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Chair

The Honourable Wayne Easter

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•(1105)

[English]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): The meeting will come to order.

Pursuant to Standing Order 108(2), the committee is studying the Canada Revenue Agency's efforts to combat tax avoidance and evasion.

We have with us Alain Deneault, a researcher with the Réseau pour la Justice fiscale Québec. Welcome, Alain.

I might point at the beginning, Alain, that you are aware of the previous meeting and that a certain amount of restraint is put on the committee as a result of the *sub judice* convention under our rules.

That said, we certainly welcome you here. Whatever you can add to our study on combatting tax avoidance and evasion will be helpful.

[Translation]

Mr. Alain Deneault (Researcher, Réseau pour la Justice fiscale Québec): Thank you Mr. Chair. Thank you for inviting me to appear before the committee. I am delighted to be able to discuss some issues with you this morning.

I am a researcher with the Réseau de la Justice fiscale, an organization that looks at the policy aspects of fighting tax havens. We have close ties with various comparable organizations around the world, such as the Tax Justice Network, in London, and Canadians for Tax Fairness. Dennis Howlett from that organization has also appeared before this committee.

I have also written books about tax havens, including *Paradis fiscaux: la filière canadienne*, which has been translated under the title, *Canada: A New Tax Haven*. In collaboration with tax law professor André Lareau, who also appeared before the committee last week, and on behalf of the collective known as Échec aux paradis fiscaux, I have also written this report, *Paradis fiscaux : des solutions à notre portée*. It is specifically directed to federal legislators in Canada, and has been translated under the title *Solutions within our reach*. Copies are available here. Instead of saying that Canada cannot act alone, it raises the question of why Canada is the only country that has not taken action.

I have a doctorate in philosophy from the Université Paris 8. I was recently appointed research director of the Collège international de philosophie, in Paris. I have studied tax havens from the perspective of political thought. I think this matter requires an interdisciplinary approach. In other words, it requires analysis from economists, legal

specialists, and tax specialists, as well as political scientists and thinkers in the social sciences.

With respect to the administrative, legal and technical aspects of tax evasion and tax havens, I agree with many of the statements made before the committee last week by Arthur Cockfield, Dennis Howlett and André Lareau. I agree in particular that the Canada Revenue Agency is sending the wrong message when it negotiates reduced sanctions for potential tax cheats, especially when it argues that it costs less to reach out-of-court settlements with potential tax cheats as compared to what a court would rule, rather than following through with legal action. There was a sad joke by Charlie Chaplin that if you kill someone, you are a criminal, but if you kill millions, you become a hero. This could apply by analogy to the loss of capital.

The problem is that, under the rule of law, the law must not be negotiable in a narrow-minded way. We must not view the duty to enforce the law as an accounting exercise. I am thinking of the arrangements that have become public knowledge recently, whereby individuals could negotiate to have no record, no penalties and reduced interest rates on amounts that the Canada Revenue Agency considered to be problematic transfers. I will not get into a legal debate here, since the matter could not be thoroughly analyzed before a court.

Since what I am proposing involves a complementary approach, I would add that, despite the technical, legal and administrative issues raised here, we have to look at tax avoidance in diplomatic terms. We have to look at the international structure of the problem and not just the domestic issues. This is not an issue that can be negotiated and it is not merely a legal issue.

In Canada, it seems that the federal executive branch and public institutions are not giving serious and active consideration to what tax havens represent internationally.

•(1110)

It is telling that, when the Panama Papers affair hit the press, every day the main leaders of the countries in question, including Barack Obama, Angela Merkel, David Cameron, François Hollande and so forth, stepped up to the plate. In Canada, however, aside from a few surreptitious appearances by the Prime Minister, it fell primarily to the Minister of Revenue, Diane Lebouthillier, to tackle the issue and speak for the government. One would certainly have expected the Prime Minister's Office, Global Affairs, and perhaps Finance Canada to step up and take on the issue, as we saw in other countries around the world.

Why is that the case? Because lax jurisdictions or tax havens and, in broader terms, free zones and regulatory havens, are not states like other states. They are in fact adversaries of the rule of law. Very often, the laws in lax jurisdictions or tax havens is specifically designed to neutralize the law as it applies in other countries under the rule of law. In that sense, it is an adversary of the rule of law or of the way countries impose the rule of law in their territory.

