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Chair

The Honourable Wayne Easter

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• (1100)

[English]

The Chair (The Honourable Wayne Easter (Malpeque, Lib.)): Could we come to order.

We will start with committee business. The subcommittee, or steering committee, on finance met the other day, and the clerk has handed out a report of its conclusions. That is before you. It's the first report. We would need a motion to accept this. Maybe I should explain it a bit.

First, we've agreed that KPMG be invited before the committee on Tuesday, May 3, for a 90-minute televised meeting on the committee study of the Canada Revenue Agency's effort to combat tax avoidance and evasion, and that the last 30 minutes would be set up for committee business.

Second, the committee will hear from the honourable Minister of Finance and officials from the Department of Finance on Thursday, May 5. We're having a little discussion on whether that's still possible. The minister's office confirmed with me that they thought this was doable, but it's subject to their confirmation.

Third, the week of May 9 to May 13 will be set aside for a series of televised meetings to consider the budget implementation act. That is subject to the budget being out of the House on May 6. If it isn't out of the House by then, we could have a motion to discuss not the act itself but its subject matter more generally, to get a start on it. We can discuss that as well.

Fourth, the committee will invite Andrew Treusch, commissioner of revenue and chief executive officer of the Canada Revenue Agency; Ted Gallivan, the CRA deputy assistant commissioner, compliance programs branch; Stéphanie Henderson, the manager of offshore compliance; and other relevant officials from the CRA to appear before the committee on Tuesday, May 17, for a 90-minute televised meeting on the aforementioned study on the CRA's efforts to combat tax avoidance and evasion.

Fifth, the committee will hear from the honourable Minister of National Revenue on Thursday, May 19, for a two-hour televised meeting. The first hour would be devoted to the committee's study on the Canada Revenue Agency and the tax avoidance and evasion question, and the second hour would be devoted to the main estimates.

That was the conclusion of the subcommittee.

Mr. MacKinnon.

• (1105)

Mr. Steven MacKinnon (Gatineau, Lib.): I'd like to move the adoption of the committee report.

The Chair: Is there a seconder?

Mr. Ron Liepert (Calgary Signal Hill, CPC): I so move.

The Chair: Any discussion?

Mr. Liepert.

Mr. Ron Liepert: Very briefly, it's just a clarification on point number three.

Are we proposing that the regularly scheduled time of 11 a.m. until 1 p.m. be applied to each one of those days?

The Chair: No. Mr. Caron has been down this path before. As I understand it, I think what Mr. Caron said the other day at the meeting was that we would basically do a blitz that week and try to get as much of the budget implementation act done as we could, which would mean extended meeting hours for basically the full week.

Mr. Ron Liepert: What are extended hours, for scheduling purposes?

The Chair: What was the schedule before, Guy? Could you give us that?

[Translation]

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): It varied according to the content of the bills. There could be two or three meetings a day for one or two weeks, according to the length of the bills that were introduced.

[English]

The Chair: Basically, as the clerk has indicated, the committee would decide how it would proceed on a day-to-day basis.

Mr. Caron.

Mr. Guy Caron: I understand that the translation doesn't work, so I can translate as well.

The Chair: I'm having trouble as well.

Mr. Guy Caron: It varied according to the length and the content of the BIAs. It was usually between two and three meetings a day for one to two weeks, depending on the bill.

The Chair: Okay.

Mr. Champagne.

[Translation]

Mr. François-Philippe Champagne (Saint-Maurice—Champlain, Lib.): Mr. Chair, you had asked me to confirm something about point 2. The Minister of Finance is willing to come to the committee on Thursday, May 5, 2016, as you indicated.

According to current practice, the minister will be here for one hour and the officials from the Department of Finance will stay for the second hour so as to answer the questions of the members of the committee.

[English]

The Chair: Okay. Thank you. It's on estimates.

[Translation]

Mr. François-Philippe Champagne: Yes, it is point 2,

[English]

on the main estimates.

The Chair: Mr. Liepert.

Mr. Ron Liepert: I'm sorry, I have problems with my translation here.

The Chair: Do you want to—

Mr. Ron Liepert: I actually have a question: what's the rush? We seem to have the entire month of June available.

The Chair: Well, I think the rush basically is to get the budget implementation act through, out of the House, and to the Senate, which will take some time.

Mr. Guy Caron: I don't think at the steering committee we had a specific decision made on the scheduling, per se. We just left the week open for that possibility.

[Translation]

I agree with Mr. Liepert. For the week following the one during which we will be in our ridings, that is to say the week of May 31, the only possibility we discussed was the report following the appearance of KPMG and the Canada Revenue Agency. That could also take place in the month of June. We can take our time to do that. Since we must keep in mind that we have to complete the study of the bill within a reasonable time, we could also consider continuing that study during the week of May 31, finish drafting the report in June, and then refer it to the House.

[English]

The Chair: Mr. MacKinnon.

[Translation]

Mr. Steven MacKinnon: I would like us to focus on the report of the subcommittee. We can work with as much energy and efficiency as possible during that week. Let's accomplish what we can on the budget implementation bill.

I suggest we pass the motion. And as for the report of the committee, we will do our best.

[English]

The Chair: Could I just give a further explanation, Mr. Caron and Mr. Liepert?

We don't know how many witnesses will show interest and want to appear, but the week of May 9 to 13 could be for witnesses. Then the next week we are already booked up with other issues, KPMG and CRA issues. Then there is the break week the last of May. Then May 30 or 31 would be really our first available time to go to clause-by-clause if we finish the witnesses that week.

The report won't lock us in to May 9 to 13. It's just if it's doable, based on what happens in the House, and then we'd go from there.

• (1110)

[Translation]

Mr. Guy Caron: The committee met before it had received the bill. I'm looking at how thick it is and the scope of the clauses in it. I know I was cautious in what I said to the subcommittee. I did not say that we should finish the study in a week. I suggested that we leave one week open for this study, but we did not set any specific date for completing our report and the clause-by-clause study.

That is why I agree on the possibility of continuing the study during the last week, not to delay anything, but so that in the month of June, in a reasonable time period, the bill can be referred to the House.

Mr. Steven MacKinnon: We will proceed in that way if need be, but we don't necessarily have to conclude that it will take us all that time.

[English]

The Chair: A last point, Mr. Liepert.

Mr. Ron Liepert: I'm supportive, but I don't want to go through another harangue of having 90-some witnesses parading through this committee. We did that once, and let's be honest, it had zero impact on what was delivered in the budget. If we're going to parade a bunch of witnesses through here again who have zero impact on changing the budget, I don't want to have people coming here just to show up so that this committee can look like it's listening to people when in fact it really won't be listening to people.

The Chair: As chair, I don't want to disagree with you, but I will. I don't agree that we had no impact. I think some of the witnesses did. Be as it may, the question is on the floor.

All those in favour of supporting the subcommittee's report?

(Motion agreed to)

The Chair: Thank you witnesses, for your indulgence.

Pursuant to the order of reference of Monday, May 21, 2016, we are studying Bill C-2, An Act to amend the Income Tax Act.

From the Institut du Nouveau Monde, we have Nicolas Zorn, policy analyst. From the Institute for Research on Public Policy, we have France St-Hilaire, vice-president, research.

Via video conference, we have Michael Veall, professor, department of economics, McMaster University.

