesteren.

M. Côté, s'il vous plaît.

[Translation]

Mr. Raymond Côté (Beauport—Limoulu, NDP): Thank you, Mr. Chair.

Mr. Cormier, you stated in your presentation that Canada's annual tax losses were estimated at \$81 billion.

We are talking about tax losses in terms of collected taxes and not transferred taxable amounts, right?

• (0945)

Insp Jean Cormier: I did not say that in my presentation.

Mr. Raymond Côté: Okay, but the French version states something along these lines: [...] show that tax fraud costs governments around the world over US\$3.1 trillion a year. In Canada, the annual tax losses are estimated at \$81 billion.

That may be a clerical error.

Insp Jean Cormier: No, it's not an error. You were not given the right document. I had another document. Be that as it may, I can certainly check where those figures come from, if you will allow me a few moments.

Mr. Raymond Côté: Yes. Thank you.

Insp Jean Cormier: You should not rely on those figures. Those are estimates produced by the Tax Justice Network.

Mr. Raymond Côté: Okay, but are those tax losses?

Insp Jean Cormier: We are talking about tax evasion.

Mr. Raymond Côté: Okay. These are amounts....

Insp Jean Cormier: These are the total amounts.

Mr. Raymond Côté: So these are the total transferred amounts that could be taxable. Otherwise, I would have thought that our efforts and successes were fairly minimal, as less than 2% of the \$1.3 billion in unpaid taxes would have been recovered in 2011-2012. Thank you for the clarification.

Gentlemen, I would now like to raise another issue.

I had the honour of being a member of the Standing Committee on International Trade. But I have to admit that I am still somewhat upset over the agreements concluded with Panama and adopted in the House. In Quebec City, the International Pee-Wee Hockey Tournament is about to kick off. Yet I cannot imagine the Boston Bruins' professional team taking on pee-wee teams.

As for agreements against double taxation—which are perfectly valid—have we signed any such agreements with countries or tax heavens whose tax system is very inconsistent with Canada's system? I am talking about recognized tax heavens, such as Panama, the Cayman Islands and the Bahamas.

[English]

Mr. Brian Ernewein: I'm not certain of the question, but let me answer both interpretations I may have. One is whether or not we ought to have these tax information exchange agreements with so-called tax havens. To us, the unambiguous answer is yes. They're the countries that in the past have been of concern in terms of concealment of income and bank secrecy laws, so tax information exchange agreements that overcome them are important—in fact, that's largely the objective of the exercise in which we've been engaged for the last few years.

The other possible answer is on whether or not we should have tax treaties with countries that don't have tax rates similar to ours. We think that question has effectively been answered in what's been done by successive governments for many years and has been advanced with tax information exchange agreements, which is to say that Canada's policy in respect of international taxation is that we don't tax business income earned by foreign companies owned by Canadian multinationals. We don't do that for competitiveness reasons. And in that regard, it does not matter what the tax rate in the other country is.

[Translation]

Mr. Raymond Côté: In any case, that's decided in the political arena. I understand that perfectly.

My question is for Mr. McAuley.

Regarding the cuts the government imposed on the Canada Revenue Agency, a *National Post* article specified that the 400 job cuts applied to criminal investigations, the Special Enforcement Program and the Voluntary Disclosures Program.

Was that really the case?

Mr. Richard Montroy: I thank the member for his question.

The cuts you are talking about represent a restructuring of our criminal investigations programs. As Mr. McAuley explained earlier, no cuts have been made in the areas of international audits and audits of abusive practices. None of our auditors have been cut. I would even say that the restructuring was done internally. For instance, people from one section have now been transferred to another section within our branch. So no auditors have been cut.

• (0950)

The Chair: Thank you, Mr. Côté.

[English]

Ms. Glover, please.

Mrs. Shelly Glover (Saint Boniface, CPC): Thank you, Mr. Chair.

Welcome to all the witnesses.

I just want to ask if the committee could perhaps get a list of the people involved in this regime that you speak about, Inspector Cormier. You talk about Canada's anti-money laundering and anti-terrorist financing regime and you talk about there being some non-funded partners and whatnot. I think it would be very helpful for our report if we could see who else is involved in that. I won't waste any time asking you to explain it.

I want to talk about page 7 of your opening remarks because I just want to understand what this is when you.... I'm not sure if there's a mistake there in the year, but it's the first large paragraph on page 7, where you say: "Since the launch of the Strategy, counterfeiting has fallen to 34 parts per million in 2001 from 470 parts per million in 2004."

Is there a mistake in the year there?

Insp Jean Cormier: No. The interpretation could look to be backward, but it's not. That's how the figures appear when you want to show the decrease in the number of counterfeits. Parts per million is actually how it's described, and the increase in number is actually a decrease. It's quite deceiving.

Mrs. Shelly Glover: Okay, thanks.

It was Mr. Hoback who asked you about the 2,470 cases you referred to the CRA. I don't think we got a clear indication of how many cases the CRA actually refers to you. Is there a number?