Tax havens and lax jurisdictions, including the British Virgin Islands, Panama, Hong Kong, Bermuda and so forth, have laws that often allow the creation of entities within their territory—tax-exempt companies, international companies and certain kinds of holding companies—that pay no tax whatsoever on their capital assets. These companies are nearly free of state monitoring as regards the identity of rights holders, providing that the capital held by these companies does not have any impact on the country's domestic life. For example, a tax-exempt company here would not pay any tax providing that it does not have any activities in Canada.

Lax jurisdictions regulate assets, activities, and players all over the world except in their own jurisdiction. In this regard, it could be said that a government such as Canada's, through its embassies and department of global affairs, should point out to those countries that their laws go beyond the prerogatives of their sovereignty because they pertain to assets, players, and activities that have nothing to do with what is happening within their borders.

This has very serious effects on local populations. First, billions of tax dollars are lost, which has a huge impact. This explains the austerity plans of various governments here and around the world. Secondly, the state cannot even play its legal role in governing how these entities conduct their activities.

My point is that this is a political and diplomatic issue.

[*English*]

The Chair: Thanks very much, Mr. Deneault.

Starting the first round, Mr. MacKinnon, for seven minutes.

• (1115)

[*Translation*]

Mr. Steven MacKinnon (Gatineau, Lib.): Thank you, Mr. Chair.

Hello and welcome, Mr. Deneault.

I know you are from Gatineau. As the member for Gatineau, I extend a warm welcome to you here.

At the end of your presentation, you stated that a void has developed over time as regards cooperation between countries on fighting tax havens which, because of their legal framework, host the head offices of entities that do not want to pay taxes.

In recent years, efforts have been made by Canada and by the OECD and G20 countries. What do you think of those efforts? How does Canada defend itself within these bodies? How could it increase its participation and become even more effective in this regard?

Mr. Alain Deneault: Thank you for your question.

The measures relating to BEPS, base erosion and profit shifting, are certainly encouraging, but they are also quite inadequate because

they do not address a number of fundamental mechanisms of tax evasion, such as patent boxes.

Patent boxes enable companies to avoid paying taxes by transferring intellectual property titles to subsidiaries in tax havens. In that way, these companies can ensure that, within the tax year of a multinational group, for instance, the trademark of a group is the property of a subsidiary in a tax haven. This subsidiary can issue royalty interests to other members of the multinational group in the form of invoices, so that as much capital as possible is concentrated in accounts in tax havens. You see what I mean. This mechanism was not raised in BEPS deliberations, even though it is fundamental. We know full well that this is how the transfer price is established, which is one of the most common practices that multinationals use to evade taxes. There is a way to attack the structure of this system. E-commerce is another topic that was not fully discussed.

There is also the whole issue of confidentiality, and there is now talk of the automatic exchange of tax information between countries. Secrecy is already a big problem, but this would at least make it possible to pinpoint a number of tax evaders who are individuals. Very often, even if banking secrecy is lifted, companies arrange their financial affairs to give the appearance of legality. Even with banking secrecy lifted, we are no further ahead. More complex provisions are clearly needed.

This might be progress, but citizens have no way of monitoring public authorities. This is evident in the various matters that the Canada Revenue Agency has taken an interest in recently. The report by Canadians for Tax Fairness is relevant. I know you find it controversial, but there is potential for political interference. This is nothing new. We know there is potential for political interference in public agencies. If there is no mechanism to ensure that, when a government receives information about a company or wealthy individuals, it does not remain anonymous or confidential, that is problematic.

That's all I'm saying. What I'm saying is that there are problems at the OECD. Thus far, Canada has not been the strongest advocate in the OECD in this regard. For my part, I hear from my international partners that Canada does not have a good reputation in these circles or, in any case, in the view of those fighting tax avoidance and evasion. Let's hope this situation improves.