On the telephone at the moment, we have Jack Mintz, who is with the school of public policy at the University of Calgary. Those are our witnesses for the first hour of our session.

The floor is yours, Mr. Zorn.

[*Translation*]

Mr. Nicolas Zorn (Policy Analyst, Institut du Nouveau Monde): Good morning. My name is Nicolas Zorn. I am a policy analyst at the Institut du Nouveau Monde. I thank you for your welcome.

For a few years now, our institute has studied economic and social inequalities in Quebec and Canada.

We know that income inequality has increased significantly since the 1980s: the average income has not really increased, while the richest 1% have seen their income increase considerably, much more so than the rest of the population. Thanks to the work of hundreds of researchers in international organizations such as the IMF or the OECD, we now know that significant inequalities, in addition to impeding economic growth, undermine the well-being of the population, social mobility, life expectancy, and the health of our democracy.

It is in that context that the three tax measures in Bill C-2 are going to affect income distribution and inequalities generally. The purpose of my presentation and the brief I submitted to the committee is to assess the impact of those measures on income distribution, in two ways.

First, the Institut du Nouveau Monde produced two budget bulletins, last year and this year, a non-partisan exercise for the purpose of assessing how the measures in the federal and Quebec budgets will affect inequality.

This year, we asked 33 economists and recognized public policy experts, from the left, the right and the centre, to assess the main measures in the last federal budget. Basically, we summarized the experts' replies, we examined the level of consensus among them, and we present their comments, which confirm or nuance the results.

In the opinion of the participants, the three fiscal changes in Bill C-2 could potentially reduce income inequalities. The results, the methodology and the names of the expert panellists are provided in the brief.

That being said, the overall effect of the rate cut in the second tax bracket—one of the three measures in Bill C-2—is that the overall impact on inequalities is weaker than in the case of the other two measures. However, the experts we consulted had more differences of opinion on this measure than on the other two. The first half of the specialists considered that this measure would reduce inequalities, but the other half felt that the measure would have no effect, or, worse, that it would increase income inequality in Canada.

When you look at the details of this measure presented as a tax cut for the middle class, you can see that it will be most beneficial for the richest members of the population, in particular those with taxable incomes in excess of \$90,000. For instance, for an individual with a taxable income of \$50,000, who would be considered by some as being in the middle class, this tax cut represents around \$70 in savings. For someone who has taxable income of \$100,000 or

\$200,000, the tax gain is 10 times higher. In other words, people with incomes of more than \$90,000 will have tax savings of approximately \$700 per person.

If the objective of parliamentarians and the Government of Canada is to reduce income inequalities and lower the amount of income tax paid by the middle class, there could be more targeted measures that would allow them to reach that objective.

If you have questions, I will be pleased to answer them.

I will now move on to my second and last point.

We estimated that adding a fifth tax bracket for those who earn \$200,000 or more would have a significant effect on inequalities. This is also shown in the brief. Essentially, the richest 1% have seen their incomes go up because their incomes have increased four times faster than the rest of the population.

This measure will slow the growth of the income of the richest 1% just enough so that the income of the poorer 99% will increase at approximately the same rate. In other words, this measure will check the growth in inequalities we have seen over the past 30 years. However, inequalities will remain at a historically high level despite that. To bring the inequality back to a historically lower level, for instance the level that prevailed in 1985, the tax rate of the new bracket would have to increase from 33% to 39%. To get back to the ratio that existed 25 years ago, that would have to be the case for the next 25 years.

In conclusion, if the government and Parliament want to reduce the inequality between the richest 1% and the poorer 99%, and if they want to help the middle class more, the introduction of additional tax brackets for higher incomes and a review of the entire tax system would be more effective, according to several experts, than simply increasing the tax rate in that fifth tax bracket.

To the extent that there are many tax credits that increase opportunities for tax avoidance, abolishing deductions that mainly benefit the wealthiest people might be more appropriate.

• (1115)

Thank you for your attention. Do not hesitate if you have questions.

[*English*]

The Chair: Ms. St-Hilaire, the floor is yours. Thank you, and welcome.

[*Translation*]

Mrs. France St-Hilaire (Vice-President, Research, Institute for Research on Public Policy): Good morning, Mr. Chair.

First I'd like to thank the committee for inviting me to appear today.

If I may, I will be making my presentation in English, but I would be very happy to answer your questions in the language of your choice.

[English]

My remarks this morning are based on the results of a two-year research initiative that the Institute for Research on Public Policy led, and just completed, to look at income inequality trends in Canada, the factors driving its marked increase since the early 1980s, and the role of policy in addressing this problem.

We found that income inequality has increased significantly over the past 35 years. This was primarily due to the dramatic rise in the incomes of the top earners and the anemic income growth of the middle class.

Given this diagnosis, we would expect that many of the tax measures announced in the recent budget and, in particular, the rate increase on the taxable income in excess of \$200,000, should provide a substantial policy response to this problem.

In the few minutes that I have, I would like to focus on the issues related to top income taxation and the reasons why this might not be as straightforward, or as effective a solution, as it may appear.

First, it's important to point out that it is transfers that do the heavy lifting in offsetting market income inequality in Canada. For instance, in 2011, the tax and transfer system managed to reduce inequality by 28%, and of that, two-thirds was due to transfers and one-third to taxes. That one-third contribution is not negligible, but it does put into perspective what can be accomplished through the tax system on the inequality front.

Second, increasing taxes on top earners will reduce their share of income, but that effect is likely to be limited for two reasons. First, the increase in the marginal rate applies only to the share of income that is above the top bracket threshold, and second, top earners can and do respond to tax increases by reducing their reported incomes through tax shelters and income shifting. I refer you to the work of Kevin Milligan and Michael Smart on this issue.

There's considerable debate on the size of that behavioural response and the limit to real income taxation—that is, how far can you raise the top marginal rate before the revenue loss due to the taxpayer response exceeds the revenue gained from the income rate increase. It's a fine balance that is difficult to find.

Third, the taxation of top income also has an important federalism dimension, which all governments need to consider. Although the provinces share the same income tax base, the reduction in reported income, due to a top rate increase by one level of government, can reduce the revenue of the other level of government. In some scenarios, the result may be a net loss of revenue overall.

Experts seem to agree the potential for income shifting is larger at the provincial level than at the federal level. In a sense, that's the situation we have now. Most provinces have increased their top marginal rate substantially in recent years, and the new federal top rate brings the combined federal and provincial rate in the 48% to 54% range for most provinces. Rates at these levels increase the potential for tax competition among provinces and raise concerns about the loss of mobile labour and income. That's probably the reason why the Government of New Brunswick decided to reverse its recent tax increase on top incomes.

This raises two questions. First, does it matter whether top rate increases are at the federal or provincial level? Second, is there still room for further increases?

In our book we argue that progressive taxation should take place primarily at the federal level. Milligan and Smart's estimates show that provinces' capacity to raise revenue from the same top rate increase varies widely from one region to another. They find that poorer provinces, which already have higher tax rates, stand to gain the least, whereas the opposite is the case for richer provinces because they have a higher share of top earners.

The advantages of progressive taxation at the federal level are that it does not engender inefficient tax competition between provinces, since the same rate applies across the country; it entails less scope for income shifting to other jurisdictions; and it means that more revenue from progressive taxation is raised nationally to help fund redistributive federal transfer programs, not only for individuals, but also for provinces to fund health and social services. All this makes redistribution through the tax transfer system more effective and equitable across the country.