Insp Jean Cormier: No.

Mrs. Shelly Glover: Is it zero?

Insp Jean Cormier: I would say it's not zero—for sure it's not zero—but it would not be as great as the number we refer to them.

Mrs. Shelly Glover: Okay. I want to ask how we can make this better. What advice would you give us to make your job easier? Is it legislative change? What can we do to make this more efficient for you and more successful for all Canadians?

Insp Jean Cormier: It's kind of difficult to answer. Obviously, as I mentioned earlier, there could be improved legislation that would improve the way we can share information, or whereby Revenue Canada can share information with us. At the same time, we recognize the importance of keeping that information secret, and obviously that has been established over a number of years.

Certainly legislation that would allow better information, even if it was to designate particular members of the RCMP to receive that information.... Right now we have designation to obtain that information for certain crimes. Maybe we could have designation of RCMP officers so that they could, in the course of an investigation, without obtaining a court order, maybe obtain information that would be secret. Let's face it, we have the proper security clearance at the end of the day. Would that be a possibility or a consideration? I don't know.

Mrs. Shelly Glover: Okay, excellent.

Mr. Ernewein, you mentioned a number of TIEAs, I believe. I think you said there have been 16 signed since 2006. How many were signed before 2006? How many existed?

Mr. Brian Ernewein: I was going to say zero, but that's not quite right. There was I think an exchange of information agreement with Mexico that existed for some time before a tax treaty with Mexico was signed to replace it.

The short answer is effectively zero, because the tax information exchange policy was really only created in 2007, in the budget of 2007, as a separate initiative independent and apart from our tax treaties. So all of them have been signed since 2007.

Mrs. Shelly Glover: Everyone has said how important these treaties are, how important information sharing is, how important it is that we use that information to then proceed to audits and of course enforcement, and yet it's only under this government that we've been able to sign TIEAs. That's shocking, frankly, and I'm glad you told me how well we're doing, but of course there is more to do.

I want to know what the difference is now with the Liechtenstein case that Mr. Rankin brought up. Now that we've got an agreement signed, how would that have improved what happened in 2008?

Mr. Brian Ernewein: In fairness, let me first of all say that exchange of information has been a component of our tax treaty since before 2006. To be clear, it's the separate identification of TIEAs with non-treaty countries, sometimes termed as tax havens, that is the new element.

In relation to Liechtenstein, my understanding, without disclosing any taxpayer information and just talking about what's understood to be the case from the press, is that information came to the Canada Revenue Agency independently of a tax treaty with an exchange of information component or a TIEA. But now that there's a TIEA in place—well, when ratified—the Canada Revenue Agency would have the opportunity to use it to make specific requests to Liechtenstein for further information.

• (0955)

Mrs. Shelly Glover: Very good.

A point of order, Mr. Chair.

The Chair: A point of order, Ms. Glover.

Mrs. Shelly Glover: Mr. Brison was saying something about soap operas. I wasn't sure if he wanted to make that a little more public. If it was directed at me and insulting in any way, I would presume he'd want to apologize.

The Chair: Mr. Brison, do you want to address this point of order?

Hon. Scott Brison: Certainly.

A lot of Canadians enjoy sitcoms, and I don't think it would be insulting to compare an intervention to something one would see on a sitcom.

The Chair: Mr. Brison, I think we should ensure that we always address other members of the committee with respect. I would certainly ask you to do so.

Hon. Scott Brison: If any member of the committee were at all aggrieved by what I said, then certainly I would withdraw.

The Chair: Okay. Thank you for withdrawing that.

We'll go now to Ms. McLeod, please.

Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC): Thank you, Mr. Chair.

I also want to acknowledge Mr. Mai, who put forward this motion. I think all committee members feel this is an important subject and want to continue the study we started in the last parliament. Again, I thank him, in the interest of everyone, in terms of moving forward with this important issue.

If I look at the history, probably internationally and locally, we have made tremendous advances since the early 2000s, in terms of what global forums are in place, and our local strategy, legislation, and structure. I've seen tremendous advancement, but of course it always means there is opportunity to improve.

There are a few things I would like to focus in on, and one is a quick question.

Mr. McAuley, you talked about Liechtenstein and 106 names. Is it fair to say that all 106 were investigated? I mean, people can have money in other locations and it's not necessarily illegal.

Mr. Terrance McAuley: Mr. Chair, that is correct.

We did investigate carefully every name on the list. It was determined that several of the taxpayers had in fact reported and paid their tax. There were a couple of members on the list who were deceased. There were several names on the list where we found that the taxpayers were not actually the beneficial owners of the list. We identified all of the funds. We associated them to the taxpayers who should have been involved and we assessed them.

Mrs. Cathy McLeod: Thank you.

My next question is on auditors and the importance of having auditors who are focused on this particular task. As I understand it, there was a bit of a restructuring. As I think most people know, when we restructure, for example, and we move the auditors to work more closely with public prosecutions, some people interpret it as a layoff, but in actual fact it is a restructuring.