I would just add one point in this regard. Canada gives the impression—to use Pierre Bourdieu's phrase—of the right hand not knowing what the left hand is doing. While it claims to be fighting tax havens by being active within the OECD, Canada shares its seat, at the World Bank and the International Monetary Fund, for example, with 12 tax havens, 11 of which are in the Caribbean and which are among the most controversial. They include the Bahamas, St. Vincent and the Grenadines, and St. Kitts and Nevis, which are not known for their strong rule of law. When Canada speaks out at the World Bank or the IMF, it does so on behalf of these 12 governments, that is, 11 tax havens in the Caribbean, and Ireland. Its message is mixed. In my book, *Canada: A New Tax Haven*, I provide examples of when the Government of Canada officially stands up for the tax havens it is mandated to represent. At some point, you have to decide which side you are on.

● (1120)

Mr. Steven MacKinnon: I have noted a considerable increase in the CRA's accounts receivable. The CRA would explain this by saying it's a sign that its efforts to recover taxes and fight tax evasion are working. If I'm not mistaken, this year's receivables are in the order of \$30 billion.

We have made considerable investments, \$444 million, in the CRA. We hope that, with the assurances it has given us, with improved and additional resources, it will be able to do a better job fighting the problems you mentioned. I agree, however, that this does not solve the problems you raised regarding intellectual property, e-commerce and so forth. Under existing laws, the CRA maintains that it can improve its performance in collecting the amounts owed to Canada.

Would you agree with that?

Mr. Alain Deneault: Things can only get better. Hundreds of billions of dollars are circulating in tax havens, in the order of \$21 billion. That is calculated in tera dollars. Clearly, there is room for improvement.

Once again, it's all well and good to send the CRA to the front, armed with 100 additional auditors, but let's not forget that the previous government made drastic cuts to the CRA's budget. The additional funding invested in its operations will just barely bring things up to par. So we are back to the way things stood before the cuts.

It is doubtful that the CRA is equipped to conduct monitoring operations of wealthy individuals. I must stress that this is a global problem. Wealthy individuals are an important group of tax evaders, but the main issue is tax evasion, that is, the way we have legalized a number of transactions of multinationals or have lost control, as the case may be. If we do not take that broader view of the matter, we will be working in the margins. If you are saying that we are making progress in the margins, I'll give you that much. We are making progress in the margins, but the problem must be seen from a broader perspective.

If Canada had done nothing about tax havens since 1980, I think we would be further ahead today. Canada has been lax, in particular by signing an agreement against double taxation with Barbados. This agreement is completely unacceptable from the perspective of political thought. An agreement against double taxation only makes

sense if the tax policies of the two countries are similar. Barbados, however, has a tax rate of 0.25%, while capital is taxed at 35% in Canada. The suitability of such an agreement is questionable.

[English]

The Chair: Mr. Deneault, I'll have to go to the next questioner. We're well over time.

Mr. McColeman.

● (1125)

Mr. Phil McColeman (Brantford—Brant, CPC): I thank the witness for being here.

To pick up on where my colleague across the table was originally going, the efforts that have been made internationally to combat tax evasion and the kinds of agreements that countries have made with each other stem back several years, as do some initiatives to clamp down on the enforcement side. One recent report stated that this has resulted in \$1.57 billion, I think, being recovered as a result of those efforts, and the new government is putting in more resources to build on that focus that was taken and to do more.

My take-away from what you've said so far is that you don't believe this is nearly enough. Your comments would lead me to think there's something missing, and that there's a disconnect on a much larger scale, as you've mentioned, in that CRA, and perhaps the senior people at CRA, don't see it in a global context the way you do.

Could you expand a little further to help me understand that? We've had CRA officials here. They've told us about the way they manage and the way they focus on this issue. How, in a practical way, would you say they should change what they're doing?

[Translation]

Mr. Alain Deneault: In fact, I am not totally committed to a study that would be limited to what the Canada Revenue Agency can do about that. I am trying to say that the Canada Revenue Agency is one of the vectors that we can use to fight tax havens. So the point is not to discredit the agency but to explain that if we send it alone to the front, sooner or later we are bound to see small improvements on the fringe of the issue.

There is the globalization architecture, the result of decisions taken most often by western governments since the 1980s, and which explain the global geopolitical situation. If there is a place where we should be able to ask questions on that global architecture, surely it is in this Parliament.