• (1120)

As for further increases in the top rate, we think it would be preferable to first let the dust settle on the important policy changes implemented since last fall's election. Notwithstanding important reservations regarding the middle-class tax cut, the top rate increase, combined with other measures relating to TFSA's, income splitting and the Canada child benefit, are expected to make the tax-and-transfer system more progressive. It would be wise to let these reforms filter through the system and then to assess their overall impact.

I'll finish on this. Beyond this, we also argue, as have others—Mike Veall and several others—that the tax system is in need of a major review to reassess the purpose and the incidence of a litany of tax preferences, many of which disproportionately benefit top earners. Until these issues are addressed, further rate increases will only serve to increase the efficiency costs and the inequities of the income tax system.

[Translation]

Thank you, Mr. Chair.

•(1125)

[English]

The Chair: Thank you very much, Ms. St-Hilaire. Your last paragraph picked up the ears of Mr. MacKinnon, because he's been pushing that point.

We'll turn to Mr. Veall, who is with the department of economics at McMaster.

The floor is yours. Welcome.

Dr. Michael R. Veall (Professor, Department of Economics, McMaster University, As an Individual): Thanks very much for this opportunity. I'm sorry I can't be there in person, as I normally can.

I have three points.

First, the question is raised of how much revenue will be increased for the high-income taxpayers' rates. I'm not going to repeat what France said. I agree with what she said. There is the issue of the erosion of the tax base that is a consequence of that increase. I think, as she correctly said, there should be some emphasis that this has an effect on the provinces as well. While economists are well known for disagreeing, I agree with the C.D. Howe Institute, the Department of Finance, and the parliamentary budget office that the federal revenue increase from this measure will likely be in the neighbourhood of somewhere between \$1 billion and \$1.8 billion. It used to be that I would have guessed more towards the low end of that range, but my more recent calculations suggest that it may be towards the upper. Nonetheless, as these things go, that's a fairly narrow range.

There is one wild card here. There is a recent suggestion in the economics literature that the effects of the tax increase on top-income individuals could perhaps also—

The Chair: Mr. Veall, could you slow down a bit? Our translators are having a little difficulty in keeping up.

An hon. member: We need more volume.

Dr. Michael R. Veall: Okay.

I do not dismiss the possibility that there could be this effect on other income tax brackets that would have raised some additional revenue that isn't in the usual calculation, but I do not think that approach yet has sufficient support to use for current tax policy.

My second point is also in support of the Department of Finance and the PBO estimates of the revenue effect on the income taxes for the \$45,000 to \$91,000 bracket increase. I think those estimates are also solid.

Finally, I will get to my third point, which pertains to TFSAs.

As an aside, if you know anyone who is 64 with a low enough income to be on the guaranteed income supplement, when they turn age 65, please tell them not to make an RRSP contribution but to use TFSAs. The RRSP contribution will likely have a strong negative return, because it will be subject to the guaranteed income supplement clawback. In fact, if they take their money in out the next year, it's pretty much sure that they will lose half their money, or perhaps even more in some cases. It's a terrible investment in that case.

So there is a good thing about TFSAs, but the flip side of this is that it's also a serious policy problem. There are many ways to put it, but if you think about a \$10,000 limit—if that limit were to stay—there will likely be a significant number of individuals who would be reaching the age of 65 with perhaps half a million dollars or a million dollars or more in assets but who would still be eligible for the full guaranteed income supplement, a program that is intended to help poor seniors.

So more generally, TFSAs have this time bomb aspect. The problems they can create will get worse and worse over time, with the revenue impact almost 10 times greater as a fraction of GDP in 2050 as compared to now. Their effects will get worse. My own view is that the TFSA problem needs to be slowed down while there is a reform that better integrates the taxation of returns to saving and to the pension system, because if we expect Canadians to plan 20, 30, or 40 years ahead, we need the government to do it too.

Thank you very much.

The Chair: We will now turn to Mr. Mintz, on the phone. Welcome. The floor is yours.

•(1130)

Dr. Jack Mintz (President's Fellow, School of Public Policy, University of Calgary, As an Individual): Thank you very much.

I particularly wish to address the issue around dropping the personal marginal tax rate from 22% to 20.5% and raising the top rate from 29% to 33%. This is a reform with both good and bad consequences.

The good consequences are associated with the modest reduction in personal income tax rates between \$45,000 and \$90,000, roughly, which will benefit many middle-income households. It will create some incentive to work and save, but as economic studies suggest, the impacts will be relatively modest. Reductions will also help offset higher marginal tax rates for families with the introduction of the new child tax plan, which is income-tested, and provide some offset to single-earner families who benefited from the income splitting that was cancelled.

On the other hand, the increase in the top rate is less justified as a source of revenue. Canada's top rate, an average of 53%, once combined with provincial rates, will be fourth highest in the industrialized world, slightly below France's. The top rate hits at roughly \$140,000 U.S. dollars, a level that is one third of that in the United States, where the top rate is 46.3%. Of course, we know from experience in the past, that when the United Kingdom and France raised their marginal tax rates—quite significantly, in the case of France—both retracted those decisions when they saw that they had a very significant reduction in the amount of income that was collected.

As economists have pointed out in various studies, there are some important consequences to raising the top rate. A high top rate will deter talent from staying in Canada or being attracted to Canada, and this comes at a time when the Canadian dollar has returned to less than 80 cents U.S., similar to the years when we experienced the brain drain. In fact, I have talked to a number of businesses, and they are already finding that this is becoming an issue in terms of compensation to attract the very best people around the world to come to Canada. Studies on the migratory effects on the wealthy are few, but we know anecdotally of cases, including a very public one recently in Canada. It is not so much the loss of the tax base that is important, as much as the loss of the talent needed to improve Canada's productivity.

The consequences of high marginal tax rates are to particularly discourage entrepreneurial effort by the so-called job creators. The marginal effective tax rate on small businesses, now that the small business tax rate will no longer be reduced, increases by two percentage points due to the higher personal income tax rate contained in the federal budget.

The discouragement of talent and entrepreneurship can affect economic growth. In an excellent survey published by William McBride of the Tax Foundation in the United States, 21 of 23 studies show that higher taxes reduce growth. The two studies showing no relationship were written before 1993. While growth in the United States and Canada was accompanied by high marginal tax rates 50 years ago, the typical analysis of those arguing that taxes do not affect growth is poorly done, by mismeasuring effective tax rates that depend on the tax base. For example, Canada did not tax capital gains before 1972. These types of studies also fail to include other factors that explain growth, and by confounding causality, whereby growth itself can lead to higher tax rates due to the progressivity of the tax system, they should be dismissed.

Almost all studies using good statistical analysis have shown that increases in marginal tax rates or the top rates reduce growth rates. In a well-known paper, Robert Barro shows that the increase in the average marginal tax rate results in reducing per capita GDP by 0.5%. Gemmell, Kneller, and Sanz estimate that taxes on income and profit are the most damaging to growth, followed by deficits and then consumption taxes. There have also been people who have estimated the marginal costs of taxation. Bev Dahlby, from the School of Public Policy at the University of Calgary, who is one of the international experts in this area, has found that corporate taxes are the most damaging taxes to levy in Canada, as well as many other countries, followed by the top rate of the personal income tax.