Could you briefly comment on what was happening there and why some of those changes were made?

Mr. Terrance McAuley: Certainly.

Mr. Chair, we're always looking to ensure that our programs are operating efficiently. Our branch organized an evaluation study by our internal audit and evaluations group to look at our criminal investigations program, which had several component parts. At the end of that evaluation, it identified some opportunities for improvement. With that in mind, we struck a committee of senior members of our management team to look at how we could augment the program, and in fact that's what is playing out right now within the agency.

We're fine-tuning our criminal investigations program in particular. With respect to our special enforcement program, which is our civil audit, where we work quite carefully with the RCMP, we are incorporating that work back into our normal audit stream where we think it can be done more effectively and efficiently. It's really about fine-tuning the program, as opposed to changing the budget and changing the number of personnel.

Mrs. Cathy McLeod: Great. Thank you.

I think the NDP have talked frequently about the quantification of the tax gap, and I certainly recall...I believe it was Jeffrey Owens who appeared as a witness. He advised us to spend our time, energy, and resources on identification, the research, the moving forward. I believe he basically advised against...which is the approach that Finance has taken on this.

Is there anything you're hearing that continues to be the approach you believe is the best in terms of how Canada moves forward? Is there a need to quantify this focus on the identification, research?

•(1000)

Mr. Terrance McAuley: Certainly from the agency's approach, we move forward in terms of detecting, addressing, and dealing with these issues. To that extent, we deal quite extensively with the OECD and the various working parties involved in that group to share best practices and to incorporate those best practices. For example, with respect to aggressive international tax planning, we have members here in Canada who participate to identify schemes and produce lists of schemes so those catalogues can then be shared between countries to actually look at, detect, and address issues of aggressive international tax planning within their own countries. We find that it's a very effective approach as opposed to identifying the tax that is not identifiable.

The Chair: Very briefly, a question. You will have another round if you want, Ms. McLeod.

Mrs. Cathy McLeod: I'll leave it then. Thank you.

The Chair: Thank you, Ms. McLeod.

Ms. Nash again, please.

Ms. Peggy Nash: Thank you, Chair.

We've been talking mainly about addressing tax evasion and tax havens in an enforcement way after the fact, which is of course very important. I'm wondering about the proactive prevention of these tax abuses in the first place. Can one of you tell me what are the best international practices that you would see as a model that Canada could follow?

Mr. Terrance McAuley: There are many facets, Mr. Chair, to your question. With respect to identifying aggressive international tax planning to the public, one of the major approaches that we're following is to identify to the public situations where we find aggressive international tax planning through our tax alert system, through any kind of media that we can possibly get that identifies that we do not accept that kind of practice. This was extremely successful in dealing with a problem that we had called gifting tax shelters. We were finding taxpayers involved in gifting tax shelters. Once we identified these, we enforced them. We identified that they were not acceptable. We told the public about them, and now gifting tax shelters are almost non-existent compared to where they were before. Communication is a very big key in moving forward.

Ms. Peggy Nash: What is the international best practice that you would look to? Are there specific countries that are really what you would call models or that have best practices in terms of the prevention of abuse?

Mr. Terrance McAuley: We work extensively with the OECD, which has 46 countries at the Forum on Tax Administration, and we also deal personally with countries that are fairly well associated with us in being very mature tax administrations, such as Australia, New Zealand, the United States, the United Kingdom, France, and Germany. Our practices are closer aligned with some of the smaller countries.

Ms. Peggy Nash: So those are some of the countries whose practices you would be examining more closely, to pre-empt this kind of abuse?

Mr. Terrance McAuley: Mr. Chair, I prefer to say sharing best practices, because we are also a provider of best practices to other countries.

Ms. Peggy Nash: Of course. Thank you.

Mr. Chair, I have a couple of minutes, so I'd like to take this opportunity to move my motion:

That the House of Commons Standing Committee on Finance recommend that the government extend Kevin Page's term as Parliamentary Budget Officer until a thorough, transparent and competitive search for his replacement can be completed and his successor is appointed.

I so move.

The Chair: Thank you for that, Ms. Nash.

I'll just clarify for our witnesses that Ms. Nash does have the floor. She does have the right to move her motion at any time. I'll just give a ruling as the chair.

The objective of Ms. Nash's motion is to have the Standing Committee on Finance recommend the extension of Mr. Page's term as Parliamentary Budget Officer until a successor has been appointed.

As section 79.2 of the Parliament of Canada Act stipulates that the Parliamentary Budget Officer must provide the finance committee with independent analysis on different matters, I can certainly understand that a member might be inclined to think that his administrative mandate falls within our jurisdiction as well. However, this is not the case, as section 79.1(1) of the Parliament of Canada Act states:

There is hereby established the position of Parliamentary Budget Officer, the holder of which is an officer of the Library of Parliament.