To be as concrete as possible, I would say there are two broad categories of problems. The first concerns capital transfers to tax havens done by individuals. Most often this is done illegally. An individual, as opposed to a multinational, knows that when he is in Ottawa, he cannot be in Belize, Panama, Luxemburg or Hong Kong at the same time. However, a business can manage funds and do intra-corporate transfers if it is dispersed into several entities. The issue of tax evasion is closely linked to the very structure of multinationals that escape public monitoring because of their multinational nature. States are played one against the other, but operations are coordinated from locations that are not subject to government monitoring, that is to say tax havens, with legislation of convenience.

So how does an individual profit from this extraterritorial global structure? Secrecy is at the heart of the issue, in that people defraud the tax authorities, they omit disclosing a certain number of things, and secrecy guarantees that the Canada Revenue Agency will not be informed of the presence of assets that have been hidden abroad. This is where automatic information exchange policies are necessary. The tax information sharing agreements that have been signed and are in effect currently make it possible to break the seal of banking secrecy around the time when we already have the information we want to obtain. In any case, when we are that advanced in a file, all we need to do is collect a few elements. It is a major issue that requires a diplomatic approach.

I would like to point out that even if we obtain automatic information sharing, there are certain areas such as in Hong Kong or the British Virgin Islands where the legislation does not even require that they keep records. We may get bank confidentiality lifted, but it can happen that the documents we find contain not a trace of the names of the interest owners. This legislation does not even oblige a business lawyer or an asset offshoring expert to keep these records. Consequently, even if we manage to lift banking secrecy, there will always be this problem, which one day or another will be political. One of these days a global, political, and diplomatic solution must be found to deal with these issues, since legislation is at the core.

As for the large businesses, please allow me to say just one word. The Canadian government has greatly encouraged the tax evasion practices.

• (1130)

[English]

Mr. Phil McColeman: This may not relate totally to your area of expertise, but I bring it up as another area of missed opportunity for government revenues, and that's the underground economy in this country. Working for cash is another way to say it. Some people call it the black market.

A study that I'm aware of from the mid-nineties in the housing and renovation industry estimated that \$6.9 billion was lost in revenue annually from the building and construction industry.

Do you have any views on how we might recover more of that unpaid tax where people are having their shingles replaced on their roof or having their driveway redone, and it's all done on a cash basis? Is it a big problem in your mind?

[Translation]

Mr. Alain Deneault: The question is relevant. A few years ago I prepared a report entitled "Paradis fiscaux: l'aveuglement volontaire du ministère québécois des Finances", [Tax havens: the willful blindness of the Quebec ministry of finance]. This report said that this expertise you are seeking is right here within the various departments of finance in Canada, at both the federal and provincial levels.

In fact, for years, the main targets of the federal and provincial departments of revenue were black market workers, servers who receive tips, provincial notaries, the small neighbourhood restaurateur; they took a close look at the black market economy, at under-the-table activities, at small sordid operations. They never or almost never found any documents—and I certainly went through all of the documentation with a fine-tooth comb—on those who own large fortunes, multinationals and the tax avoidance issue. It is but recently that we began to hear about abusive tax planning. It has only been talked about for a few years.

This documentation on the small-scale fraudster who is easy to nab and who is beset by large numbers of tax agency representatives is very present at the Department of Finance. Moreover, I refer you to this abundant documentation, as this very abundance is suspect, given the very few documents there are on the far bigger fraudsters.

[English]

The Chair: Mr. Dusseault.

[Translation]

Mr. Pierre-Luc Dusseault (Sherbrooke, NDP): Thank you, Mr. Chair.

First I would like to mention the fact that I'm disappointed that Mr. Hamersley—the whistleblower in the KPMG affair—is not with us even though he was invited to testify. He refused our invitation. That is a dangerous precedent, all the more so since Mr. Hamersley no longer works for KPMG. It would have been important for us to obtain his opinion on KPMG's role in all of this.

Mr. Deneault, thank you for honouring us with your presence. I would like to ask you a question on those who facilitate tax evasion.

In exchange for large sums of money, accounting firms and legal firms offer tax products to rich clients—tax products is the term they use—that are clearly identified in internal documents. The fact that their purpose is to allow them to avoid paying tax is publicized. Nothing is hidden. They are told that these firms will ensure that they will pay less tax at the end of the year.