Recent studies have also estimated the sensitivity of the income tax base to changes in marginal tax rates. Michael Veall is one of those individuals who have done some excellent work. Some sensitivity can result from longer-run impacts, such as less effort in investment as well as migration effects. What we don't know very well is migration effects, as there have been very few studies to analyze them.

• (1135)

The tax base can also decline in the short run because of tax planning and timing of receipts, whereby taxpayers—high-income ones particularly—are able to do these things in a relatively robust

manner according to the law. Certainly many taxpayers in 2015 arranged their affairs to report income in 2015 that should lead to a decline in reported income in 2016. There have been various techniques to do this, as many people know.

The C.D. Howe Institute, surveying various Canadian and American studies, suggested that a one-percentage-point increase in the top rate would lead to a reduction in after-tax income of about 0.69%. The institute estimated that the federal government will only receive \$1 billion from the hike in the top rate, while falling well short of the revenue cost of reducing the middle tax bracket. The parliamentary budget office, as Michael Veall mentioned, estimates a higher revenue gain from raising the top rate—\$1.8 billion in 2016-17—using a much lower responsiveness of about 0.38%, which is well below that of most studies that have currently been published. The provinces will also lose tax revenue as the base shrinks at the top end.

Overall, my belief is that raising the top rate in Canada above 50% to a level similar to that in 1993 was an error in public policy. It might have been good politics to hit higher-income Canadians with higher tax rates, but a far more effective approach could have been used to fund the middle class tax cut. As I've argued in several pieces, several tax incentives benefit higher-income Canadians but have narrowed the tax base unduly. Instead of raising marginal tax rates, we should have reduced tax preferences; that would have improved both tax efficiency and fairness.

I hope that one day the government will find, just as the United Kingdom and France have, that what it did was a mistake and will reverse it.

The Chair: Turning to questions, because of our restricted time, let's go to five minutes instead of the seven minutes. We can get more in.

Mr. MacKinnon.

[*Translation*]

Mr. Steven MacKinnon: Thank you, Mr. Chair.

I thank all of the witnesses for being here, those who are here in Ottawa, or participating by video conference or by telephone.

The main finding that emerges from most if not all of your comments is that Bill C-2 largely meets with the government's objective to reduce inequalities. This can be compared to the first act of a play, the second one being the 2016 budget tabled in the House by the Minister of Finance. With that in mind, I would like you all to comment.

You also pointed out in your respective presentations that the tax system needs to be reviewed.

[English]

I know, Mr. Mintz, that you've written about this as well, in your comments in *The Globe and Mail* on April 18, saying that it's time to look at the Income Tax Act. Other witnesses here today have mentioned that this is probably a necessary exercise, because there are a number of distortions in the act; that whether you look through an inequality lens, a tax-simplification lens, or a proper-incentives lens, tax reform is something that is more or less urgently needed in Canada.

I'd like you to briefly address both of those points, the inequality point and the tax reform point.

• (1140)

The Chair: Are you asking that of all of the witnesses?

Mr. Steven MacKinnon: All of them, yes.

The Chair: Mr. Zorn, do you want to start? If you don't have a comment, that's fine, too.

[Translation]

Mr. Nicolas Zorn: As for the tax system, we regularly hear it said that such a review could decrease the capacity of taxing those with the highest incomes, among other things. People also say that this could discourage work and savings.

I am going to take Steve Jobs and Bill Gates as examples, two individuals about whom it may be said that they succeeded in business. They launched their businesses in the 1970s, when the tax rates were particularly high. Over the past 100 years, the glorious 30 years were those decades where economic growth was the most sustained and where there were the fewest economic crises. It was also the period when tax rates were the highest.

I simply want to point out that that effect will not exist if you broaden the tax base, and as we advocate, reduce the opportunities for tax avoidance, that is to say the opportunities for those with the highest incomes to reduce their tax bill.

Moreover, the fact of reducing inequalities has a concrete impact. Here's an example. In Montreal, there is a 10-year gap in life expectancy between the Hochelaga-Maisonneuve neighbourhood and the Westmount neighbourhood. I am not talking about dollars here, but years of life expectancy, an extremely concrete indicator. This 10-year gap is also the same as the one between Bangladesh and Germany.

Reducing inequalities is a desirable goal. As our budget bulletin pointed out, it is a first step. However, it only stops the growth in inequalities. If they remain high, the negative consequences will persist.

Thank you.

[English]

The Chair: Ms. St-Hilaire, and we'll have to try to tighten the answers a little, too. Thank you.

[Translation]

Mrs. France St-Hilaire: I would like to go back to the comment I made earlier. Income tax as it relates to the reduction of inequalities is a matter that has to be put in perspective. The income tax system can only to some extent be used to counter the growth of inequalities.

Transfers are supposed to play that role. However, we know that there's still work to be done on transfer programs, whether we are talking about social assistance, employment insurance, assistance for seniors, or other things.

The measures contained in the federal budget will help to make our system more progressive. However, there is probably still work to be done there too.

With regard to the middle class, it might have been preferable to focus on it, given how much it will cost in uncollected tax revenues to reduce the rate of the second tax bracket.

Since all of these measures interact, we will have to see what combined effect they will have. We will have to take a step back and take stock, to see whether the objective has been reached.

As for undertaking a review of the income tax system, I think that is very important. Indeed, several tax measures are particularly beneficial to those with the highest incomes, a fact which also undermines the progressive nature of the tax system.

Thank you.

[English]

The Chair: Mr. Veall, do you have a fairly quick comment?

Dr. Michael R. Veall: Sure. On inequality, as has been spoken about, I would focus on tax preferences and on transfers. In terms of reform, I do believe there is a need for an important reform. One focus should be the sorts of problems for the tax transfer system 20 to 30 years from now. Thank you.

The Chair: Mr. Mintz.

Dr. Jack Mintz: That's a long question, but I have a few very quick responses.

To be frank, I am less concerned about inequality; I've always been more concerned about poverty. We have addressed seniors' poverty to some extent, but not with respect to single seniors. I was glad with the action taken in the budget with respect to the top-up of the GIS in that respect. We do have a serious issue of redistribution going on from working people to elderly people, things like income splitting, the OAS, and other things that we have to remember and ask whether this is the appropriate redistribution we wish to have, when we have some poverty issues to deal with among working people.

In my view the important thing about tax reform in general is giving it a framework. Usually the best types of tax reform are ones that lower rates, not raise them, and ones that broaden the tax base to make things more neutral in the business tax structure. In the personal tax structure, it's also to achieve more neutrality among equal resource taxpayers, and also to ensure that we have the appropriate progressiveness in the tax system. When you look at the calculations on progressivity, we do have a progressive tax system in Canada. There have been publications on that recently, and if one looks at this carefully, I think you'll find that the only question is how progressive you wish to make it. We have made it more progressive over the past number of years—quite the opposite of what people argue. I think that generally the important thing about tax reform is to give a government the framework that will allow it to dismiss some of the bad ideas that often come about and lead to erosion and narrowness of the tax base and ineffective incentives.

• (1145)

The Chair: Ms. Raitt.

Hon. Lisa Raitt (Milton, CPC): What I'm taking away from the testimony today is that to achieve this tax cut, which is essentially 90¢ a day for the average Canadian in this band of income, we are going into debt and are risking unwanted effects on growth. When the parliamentary budget office testified and wrote their report, they indicated that the changes would drag down the real GDP in the future, which is of concern for me.