Section 108.4 of the Standing Orders states, and I quote:

(4) So far as this House is concerned, the mandates of the Standing Joint Committee on

(a) the Library of Parliament shall include the review of the effectiveness, management and operation of the Library of Parliament;

Therefore, I rule the motion out of order as *House of Commons Procedure and Practice* states on page 1054: "motions moved in committee must not go beyond the committee's mandate".

So that motion is out of order.

I'll just remind members that rulings are not debatable. They can be challenged, but they're not debatable.

•(1005)

Ms. Peggy Nash: Mr. Chair, given that I cannot debate this ruling, I challenge the chair.

The Chair: Okay. The vote is on the phrase, "that the chair's ruling shall be sustained".

(Ruling of the chair sustained: yeas 6, nays 5)

The Chair: Thank you.

We'll now move on to my round of questioning.

Mr. McAuley, I want to start with you. In your statement you said that:

Since 2006, the CRA has audited nearly 8,000 cases suspected of having an aggressive international tax component. These audits led to the identification of over \$4.5 billion dollars in unpaid tax.

Just for clarification, can you identify how much of the \$4.5 billion was recovered?

Mr. Terrance McAuley: I will not be able to answer the question in the way you anticipate, Mr. Chair.

Our audit system and our collection system are independent of each other, and as a result, once an audit has been completed and the amount is identified as outstanding, it is attached to that taxpayer and it goes into the system, along with all other tax debt that may be there. So when a payment is made, it's not currently possible to identify that payment being associated with any particular debt that has arisen. It's a bit like one's credit card. You have a series of credits and a series of debits, so as a result, it's not easily translatable to go from a particular reassessment to having paid that reassessment.

The Chair: But is there any way for us, as a committee, to know how much of the \$4.5 billion has been recovered or is expected to be recovered?

Mr. Terrance McAuley: If you look at the agency as a whole, Mr. Chair, well over 90% of tax debt identified by the Canada Revenue Agency is paid within one year of being identified. By analogy, you

can assume that once our debt is identified, the vast majority of that will be paid within the year, subject to situations such as appeals, whereby once a taxpayer goes on appeal, that debt is suspended.

The Chair: For the committee's information, can you briefly take us through an investigation or a typical audit you would conduct?

Mr. Terrance McAuley: Certainly, Mr. Chair.

Once we identify, from an international aggressive tax standpoint, that certain schemes could affect Canadian taxpayers, we look at those schemes and identify particular points that we think are relevant for our audit community to look at when they're doing audits. For example, that could be a taxpayer who is using a country that has a very bad track record with exchange of information or has a very low tax rate or is using offshore trusts. There are a whole series of issues.

When our auditors begin looking at a particular file, they will look at it to see if any of those issues are in play, at which point they will scrutinize the aggressive international tax that exists.

The Chair: Okay.

I'll bring in the RCMP on this. In the last set of hearings we had, we understood as a committee that there are some restrictions with respect to the sharing of certain information from certain investigations that the RCMP is conducting, which may lead to investigations that have some impact on tax evasion.

Could you educate the committee in terms of what those restrictions are, or how you proceed with respect to sharing of information between the RCMP and the CRA on certain investigations?

•(1010)

Insp Jean Cormier: Mr. Chairman, may I first go back to the question that was asked by Ms. Glover, to clarify the last sentence in part of my speech? When I reread the sentence, Ms. Glover is correct. That was my interpretation, that a statistic was possibly represented. For instance, if the figure goes up, it means crime goes down. But I would like an opportunity to verify that and come back to the committee with clarification on that, please.

The Chair: Absolutely.

Insp Jean Cormier: Thank you.

As far as the sharing or the restriction as to where we can share information, I can't think of too many cases where we cannot openly share information with the CRA if we are engaged in a joint investigation with them. Typically that is the requirement. If we are engaged in a joint investigation, we are certainly able to share information, which we come into possession of, with the Canada Revenue Agency.

Where the information would be limited or restricted is where there would be no joint investigation. But if there is an indication that there is an avenue for tax evasion or tax fraud involved in the investigation, it's one of those matters we would still refer to the Canada Revenue Agency. So I'm not quite sure what the previous witnesses may have been referring to.

The Chair: Then you're telling us there's very little restriction with respect to the sharing of information between the RCMP and the CRA on these matters.

Insp Jean Cormier: From the RCMP to the CRA.

The Chair: There's very little restriction.

Insp Jean Cormier: That's correct.

The Chair: Okay. I appreciate that.

Mr. Brison, please.

Hon. Scott Brison: Thank you, Mr. Chair.

Since 2004, when the Joint International Tax Shelter Information Centre, JITSIC, was established...it now includes China, South Korea, France, and Germany. There have been 500 exchanges of information between other JITSIC countries and Canada as of 2009. How would you describe the relationship with JITSIC? Is it growing on an ongoing basis? Are you seeing more communication and engagement of our partners in JITSIC?

Mr. Terrance McAuley: The whole JITSIC arena is growing, Mr. Chair. You've mentioned China, Japan, and Korea coming on board. France was the last full member to come on board, and now Germany is about to come on board.