Could you comment on what the government and parliamentarians could do to deal with the people who facilitate tax evasion in this way, those who advertize tax products whose objective is clearly to allow people to pay less tax when they are provided with them?

Mr. Alain Deneault: The people involved will tell you what they're doing is legal. If it's legal, it's because we've turned a blind eye to certain abuses, or we've legalized processes that may suit some of the country's powerful players with strong voices.

I want to remind you that, a few years ago, an influential finance minister in this country created an advisory group. The formal advisors in the group were retired administrators and retired people who had established ties to companies such as Scotiabank, Royal Bank of Canada, PricewaterhouseCoopers, Barrick Gold Corporation, SNC-Lavalin, Rogers, and Shell. However, the group did not include a single tax expert, sociologist, obviously, or union official. Forget it! It was made up of business people who were no longer even lobbyists but, despite all that, were the minister's official tax advisors. And we wonder why the legislation has so many shortcomings!

Now I want to come back to the key issue I wanted to discuss. What does it mean when countries like Bermuda, the British Virgin Islands, and Panama make laws for capital that is never present in their jurisdictions? It means that, here in Canada, specialists in the offshoring of assets will say they are Canadian. They will tell Canadian clients who have assets in Canada and who have been here a long time to enter property titles and capital into a sort of protective glass bubble that's been created. The contents of the glass bubble are covered by the laws in Panama or Bermuda. The assets do not come under the authority of any country because in those countries, it's considered that the assets must not somehow interfere with the country's real economy. A type of legal system was created that's nowhere to be found. This was accomplished by designers who were often the creators of the tax policies of tax havens in the first place.

Keep in mind that, for the most part, Canadians were the ones who created tax havens in the British Caribbean. A former Canadian finance minister, Donald Fleming, is well-known for promoting the establishment of tax laws in the Bahamas. The Bahamian finance minister in the 1960s, Sir Stafford Sands, was also on the Royal Bank of Canada's board of directors. Back then, Jim MacDonald was living on the Cayman Islands. He was closely tied to the Progressive Conservative Party, and he did roughly the same thing. They all worked with Canadian banks that have a long history in the British Caribbean, as we know. They were responsible for designing the tax havens, and they specialized in transferring assets there.

● (1135)

Mr. Pierre-Luc Dusseault: I want to ask another question about the contradictory message Canada sends on the international stage.

On the one hand, Canada tries to show citizens that it works hard and devotes energy and resources to fighting tax evasion. On the other hand, it maintains a tax haven for mining companies on its own territory.

It also has tax agreements with notoriously lax jurisdictions. For instance, Barbados and Canada have a double taxation agreement.

I want to make it clear to committee members who will be looking at solutions that Canada needs to tighten its rules, in particular for mining companies, so that we don't become their tax haven.

The rules also need to be tightened for our tax agreements and treaties with lax jurisdictions.

Mr. Alain Deneault: These are broad issues that should be addressed at a seminar, but I will try to be as brief as possible.

There are dozens of lax jurisdictions, and they each have a specialty. Different approaches are taken in Guernsey, Liberia, the

Turks and Caicos Islands, and the Marshall Islands. Each lax jurisdiction creates, within its legal framework, ways for powerful outside players to benefit from a laissez-faire attitude.

There is something I call hybrid lax jurisdictions. The countries involved are constitutional states that have "offshored" part of their legislation. I am referring to the Netherlands, Ireland, the United Kingdom, Delaware in the United States, and Austria. Canada, in a way, developed legislation that created a real regulatory haven for the global mining industry. The odds are three out of four that a mining company is Canadian because 75% of global mining companies are Canadian. The companies are not always created using Canadian capital. International investors establish a structure in Canada to operate mines abroad in order to benefit from our liberal legislation. A commission of inquiry should be created to look into the matter. I discussed it in my book *Noir Canada* and in another book that I wrote with William Sacher, *Paradis sous terre*.

The first step is to start dismantling a few things. Under subsection 5907(11) of the Income Tax Regulations, when Canada signs a tax information exchange agreement with a tax haven, Canadian businesses can transfer assets to the tax haven and transfer the assets back tax-free in the form of dividends. Canada has been completely integrated into this system.