Dr. Mintz, a couple of meetings ago, a Liberal member of this committee wanted to know if any studies in the world showed that people were deterred by income tax rates when those people made more than \$217,000 a year. I think in your comments you pointed to some information and studies that show that growth and decisions are affected. Anecdotally, I would say that my research has shown—and maybe you can enlighten us as well on talent erosion in the country—that when you're competing for Canada's brightest minds in technology, when Google and Twitter are offering starting salaries of \$200,000 for somebody coming out of a very good university, I would assume that's going to play into their determination of where they want to live and work. With that, Dr. Mintz, I'm wondering if you could talk a little about your analysis, which you mentioned before, of how growth in the end can be affected by having this increase in the top rate.

The Chair: Dr. Mintz.

Dr. Jack Mintz: Well, the survey that I mentioned by Will McBride of the Tax Foundation was pretty astounding in including 23 papers written on that subject. It looks at what happens when you make the system more progressive, what it does to growth rates. I think that by and large most economists would agree that income taxes do the most harm to the economy. Corporate taxes do more damage than the personal tax. If you increase the top rate, you will hurt growth. This comes out in a lot of the studies that have been done. They're cross-sectioned. They look at countries across the world. They also look across different states in the United States. I think the numbers are there.

Anecdotally, or at least by experience, we know that when you are hiring top talent—whether it's young people or people for CEO positions—taxation can play a role. It's not the only thing, but it can play a role. In fact, often companies, when they must bring people

into Canada, have to pay equalization to make up for the higher taxes here. That adds to the cost of running the business. If higher rates dissuade people from coming here, because they see Canada as a high-tax country, that will have a negative impact on our talent.

Past studies on talent and the brain drain have shown that there's an impact. The one thing that could be done, which I've never seen anyone do, is to look at the income tax forms that the Canada Revenue Agency collects. People indicate on that form whether they've changed provinces and whether they've moved out of the country. They indicate whether they've become a non-resident. It would be nice to start looking at the data to see how taxes might result in people actually moving.

Philip Bazel and I did a paper on the HST in Alberta. We found that until recently, about 25% of the personal income tax base in Alberta was what you might call high-income households, those with more than \$500,000 in annual income. That's a lot of money. In fact, it's way beyond any other province.

We know there were many people who, particularly when they got towards retirement, created residency in Alberta. It's not hard to do that, especially if you decide you like skiing. It'll be interesting to see if whether the recent personal income tax hikes in Alberta are leading to a migration of high-income people out of the province.

• (1150)

Hon. Lisa Raitt: In fairness, if the government's motivation for introducing the middle-class tax cut is, one, to deal with income inequality, and two, to spur growth of the economy, on both of those fundamental promises, in my opinion, this act fails.

I have one other question on income inequality.

Mr. Zorn, I understand that you may have expertise in guaranteed annual incomes, or you have some knowledge of guaranteed annual incomes and fairness.

[*Translation*]

Mr. Nicolas Zorn: Indeed.

[*English*]

Hon. Lisa Raitt: I'm wondering if you could talk a little bit about this. This committee wanted to study the topic of a guaranteed annual income. Do you think that's an appropriate thing for us?

M. Nicolas Zorn: First of all, to an extent, Canada already has a partial universal...which is pretty much a paradox, but you get the point. Would it reduce inequality or not? Would it be a good thing for the low-income earners? It all depends on the parameters of the measure. It can make a lot of people worse off. It would be a lot of money going into a social program that could go instead into public services or more specific transfers. I'm not talking about a really narrow means-tested program. If it were universal, you'd be putting a lot of money on the table. Right now, seniors get \$16,000 per year in transfers. If you don't want to have anybody worse off, you have to give everybody \$16,000, or else you adapt it a little bit to the needs of the people.

To answer your question, it all depends on the parameters. That is a question with no easy answer.

The Chair: Mr. Caron.

[*Translation*]

Mr. Guy Caron: Thank you very much.

I thank all of you.

With the greatest respect, I would like to correct what Ms. Raitt said. She mentioned that the tax cut would give the average Canadian 90¢ a day. That is not quite accurate. The average Canadian will not benefit from a tax cut, since we are talking about Canadians who earn \$45,000 or more. The average is well below that, which was in fact mentioned by Mr. Zorn in his presentation. So when we talk about 90¢ a day, that does not apply to the average Canadian, but to Canadians who have higher incomes.

Mr. Zorn, I really liked your presentation and your report on Bill C-2.

My questions will be addressed to Mr. Zorn, Ms. St-Hilaire and Mr. Veall, if I have the opportunity.

You will have looked at the report of the Parliamentary Budget Officer on the impact of the tax cut and on an alternative measure which would have been to reduce the first tax bracket by one percentage point. Rather than reducing the second one from 22% to 20.5%, we could have reduced the first from 15% to 14%. Of course, this is a hypothetical measure, since the government decided not to take that route.

I would nevertheless like to hear your opinion, Mr. Zorn. According to your knowledge of the group of experts and the methodology, how would such a tax reduction have affected inequalities overall?

• (1155)

Mr. Nicolas Zorn: One comment was made often about that measure in particular. If the government's two objectives are to provide a tax cut and help the middle class, I must say that that would indeed bring about a tax cut. However, to help the middle class, you would need a measure that better targets that group in particular. For instance, if you reduce the first tax bracket rather than the second one, more people would benefit from that tax reduction. To offset that, it would be desirable that the measure not also benefit all of those who have higher incomes, those who earn \$200,000 and more. If that is the objective of parliamentarians and the government,

the higher tax brackets can be adjusted in order to establish a certain balance.

This could have a greater impact on economic growth. The higher your income, the more money you save, whereas you spend all of your income if your income is low.

That is my answer.

Mr. Guy Caron: Thank you very much.

Ms. St-Hilaire, what do you think?

Mrs. France St-Hilaire: An article was written by Mr. Richard Zuker, a former official of the Department of Finance, for the Caledon Institute of Social Policy. He studied the matter to see who would benefit from the decrease in the second tax bracket. The problem is that not only do you benefit more from that reduction when you are near the top of the scale, but in addition, those who are at the very top of the scale benefit from it more than anyone.

Mr. Guy Caron: According to our calculations, someone who earns \$210,000 a year, despite the fact that the last \$10,000 is taxed more, will benefit from an overall tax cut that is higher than someone who earns \$62,000 a year.

Mrs. France St-Hilaire: That is true. One way of recovering those funds would be to adjust the third bracket also, in addition to the second, that is to say increase it in order to recover a little money from that tax cut, if you really want to target the middle class.

You propose a reduction in the first tax bracket. But then you still have the same problem, which is that if you reduce it, a good part of the tax cut will benefit everyone. Once again, it's a matter of targeting and objectives.

Mr. Guy Caron: What do you think about that, Mr. Veall? I don't know if I need to repeat my question. I would simply like to hear your opinion as to the impact on inequalities of an alternative measure, which would have been to reduce the first tax bracket from 15% to 14%, rather than the measure contained in Bill C-2 which reduces the second tax bracket from 22% to 20.5%.

[*English*]

The Chair: Mr. Veall.