The JITSIC operation exists in Washington and it exists in London, in the U.K. Canada supplies full-time membership in the United States, and we participate heavily through our treaties to exchange information. A growing number of matters are brought to the attention of the JITSIC members sitting in these two offices that are then ultimately shared with Canada. When information comes back to Canada, every piece of that information is reviewed by our centre of expertise to determine whether we have that problem in Canada. Then we determine a course of action, and then, through our risk assessment system, we identify taxpayers who may be involved in that.

It's a very active process and one that does provide us with information.

Hon. Scott Brison: Do you think there's been a significant impact fiscally in terms of the program?

Mr. Terrance McAuley: Without going into detail, obviously for the protection of the treaty interests among the countries, there have been assessments issued from the work that's come out of JITSIC, yes.

Hon. Scott Brison: Have you considered or thought of countries whose inclusion in JITSIC would be beneficial to your work if they were to join?

Mr. Terrance McAuley: Certainly as a member of the deputy commissioner's committee that sits on JITSIC, we do have that discussion periodically, and it's balancing the benefit that comes from a small group of like countries to expanding it to a larger group that would start to look like some of the work of the OECD, for example.

•(1015)

Hon. Scott Brison: When you expand to a larger group, would some be full partners and others...I don't want to say... Well, in a sense it's associate partners who may not be full partners but they participate at some level.

Mr. Terrance McAuley: Since I became a member of the deputy commissioner's committee, we have not had that discussion about second-tier membership.

Hon. Scott Brison: I want to go back to the original question in terms of the \$30 million targeted toward aggressive international tax planning back in Budget 2005 and the outstanding return on that. If in Budget 2013 an additional amount were allocated toward this same unit targeting aggressive tax planning, where would that money be invested? If you were provided with additional investment, where would you put the additional investment, understanding the challenges you face on an ongoing basis?

Mr. Terrance McAuley: If money were to come to the agency, Mr. Chair, it would be applied in the manner in which it is given to us. For example, we often refer to that as fenced funding, and we would apply it to whatever part of the organization has been asked to augment the work in that area.

The Chair: You have 30 seconds, Mr. Brison.

Hon. Scott Brison: Thank you.

The Chair: Thank you.

We shall go to Ms. McLeod, please.

Mrs. Cathy McLeod: Thank you, Mr. Chair.

First I want to follow up in terms of the chair's question, because it seems as if it would be an easy task to say we've identified this much money and how much we have collected from this amount. I understand Australia thought that was something worth looking into. Could you talk about their experience in terms of trying to set up systems to do that? Are you familiar with what happened there in terms of trying to answer what seemingly should be a relatively simple question?

Mr. Terrance McAuley: Mr. Chair, I can only speak anecdotally. My understanding, completely unsubstantiated by documentation, is that Australia spent somewhere in the neighbourhood of \$850 million attempting to align their systems.

Mrs. Cathy McLeod: It seems in this day of computer systems that it should be a much easier task than that. Would there be value to knowing that number?

Mr. Terrance McAuley: Not being an IT expert, I feel uncomfortable responding. It's really an IT question.

Mrs. Cathy McLeod: Thank you.

My next question is to Mr. Ernewein.

We've talked about tax treaties and TIEAs. As you look at the map now of the world, what kind of coverage do we actually have? How are we determining priorities for new TIEAs? Are there any areas that you think are a high priority? Where are we at with that whole process of continuing to negotiate?

Mr. Brian Ernewein: Just to recap the stats, without taking time to list individual country names, we have 90 treaties in force, all of which have an exchange of information provision, and almost all of which are at the current OECD standard and practice. We have 16 more TIEAs in place. We have listed on our treaty website, for those who wish to refer to it, other countries or jurisdictions with which we're currently engaged in TIEA negotiations. Counting Liechtenstein and the others—there are 14 others—that would make 30 the total of TIEAs that either have been signed or we're working to get signed. It is those, Liechtenstein plus the other 13, that we already have on our list that represent our priorities. Those priorities reflect the information we get from our colleagues at CRA, the work that's being done at the OECD to identify the countries that are most of concern. We're probably interested in getting TIEAs with the world, so we have exchange of information with the world, but effectively it is the countries that are already under negotiation for tax information exchange agreements that represent our current priorities.

Mrs. Cathy McLeod: After those current TIEAs are finalized, you'll set a new priority list? How does this work?

Mr. Brian Ernewein: Yes, that's right. Assuming we have all the ones under negotiation signed, sealed, and delivered, so to speak, we wouldn't down tools. I think we'd be looking at others as well. There hasn't been a prioritization exercise set in that respect, but I think we'd take that on.

The other aspect I might identify—if I'm not cutting too much into your time, and it relates to other questions being raised about what more can be done—is that the current TIEA model and the current exchange of information model is on an information on request basis. That is, Canada believes that it may have reason to expect that there's information relating to a particular taxpayer in another jurisdiction. It makes a specific request to that other jurisdiction. That's the base model.