The free trade agreement between Canada and Panama should also be discussed. Panama is one of the world's top launderers of drug trafficking funds. By signing a free trade agreement, Canada is encouraging bilateral trade. Clearly Canada, while claiming to fight the problem, is sometimes complicit in it.

● (1140)

[English]

The Chair: We're well over time. We've been running over with all our questioners this morning.

Mr. Sorbara is next, but first, Mr. Deneault, could you explain to me what you meant by "patent boxes"? In an earlier question from Mr. MacKinnon, you mentioned patent boxes. What do you mean by that?

[Translation]

Mr. Alain Deneault: It's a structure that promotes capital transfers in lax jurisdictions and enables a group to charge members under the authority of a board of directors artificial patent royalties or intellectual property royalties. That's the most common way to carry out transfer pricing.

Consider a business whose brand is very valuable. I don't need to give examples. Patent boxes encourage tax exemption or the reduction of taxes on transfers concerning the right to use a brand. For example, when a multinational group entrusts the brand's property rights to an entity in a tax haven, the entity can then charge royalties to the other multinational group members to transfer the most possible assets into the subsidiary's accounts.

[English]

The Chair: Thank you.

Mr. Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): *Bienvenue.*

I want to comment before I ask a question. In our budget, we have dedicated over \$400 million to the Canada Revenue Agency to combat tax avoidance and tax evasion. I think it was a large step forward, and it built upon prior measures, which I think is great. I have always commented that Canadians should have confidence in our tax system, the confidence that everyone is paying their fair share and that no one group is subsidizing another group. Here in Canada, we have very valued social programs that Canadians pay for and care about. We need to ensure those, and having an efficient tax system and confidence in our tax system are very important.

I want to ask you a question about what is maybe a perceived tax gap in Canada. I believe there's a study or two going on about that. How important is it for us to get a good understanding and estimate of how large this tax gap is in Canada currently?

[Translation]

Mr. Alain Deneault: That's a very good question. Given my field of expertise, I think the observable gap you mentioned can't be strictly analyzed from an accounting perspective. Certainly math is involved, but it's not a matter of just throwing out some numbers. Instead, I think the situation keeps escalating. I'll explain quickly.

According to Statistics Canada, Canadian businesses have "invested" about \$200 billion in the 10 main tax havens where the businesses are located. I won't get into that assessment, which strikes me as extremely low. We can take into consideration that these funds are not taxed, but it would be a mistake to look only at that type of data. Afterward, it's obvious that, to retain capital—in my work, I quote finance ministers who use this type of expression explicitly—and to prevent it from flowing out like other capital, the tendency of Canadian federal and provincial governments has been to reduce the corporate income tax rate.

At the federal level, for example, the rate was 38% in 1981 and is now 15%. The capital tax has been abolished, and a large number of taxation measures have been reduced, resulting in less cash going into the public purse. Not only is a large amount of capital leaving the country as a result of tax evasion, but the remaining capital is taxed less because, to retain capital, Canada is imitating tax havens. The situation thus keeps escalating. The government is unable to balance the budget, but is incurring debt from financial institutions that are no longer being taxed or are being taxed less than before. Servicing the debt therefore enters the equation. This also explains tax evasion because, obviously, a link exists between tax revenues and government spending. Fees are then charged for services that

were previously free for all citizens, or public services are simply cut outright, as we are seeing now. The gap must be assessed using sociological factors and criteria because multiple issues are at play. Every day, our population pays a high price as a result of tax evasion, because it also leads to policy and accounting logic that is hard to calculate but no less real.

• (1145)

[English]

Mr. Francesco Sorbara: To follow up, I have a quick question.

I have to just comment on the tax rates, where they were at and where they've now come down to. I would obviously argue differently and say that lower tax rates have spurred investment in capital and job creation here in Canada. That's my personal view.

This has been done by both the Liberal and prior Conservative governments. I would argue that corporate tax rates are currently at a good level.

When you talk about the transfer of capital to these tax havens, are you saying that there are a number of Canadian corporations that have practised this? Are they doing it via transfer pricing? Are they doing it with this patent box?