Dr. Michael R. Veall: If we think only in terms of income tax, if you put the reduction at a lower level, then it has a greater effect on reducing inequality. You have to think about these things in terms of all the possible measures that may be changed, but in terms of income tax alone, that would certainly result in a greater reduction in inequality.

[*Translation*]

Mr. Guy Caron: The measure in Bill C-2 was among the most discussed topics during the election and after it. It is supposed to provide a tax cut to the middle class. However, everyone agrees that that is not really the most effective way to help the middle class. That is the conclusion I have come to.

The government points out that it is the first in a series of measures. The second, which is also contained in the federal budget, is the Canada Child Benefit. However this will not help seniors who earn less than \$45,000 a year, nor childless couples where both spouses earn less than \$45,000, nor single people who earn less than \$45,000. In the final analysis, none of these people will derive any benefit from these measures that are supposed to reduce inequalities.

Is that also your opinion?

• (1200)

Mrs. France St-Hilaire: There are already measures to help seniors, such as the Guaranteed Income Supplement.

The Canada Child Benefit helps families that have children. Among the studies that were done, the one done by Luc Godbout from the Université de Sherbrooke considers all of the measures in the 2016 budget and their impact on the various types of families with children, including single-parent families. It is clear that the middle class will benefit the most, in the income level we are talking about.

However, single people and childless people receive no benefit from this measure. They can benefit however from the reduction in the second tax bracket, if their income is in that bracket.

Mr. Guy Caron: You referred to the Guaranteed Income Supplement. However, the income of the middle class senior is generally between \$25,000 and \$35,000. In that case, the Guaranteed Income Supplement does not apply.

Mrs. France St-Hilaire: Indeed.

Mr. Guy Caron: Do you have any comments, Mr. Zorn?

Mr. Nicolas Zorn: When we assessed the federal budget—this is the fourth time we do this exercise for a provincial or federal budget—we were struck by the fact that this was the first time that a budget had the net effect of reducing inequalities. Moreover, we felt that all of the measures assessed, and there were 12 of them, would reduce inequalities.

I agree with Mr. Veall and Ms. St-Hilaire: the system to reduce inequalities has to be considered as a whole, and social programs also have to be included. Also, when we talk about reducing inequalities, we have to see what inequalities we are talking about. Are we talking about the inequality between the rich and the poor, between the middle class and the poor, or between the middle class and those with higher incomes?

It is certain that increasing income tax on incomes of \$200,000 and more will not solve the inequalities between the middle class and the poor, but that was not the objective. The objective of this measure is not to collect money, but to place a cap on the capacity of the 1% to increase their income, because we know that this has adverse effects on the economy and brings about a series of other social ills.

[English]

The Chair: I'll have to cut you there. We're well over on all of the first three questioners.

Mr. Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Good morning to everyone.

When I look at the tax system, for me it's always a balance between a progressive tax system and a tax system that's efficient, or I can use the word efficacy. I think over the last number of years, especially over the last 10 years, the tax system has become much more complicated and much more convoluted, and I think that simplifying the tax system is always a good thing, but it's always a balance between progressivity and the efficacy of the tax system.

Personally, I don't think we need to go back to the 1960s or 1970s when marginal tax rates were 70%, and I think during the 1960s they were at 90%. I don't think that's a good thing, but I think that, where we have it right now, there is a good balance. We've achieved a balance in the progressive tax system.

Much like my colleague Mr. MacKinnon, I have argued for the need to take a look at our tax system, but I think that also encompasses looking at retirement and so forth, how people are retiring, and the big picture.

Mr. Zorn, starting with you, I've read your report. Very quickly, I see that you've graded our establishment of the new Canada child tax benefit with an A in reducing inequality. If I'm reading your graph correctly, it's about a 1.75, so you've graded it an A. I believe you've also graded the increase in the GIS for seniors living alone, and you've also given that an A-, if I'm not mistaken.

Mr. Nicolas Zorn: Yes.

Mr. Francesco Sorbara: I believe there are a number of things you've put into the B+ or A category. If I were a student or if I were the finance minister, you've actually given me pretty good marks.

Mr. Nicolas Zorn: I didn't do it myself. Actually, the 33 experts on the panel gave a certain note, and it corresponds to those letters. Yes, actually it's a very good grade, and at about C or C- going under that notation, you see an augmentation of inequality. Anything above a C reduces it, so it's a good grade.

• (1205)

Mr. Francesco Sorbara: Just to dispel something, which needs to be put on the record, when you look at the marginal tax rate and the first tax bracket—which I mention because some people called for a reduction in the first tax bracket—about over half of tax filers in that tax bracket don't pay any personal income tax at the end of the year when they're filing.

Reducing the second tax bracket will affect nine million filers this year. So nine million filers will pay lower taxes and have more disposable income to save, invest, and spend money on their families. It is, you know, several hundred dollars, and \$100 is a lot of money for a lot of people, including me. It's important that we point out that in the first tax bracket, more than half of the tax filers don't pay any income tax.

Is that correct? Would you agree with that?

Mr. Nicolas Zorn: It makes sense, because you have a lot of deductions. With that 50% mark of people who don't pay taxes, most of them are students, the elderly, or people who don't have a job, and it all balances out. You have to look at it in a life-cycle pattern. When you're working a lot, you pay more taxes, but when you're studying or you're retired, you pay less taxes. It balances out.

Mr. Francesco Sorbara: My final question is for Mr. Mintz and about looking at the Canadian tax system and possibly a review of it, because the goal is to have a competitive tax system, not just globally, obviously. Could you expand on your comments on lower rates and a broader tax base?

I'll leave it to others after Mr. Mintz answers, if anybody else wants to jump in as well.

Dr. Jack Mintz: When I look at the tax system today, I see a number of various credits and deductions that have been introduced over the years. What typically happens is that you have a system where special credits, deductions, and preferences are brought in, and then you look at it and say, "What are we doing? Why don't we have one rate reduction, get rid of this mess, and make it simpler?" That would reduce administrative costs and compliance costs for taxpayers, as well as reduce distortions in the system.

Typically countries every 20 years, or maybe even longer—the United States hasn't done this since 1986, and needs to do it badly—finally undertake to reform their tax system. In Canada we did quite a bit of reform from 1985 to 1987, which was completed with the 1991 GST.

If you look at the system today, there are a lot of special preferences, albeit with a little less on the business tax structure because of the technical committee on business taxation report. I chaired that panel in 1997, and it did lead to a lot of business tax reform, and I would say good tax reform in Canada in the subsequent years. We haven't done this with the rest of the system.

If you look at the personal tax, for example, it has all sorts of credits and deductions. Studies have shown that some are not only ineffective, but even harmful to the economy, such as the labour-sponsored venture capital credit that has been brought in with this budget. Flow-through shares haven't worked very well. I can go through a litany of the stuff.

We also have a complete misalignment between capital gains tax rates and the top dividend tax rate, which we often try to keep aligned so people don't try to pass out income in the form of dividends or capital gains, depending on which is more heavily taxed. That I think is leading to problems.

The two dividend tax credits and the two corporate tax rates have created a lot of complexity and distortions in the system. We clearly need to go to a single corporate income tax rate, and a single dividend tax credit I think would be much better.

When I look at the current system, I think it is in need of review, including the GST. Economists often say that the GST rate should be raised, but we have a mediocre value-added tax compared to the rest of the world, collecting roughly half of what it could collect on consumption because of all the special credits and special exemptions in the system. There are a lot of problems with it, especially around the treatment of financial services.