What the G-20 and the OECD have been talking about is whether or not that could actually advance to an automatic exchange of information procedure. We have that in place with some of our countries. The best example is the United States, where a lot of the information that we collect on our own forms, when it relates to an American resident, is automatically provided to the U.S. And the same goes for the U.S. in relation to income items that come to Canadians; the information they collect comes to us automatically.

As I say, the G-20 and the OECD have been suggesting that's the next step and we should move to the automatic exchange of information. I do make the point that this is tough to conceive of for countries that don't have tax systems, in terms of how actually they will exchange information that they're not collecting in the first place. But the principle of it, the idea of it, is worth consideration, and certainly we're engaged in that analysis too.

•(1020)

The Chair: Thank you.

Thank you, Ms. McLeod.

M. Caron, s'il vous plaît.

[Translation]

Mr. Guy Caron: Mr. Chair, I will share my time with Mr. Rankin.

I have another quick question for the representatives of the Canada Revenue Agency.

In particular, I am interested in transfer costs. Open borders and our trade agreements have facilitated our transfers. I think that transfer costs really became part of the problem when the North American Free Trade Agreement was signed. That had previously not necessarily been the case. Regarding transfer costs, the problem is that agreements place very little focus on that issue.

That brings me to an even bigger issue. I'm talking about the fact that we negotiate free trade or trade agreements with various countries while placing very little importance on taxation problems between the countries. I am thinking of the agreement signed with Panama. That led to a number of issues my colleague Mr. Côté raised.

So free trade agreements are negotiated, and very little emphasis is placed on taxation. Afterwards, we try to use a convention or a tax information exchange agreement to catch up.

For instance, we signed a trade agreement with Panama. We are currently negotiating a tax information exchange agreement. Isn't that the reverse of the order we should follow in terms of procedures and methods? I'm asking you the question now because it seems that we are always catching up, while we should be addressing the issue during trade negotiations. My question is for Mr. McAuley and Mr. Ernewein.

[English]

Mr. Brian Ernewein: I can make an attempt at the question.

The short answer is to confirm the premise of your question, which is that we don't connect at the hip, if you will, the trade agreements and tax treaties. There's a separate analysis that goes on. There's sort of a government-level decision as to whether or not there will be engagement government to government between Canada and another country. Once that political decision is taken, we look independently at the question of whether the economic story—trade levels, investments levels, cross-border integration, employment, sales of goods, and the like—justifies having a tax agreement.

I imagine that our colleagues in the Foreign Affairs office apply much the same analysis in determining whether there's a trade agreement that's warranted, but we do work a bit independently on that score. I think that's sensible, in the sense that if the level of tax interaction and the issues with double taxation are such that it's important to help with that for a Canadian investor, for example, then we pursue that, whether or not a separate decision or a different decision is taken in relation to a trade agreement.

With the specific mention of trade agreements and tax information exchange agreements, again, we would pursue those without necessary reference to the trade agreements. But we do understand the point.

In relation to Panama, let's speak about the point of having a free trade agreement without necessarily having a tax information exchange agreement. Indeed, as you've already mentioned, we are pursuing a tax information exchange agreement with Panama as well. They were identified as a country of concern in terms of the bank secrecy laws, and we're seeking to ensure, as are other countries, that they sign a TIEA with us.

•(1025)

The Chair: Mr. Rankin, you have one minute and a half.

Mr. Murray Rankin: I will ask one follow-up question to Mr. McAuley.

You talked about the 20% of the new moneys that were devoted to research, and we talked about transfer pricing in response to Mr. Van Kesteren and Mr. Caron. I want to ask whether you've also looked at intellectual property licensing abuses. I'm advised that licensing fees, as between parents and subsidiaries in tax havens, constitute enormous abuse and loss of revenue to Canadians.

Is that part of the research agenda, if you agree with the premise of that?

Mr. Terrance McAuley: That is a question that's being looked at internationally. The OECD is very active in looking at that question.

Mr. Murray Rankin: But there's no action in Canada? No specific—

Mr. Terrance McAuley: We do have members who sit on the working party that discusses that. We participate in that.

The Chair: You have about 30 seconds. There will be time for another round as well, so we can come back to it.

Thank you.

Mr. Hoback, please.

Mr. Randy Hoback: Thank you, Chair.

It's interesting. We have one party that wants to study things and the other party would like to fund everything. But when it comes to voting, one sits on their hands and the other one votes against any type of legislation that would actually help you do your job. I want to make that point very clear. They can spin whatever they want, but it's only been one party that's actually given you the tools to go out and process and have some results.

Mr. McAuley—

Ms. Peggy Nash: A point of order.

The Chair: On a point of order, Ms. Nash.

Ms. Peggy Nash: Would Mr. Hoback like to clarify what he's talking about?

Mr. Randy Hoback: Sure, I'd be glad to do that.

Ms. Peggy Nash: As I recall, and I will remind this committee—

The Chair: This is a point of debate.

Ms. Peggy Nash: —it was the NDP that pressed for the issue of tax havens to be completed.

The Chair: This is a point of debate.

Ms. Peggy Nash: Oh, excuse me, Mr. Chair.

The Chair: Ms. Nash, as an experienced parliamentarian, I think you know that's a point of debate.

Mr. Hoback, you have three and a half minutes left.

Mr. Randy Hoback: Again, she can look at the voting record of the NDP on the budget in 2010, when this legislation came forward, and she'll see how it resulted.

I'd like to go to the transfer pricing. In the manufacturing sector, I think this could be a huge issue, in many different ways. Let's look at a manufacturer that's multinational and may be based, let's say, out of Italy. It does its cashflow or its transactions out of Switzerland. Manufacturers all around the world would be Japan, U.S., Canada, and Brazil. It does what they call market bearing pricing. The pricing they use, for example, in Brazil, for gadget A, would be \$10, where in the U.S. it would only be \$5. It's not necessarily based on the cost of manufacturing, but it's based on what the market will bear, or the analysis they do with competition to see what the market would pay for that product.

How do you take all those considerations into play when you start evaluating whether they're actually using this type of system for tax evasion, or is it just the way the market fluctuates for these types of manufacturers?

Mr. Terrance McAuley: Mr. Chair, the short answer is that as part of our exercise of reviewing the audits of those multinationals, we are bringing on board economists, in-house, to assist us with that question.

Mr. Randy Hoback: It must be a problem, because a lot of manufacturing is not cost plus at this point. They're using all sorts of other tools to look at their net return, based on the country they're doing business in. It's not necessarily that they're involved in tax evasion or avoidance; it's just the way they go around marketing their product. How do you prevent overreaching effects that would impact the manufacturing or even the commodity sector that would create a liability for these companies that shouldn't necessarily be there?

Mr. Richard Montroy: I would say that Canada, like other countries, participates with the OECD in Working Party No. 6, which is transfer pricing, and we look at that area; we look at all the different areas. At the CRA, we train our auditors to ensure that we look at all aspects of the problem. We are very lucky that the chair of Working Party No. 6 at the OECD is a Canadian. He works for us. We're very plugged in to all the various facets of the intricacies of transfer pricing.

Mr. Randy Hoback: Yes, it must be an interesting situation to deal with. I feel for you, because it's going to be tough to figure out how to move through that. As Mr. Cormier said, everything is moving now at a fast pace around the world. Cash moves in a matter of minutes. I know with my daughter and my sons, sometimes we e-mail money now. It's interesting how that cash moves back and forth.

What other pieces of legislation or assistance do you need in the international community to better track not only what's going on in existing technology but with the new technology, when we start paying for our laptops with our cellphone and things like that? Are you doing anything in the future that you can enlighten us on?

Mr. Terrance McAuley: Perhaps I can start, and then I'll refer the question to Mr. Ernewein.

With respect to the tools we need, we have a very long-standing practice within the agency of identifying any gap that we might have in terms of information that is not available that could be available to us. When we identify one of those issues, such as a tool that's not working any longer—the courts have changed something in terms of how we operate our tax administration—or, alternatively, through our connections with the international community, we identify an emerging tool. We engage regularly with our policy department within the agency and the Department of Finance to work those new tools into legislation.

•(1030)

The Chair: You have 30 seconds.

Mr. Randy Hoback: As new technologies evolve, and you're working with the other countries in the OECD, are you able to standardize regulations so that you have consistent rules from country to country as we move forward?

The Chair: Just briefly on that. Mr. Ernewein, did you want to comment on his previous question?

We'll start with Mr. McAuley.

Mr. Terrance McAuley: Standardization is very difficult. As a result, it's great to think about that, but it's turning out to be quite difficult to identify, and the OECD obviously comments on that periodically.

The Chair: Thank you.

Thank you, Mr. Hoback.

M. Côté, s'il vous plaît.

[*Translation*]

Mr. Raymond Côté: Thank you very much.

I will share my floor time with my colleague Murray.

Mr. McAuley, in 2010, the former minister of National Revenue, Jean-Pierre Blackburn, stated that Canadians had invested \$146 billion in tax havens. He also said that, in 2003, that amount was \$88 billion.

You clearly no longer produce such estimates. Why is that? Do you nevertheless have some relatively reliable estimates?

Mr. Richard Montroy: Thank you, Mr. Chair.

Investing in countries—be it tax havens or other countries—is not illegal. I don't have those figures on hand today, but I know that Statistics Canada estimates foreign investment for a certain number of countries. At the Canada Revenue Agency, we make no calculations on investment. That's not really part of our mandate.

Mr. Raymond Côté: Okay. So that comes more under Statistics Canada's mandate?

Mr. Richard Montroy: Yes.

Mr. Raymond Côté: Very well. Thank you.

I will yield the floor to my colleague Murray.

[*English*]

Mr. Murray Rankin: This is for Mr. McAuley, I think.