We need to have a good look at the whole system, including looking at changing the mix of taxes. We need a better GST base, more reliance on consumption taxes at the federal level, and less reliance on those growth-inhibiting taxes such as corporate and personal income taxes.

• (1210)

The Chair: The last questioner on this round is Mr. Albas.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): I appreciate all our witnesses' testimony.

Dr. Mintz, I'm going to start with you. By the way, I used to be a small business owner and worked very hard in the B.C. Chamber of Commerce movement, so I've met a lot of small business owners who, whether they be professionals, in the retail sector, or whatnot, are extremely hard-working people.

You mentioned that increases at the upper tax rates, coupled with the cessation of the preferential small business reduction, equates to an increase in taxes on small business owners. Could you please elaborate a bit on that?

Dr. Jack Mintz: First of all, when you look at the data and you see who benefits from the small business income tax reduction or from owning Canadian-controlled private corporations, many of the taxpayers—a very large share, 50% to 60%—have household income of more than \$200,000. The increase in the personal tax rate on dividends, which will lead to an increase in taxes on dividends and capital gains coming out of the small business, even if you take into account such offsetting provisions as the lifetime capital gains exemption—another issue I would deal with....

When you take that into account, plus taxes on other income that you withdraw from the business, you get a very significant increase in the effective tax rate for the entrepreneur, with respect to the ownership in his or her business, just by raising the top rate. That is because so many are in the top income tax bracket. Again, when you're at \$200,000—I know that many people always think of this as high income, but really, many of the entrepreneurial class are in that group—it is an issue; small business owners are going to be more heavily taxed as a result.

The original article I wrote took into account moving the corporate income tax rate—the small business rate—down from 11% to 9%, as promised in the election campaign and by the previous Harper government. That, of course, has been reversed, and now the small business rate will stay at 10.5%.

By the way, I support that change in the budget, not going further with that tax cut, because I want to go to a single corporate income tax rate and not have differential ones. However, I think that means that this personal tax hike will have an even bigger impact, as a result, on many small businesses.

One final point is that I think we really need to look at small business incentives and try to make them more effective. I think many small business owners are going to be facing potential hikes, as they have seen in property taxes, and there will probably be some payroll tax hikes down the road, if we go into CPP expansion, etc. These are issues that are going to be important for small business, but there are ways to address them better than we're doing through the small business deduction.

Mr. Dan Albas: You also mentioned the CRA collecting the information of people moving out of province and out of the country. Do you think it would be wise for any government to make these kinds of changes, not just so that we in the public sphere understand what the results of a policy are, but also to add to the academic literature? Do you believe that good evidence-based decision making involves tracking? Would you suggest that the government actually take this up and track the ongoing movements, particularly through the CRA?

Dr. Jack Mintz: Yes. It's not hard to do. The Department of Finance gives a request to the Canada Revenue Agency for certain types of information. They can even bring in some good academics to work on it—someone like Michael Veall, who is a witness today.

Let's try to understand how migration is impacted. It's not going to happen in a year, when you change the tax rate; it's something that could take two to three years before you see the migration. You need to understand more of the dynamic effects to understand it more. That's why I think it's an issue that we really haven't had a good study on to fully understand, at the top end, how sensitive people's residency is to changes in tax rates.

• (1215)

Mr. Dan Albas: [*Inaudible—Editor*] recommendation coming out of this so that people can understand it, and also so that we can add to the academic literature because, as you and I think some of our other witnesses said, there's not a lot of information on these kinds of issues. I hope all sides take hold of that.

Just jumping—

The Chair: Make this a very quick one, Dan. If you can, hold it to 20 seconds.

Mr. Dan Albas: I forgot one thing, Dr. Mintz.

Succession planning is a huge issue for small business, because of our aging demographics. You said that 50% to 60% of small business owners make more than \$200,000. Will this be an issue for them as well? Will the timing for many of these entrepreneurs from suddenly raising taxes, which is quite hard on small business, create extra challenges from a demographic viewpoint?

Dr. Jack Mintz: It may. I don't really know the answer to that question, because it's something one would have to study a little more carefully.

I do know that succession planning is a huge issue for small business. Of course, selling a small business itself is important. That's where the lifetime capital gains exemption comes in. However, we also have to think about rollover provisions under capital gains taxes and incentives for encouraging initial public offers, like the ones we have in the United States.

The Chair: Thank you both very much for your responses.

I would like to thank the witnesses for their presentations. This will conclude our witnesses on Bill C-2.

We will suspend for a few minutes and come back to deal with clause-by-clause.

• (1215)

_____ (Pause) _____

• (1220)

The Chair: I'll recall the meeting to order.

Just before we start clause-by-clause consideration of the bill, I certainly welcome the witnesses from the Department of Finance, who are here if we need assistance going through the bill. I'm not sure if both of you were here last night, but I certainly know one of you was. You had a fairly long evening, till 11:45 p.m., I'm told.

Trevor, I believe you were there answering questions. Mr. Champagne was there as well, chairing. You had a good night of providing information.

Just for the committee's consideration, I'll go through this. I know there are a lot of new members on the committee. I'll just go through an explanation of clause-by-clause consideration of a bill by a committee, so we're all on the same wavelength. Some of you will know this procedure; some won't.

As the name indicates, this is an examination of all clauses in the order in which they appear in the bill. I will call each clause in succession, and each clause is subject to debate and a vote. If there is an amendment to the clause in question, I'll recognize the member proposing it, who will likely want to explain it. The amendment will then be open for debate. When no further members wish to intervene, the amendment will be voted on.

Amendments will be considered in the order in which they appear in the package each member received from the clerk. In this one, there's only one amendment proposed, and that's by Mr. Caron. If there are amendments that are consequential to each other, they will be voted on together.

In addition to having to be properly drafted in a legal sense, amendments must also be procedurally admissible. The chair may be called upon to rule amendments inadmissible if they go against the principle of the bill or beyond the scope of the bill which were adopted by the House when it agreed to the bill at second reading, or if they offend the financial prerogative of the crown.

If you wish to eliminate a clause from the bill altogether, the proper course of action is to vote against that clause when the time comes, not to propose an amendment to delete it.

Since this is a first exercise for many new members, the chair will go slowly to allow all members to follow the proceedings properly. If, during the process, the committee decides not to vote on a clause, that clause can be set aside by the committee so that we can revisit it later in the process. That quite often happens if there's discussion on a clause, or a little bit of uncertainty.

As indicated earlier, the committee will go through the package of amendments in the order in which they appear and vote on them one at a time, unless some are consequential to one another and are best dealt with together. Amendments have been given a number, shown in the top right corner, to indicate which party submitted them. There is no need for a seconder to move an amendment. Once moved, we will need unanimous consent to withdraw it.

During debate on an amendment, members are permitted to move subamendments. These subamendments do not require the approval of the mover of the amendment. Only one subamendment may be considered at a time, and that subamendment cannot be amended. When a subamendment is moved to an amendment, it is voted on first, which is standard procedure. Then another subamendment may be moved, or the committee may consider the main amendment and vote on it.

Once every clause has been voted on, the committee will vote on the title and the bill itself, and an order to reprint the bill will be required so that the House has a proper copy for use at report stage.