Concerns have been expressed that the International Financial Reporting Standards, the IFRS, which were implemented in 2011, were a significant step toward deregulation, yet they opened the door to some of the serious abuses by corporations that we've heard about: transfer pricing abuses, IP licensing abuses, and the like. Do you share those concerns, and, if so, what can we do to guard against any such abuses?

Mr. Terrance McAuley: Certainly, Mr. Chair, since the time that the IFRS standard came into play, nothing has been brought to my attention that it is an issue.

The Chair: Thank you.

We will go to Ms. Glover, please.

Mrs. Shelly Glover: Thank you, Chair.

I would like a confirmation from the CRA, and it can come after this meeting, of what Mr. Brian Jean was asking about the \$174 million in 2005. Could you submit that, just for comparison purposes? Of course, our report would be much more fulsome if we had that comparison, so if you could do that, it would be much appreciated.

I would like to ask a question about international cooperation. You've mentioned the OECD several times and the efforts they put forward on tax evasion, but there are a number of other agencies or organizations that make the same effort. I was wondering if you would like to name a few of them right now, and describe how Canada has had a leadership role with those organizations.

Mr. Terrance McAuley: Mr. Chair, apart from the OECD, several organizations operate in the tax administration universe.

Canada is a very heavy player in several of the regional tax administrations, for example, CIAT, which is an organization for tax administration in the Americas and South America.

The APFF is an organization that operates within Canada. We also have CREDAF, which is an organization of French-speaking tax administrations, and we do participate quite heavily in CATA, the Commonwealth Association of Tax Administrators.

Again, all these administrations are designed to share and develop best practices. It's a learning tool, a sharing tool.

The OECD is by far the largest of the organizations that participate. It's probably the most in depth that we do. A lot of the countries in these smaller organizations are also participating in the OECD.

•(1035)

Mrs. Shelly Glover: I appreciate that. Thank you. That's important work that's being done.

I do want to ask about the technical tax bill. A number of measures in the technical tax bill will provide some more tools to the CRA, so I would like someone to address what those measures are and how they might help.

Mr. Brian Ernewein: Perhaps I might take that.

The technical tax bill has a lot in it. I think it is roughly 1,000 pages, most of which are highly technical amendments effectively dating back through the last decade and implementing a lot of changes relieving taxpayers on a technical level. On a level of the questions being raised in terms of measures to help the government in relation to aggressive tax avoidance transactions, a few things that I mentioned before, I will explain in a little more detail.

There are new rules in relation to non-resident trusts and foreign investment entities. These rules build on rules that are already in place in the Income Tax Act but take them quite a bit further. On the foreign investment entity side, it raises the income that can be attributable to having an investment in a foreign investment entity. On the non-resident trust side, it tries to effectively put in a more robust regime for making sure that Canadians who invest in foreign trusts are taxable on that income currently, where the conditions for the rules that apply are met.

I've already talked at some length about the aggressive tax planning reporting regime, which requires taxpayers to effectively self-identify and tell CRA when they are engaged in an avoidance transaction that has certain hallmarks: where a contingency fee is involved, where there is a requirement by the tax adviser that the taxpayer be quiet, keep the transaction confidential, presumably so they can continue to market it to others. Where hallmarks like that are part of a tax avoidance transaction, the regime would require that the transaction nonetheless be reported to the Canada Revenue Agency.

The final one I'll mention, for the sake of this, is a rule dealing with foreign tax credit generators. This is a scheme or transaction, which we've seen in some contexts in very high volumes, quite frankly, whereby taxpayers were attempting to create foreign tax credits without really generating any additional underlying foreign income. The FTC, or foreign tax credits, could be applied to reduce taxes on other real foreign income. That was a concern, and again, it is part of Bill C-48, the Technical Tax Amendments Act, to address.

Mrs. Shelly Glover: That's very good. I appreciate that.

I only have a short period of time, but how are we doing on prosecutions? We've talked about getting there, but how are we doing on them?

Mr. Terrance McAuley: Very quickly, Mr. Chair, in terms of prosecutions over the last several years, we have gone to 1,532 charges that have been laid both domestically and internationally.

In terms of the results from that, as of last year we had convicted 1,282 taxpayers, of which we've received 192 jail terms totalling 3,421 months in jail. In terms of the amounts of fines we've received, it's been \$98.2 million. The tax upon which those convictions have taken place is \$162 million.

We have a very, very aggressive domestic and international convictions process.

Mrs. Shelly Glover: Thank you.

The Chair: Thank you.

On behalf of all members of the committee, I want to thank all of our witnesses here this morning.

If there's anything further with respect to any specific questions, or on this whole topic, please do submit that information to the clerk. I know some of the members did want to submit something. I will make sure all the members of the committee get it.

Thank you so much for your time this morning.

Colleagues, you have a budget in front of you for this study, for a total of \$25,800. I believe everyone is in agreement.

Can I get someone to move this budget?

Mr. Brian Jean: I so move.

The Chair: It's moved by Mr. Jean.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: Thank you.

The meeting is adjourned.

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