Finally, the committee will have to order the chair to report the bill to the House. That report contains only the text of any adopted amendments, as well as an indication of any deleted clauses.

That is the procedure. With that, we shall start with clause 1.

(On clause 1)

• (1225)

There is an NDP amendment, NDP-1. Guy, the floor is yours.

• (1230)

[*Translation*]

Mr. Guy Caron: Thank you very much.

During the various committee meetings on Bill C-2, I have quite frequently brought up the change in the tax rate and its potential effectiveness in reducing inequalities or stimulating the economy. To me it is clear that all of the presentations we have heard on this show that the tax cut for the so-called middle class introduced by the government is probably the least effective measure among those that were presented or promised by the government, despite the fact that this is a key measure.

If we really want to reduce the tax paid by the middle class through an amendment that would still fit into the framework and the mandate of the bill, we could amend this proposal; rather than reducing the tax rate of the second bracket from 22.5% to 20% as proposed in the bill, a measure that would cost about the same would be reducing the first tax bracket from 15% to 14% for all incomes of over \$12,000, rather than targeting incomes above \$45,000.

That is the proposal we have made. I won't debate it any further, because I think I have had ample opportunity to do so in the work of the committee. I sincerely hope that the government, if it really wants to give the middle class a break, will allow all of the middle class to benefit, and not only a certain number of them by including incomes that are far superior to what can be defined as middle class, such as incomes of \$200,000 to \$217,000.

Thank you.

[*English*]

The Chair: Members have the motion before them. I'm sure you all have a copy of the bill, so you'll see that the amendment deals with replacing line 1 on page 1. You can follow it there.

Now we'll turn to Mr. MacKinnon.

[*Translation*]

Mr. Steven MacKinnon: Thank you, Mr. Chair.

We are going to vote against the amendment. Some of what my honourable colleague has had to say contradicts the promises we made to Canadian men and women during the election campaign, with regard to tax reductions. Indeed, that topic was the main issue in many debates. Of course, this was something that was at the heart of our electoral program and our commitments to Canadians, and I dare say influenced the choice of many electors.

We also heard Mr. Zorn earlier, as well as other witnesses. Mr. Zorn talked about this and mentioned a series of other initiatives that will be taken by this government. This tax cut will contain inequality in Canada, and will reduce it.

However, there is something even more important. The member would like us to reduce the first tax bracket from 15% to 14%. It is important to remember that many people in that bracket already do not pay income tax. In fact, I believe the majority of those people do not pay any tax, for different reasons. For instance, there is the GST tax credit, the child tax credit, and others, and these are measures that reduce taxes for these people to zero. And so we oppose this amendment, for the reasons I have just listed.

I would add one last point. The reduction of that tax rate would have a very negative effect on people in that bracket. The tax rate used is the same as the one used to calculate the tax credit for medical expenses, the tax credit for persons with disabilities, and so on. These people would then benefit from fewer tax credits because of the reduced tax rate.

For all of these reasons, we will oppose the amendment.

I will yield the floor to my colleagues.

•(1235)

[*English*]

The Chair: I'll turn to Mr. Caron in a moment.

I neglected to mention that there was a paper handed out by the clerk today, which does not have a title at the top. There were a number of questions that members has raised with Finance officials and other witnesses when they were before the committee. The paper that was handed around relates to responses to the questions asked by members on April 12. Because it has no heading, I am just saying this so that you're aware of it.

We'll go back to your amendment, Mr. Caron.

[*Translation*]

Mr. Guy Caron: From what I understand, Mr. MacKinnon considers that most of the people with incomes between \$25,000 and \$45,000 pay little tax because of all of the measures he mentioned. At this time, several of the measures available are non-refundable tax credits. I would like to point out that most of these people already pay some tax and are probably among those Canadians who could most benefit from fiscal relief. They need it more than those who earn \$210,000 a year and who will benefit from a tax cut on top of that.

Furthermore, I invite my colleague to walk around his riding and talk to those who earn less than \$45,000. He could check whether they had the impression, during the election campaign, that they would be entitled to the tax cut. I can tell him, from my impression and that of many of my colleagues, that they are having quite a strong reaction. People with incomes between \$30,000 and \$40,000, who consider themselves to be in the middle class, thought they were going to benefit from a tax cut. They have been extremely surprised, however, since the beginning of the year, to see that their paycheque has not changed.

Honestly, I didn't hear any debates during the election on the fact that the 22% rate would be reduced to 20.5%. Aside from that technical aspect, people understood that if they were in the middle class, they would be entitled to a tax cut. However, that is not the case for most of those who could be defined as belonging to the middle class.

And so I propose that all of those who consider themselves in the middle class be entitled to a tax cut, and that the tax cut for those with incomes of more than \$200,000 be abolished. For these reasons, I wish to maintain my amendment.

[*English*]

The Chair: Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): With all due respect, Mr. Caron, the entire campaign was centred around the middle-class income tax cut. It was clearly stated in our party's material, with examples based on someone's income, based on how many children they had, how much money they would be saving on these taxes. It was unequivocally clear what the government was going to do.

Liberals were clear what they were going to run on, and this bill is basically fulfilling a campaign promise that we were elected on, a platform to cut taxes for the middle class and to invest in the Canada child benefit. Much of the material throughout the campaign clearly illustrated this.

More importantly, we also pledged that we were going to run deficits to stimulate the economy, which your party was not prepared to do.

The Chair: At the end of your statement, I believe, you went a little beyond the amendment.

Mr. Raj Grewal: It goes to the heart of the amendment in the sense that it would increase the expenditure of the government. If they were in government today, they would not be able to do his exact amendment.

The Chair: I'll cut you off there, because we're off what the amendment is about.

Is there any further discussion?

Mr. Steven MacKinnon: Call the question.

The Chair: The question has been called. All those in favour of the amendment proposed in NDP-1 please signify.

Do you want a recorded vote?

[*Translation*]

Mr. Guy Caron: Yes.

[*English*]

The Chair: It's a recorded vote, Madam clerk.

When your name is called, answer yea or nay.

(Motion negatived: nays 8; yeas 1 [See *Minutes of Proceedings*])

•(1240)

The Chair: We are now on the original clause.

(Clause 1 agreed to)

From clause 2 to clause 10, there are no amendments.

Do you want to deal with them as a block, or do you want to go separately with each?

Mr. Steven MacKinnon: I would vote block.

Hon. Lisa Raitt: What did you say? Did you say, "I would vote Bloc"? That's funny.

Voices: Oh, oh!

The Chair: That was Mr. MacKinnon. He said he'd prefer to deal with them in a "block", not vote Bloc.

Hon. Lisa Raitt: Oh. I thought he said he was voting for the Bloc.

The Chair: It was, Madam Raitt, a matter of interpretation, I assure you.

(Clauses 2 to 10 inclusive agreed to)

The Chair: Shall the title carry?

Some hon. members: Agreed.

Mr. Guy Caron: On division.

The Chair: Shall the bill carry?

Some hon. members: Agreed.

Mr. Guy Caron: On division.

The Chair: Shall the chair report the bill to the House?

Some hon. members: Agreed.

The Chair: Shall the committee order a reprint of the bill for the use of the House at report stage?

Some hon. members: Agreed.

The Chair: Thank you very much. We've dealt with our first bill.

An hon. member: You run a heck of a meeting, Mr. Chair.

The Chair: The meeting is adjourned.

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