Could you just elaborate on that because our government and other governments have entered into a number of agreements with multinational entities regarding corporate governance and taxation issues. We've made a lot progress on that front. I would argue that many Canadian corporations, employing tens of thousands of Canadians across this country, are good corporate partners for their communities, and so forth.

[Translation]

Mr. Alain Deneault: I will respond to your comment.

Businesses do have more money to invest when the tax rate is lower. That explains why they have accumulated \$630 billion in their coffers and deposit accounts at home and abroad. It's an enormous amount that shows that, when businesses are swimming in cash, they don't necessarily invest it. When they do invest, it's often in speculative products, such as hedge funds in the Cayman Islands or hedge funds for financial products that are of no benefit to Canadians. They invest in countries whose names are written on the labels of the products we consume, such as Bangladesh, China, India, and Jamaica, in other words, tax havens for labour—free trade zones where sweatshops and all those things can be found. We have to face the facts.

Sorry, I forgot your question.

[English]

Mr. Francesco Sorbara: Can I pass the remainder of my time to the parliamentary secretary?

The Chair: Mr. Champagne.

[Translation]

Mr. François-Philippe Champagne (Saint-Maurice—Champlain, Lib.): Thank you, Mr. Chair.

Thank you, Mr. Deneault, for being here today.

I am very interested in what you have to say, and I think you bring, as you said, a philosophical perspective to the discussion. It's worthwhile to look at these major issues from that angle.

You made two comments that I want to address. You spoke of the Prime Minister of Canada's action regarding the Panama Papers. I think the Prime Minister clearly stated that we included historic amounts in our budget to support the Canada Revenue Agency's work. The commitment was even made during the election campaign, well before the Panama Papers became a hot topic or hit the media headlines across the country.

I want to address two points with you on a philosophical and intellectual level. You said you're not in favour of out-of-court settlements. As a lawyer, I can say the practice is common in the legal field, not only in Canada and not only for tax matters. Most disputes between individuals are settled out of court because that's the quickest way to resolve the cases. The practice exists in many cases involving the crown, whether the case is related to criminal or tax matters. It helps make courts more efficient, because establishing proof beyond reasonable doubt is obviously not always easy, especially in cases involving international issues, as you mentioned. I want you to elaborate on that first point.

The second point is this. I lived abroad for a number of years. I remember that, when I was in Europe, the European states had encouraged the return of capital to their jurisdictions. They said that, once the capital was back in their tax base, taxes could be imposed.

• (1150)

[English]

The Chair: Mr. Champagne, you'll have to sum up quickly. We're already over time.

[Translation]

Mr. François-Philippe Champagne: Okay.

[English]

The Chair: We'll have no time for the answer.

[Translation]

Mr. François-Philippe Champagne: You see my point. Once the funds are brought back into the country, they can be taxed in future years. A number of European states established these measures for the purpose of onshoring the income that couldn't be seen to make sure to have the funds in the future.

Mr. Alain Deneault: You raise a lot of points.

I just want to mention that I remembered your colleague's question in the meantime. Of course, Canadian companies engage in transfer

pricing because they are always trumpeting the fact that it's legal. I'm not sure which newspapers your colleague reads, but it happens every day. All he has to do is read Jean-François Cloutier's articles in the *Journal de Montréal*—he's a fairly easy read—and he'll see that, every week, some new tax haven scandal or another is breaking.

As for out-of-court settlements, they are very contentious. I won't quote legal experts, but those in sociology and philosophy of law circles are quite concerned. What troubles them is the fact that the tendency towards out-of-court settlements deprives us of jurisprudence and ultimately transforms the law into a type of narrow-minded logic that relies on haggling and the balance of power. It's no longer the law being applied. Oftentimes, in settlement conferences, the mediator, who may be a judge, will point out that the purpose is not for the parties to assert their rights but, rather, to renounce them. The basis for out-of-court settlements is having the parties renounce their rights, and that's a really big problem. If you want to get into the philosophical arguments, we could have a fine debate, indeed. It's a very serious problem from a philosophy of law standpoint.

I wasn't trying to attack the Prime Minister. I simply wanted to make clear that most countries around the world are interested in the structure behind tax havens, not just the administrative measures that can be taken domestically. Clearly, it's encouraging to see the new government invest in the Canada Revenue Agency. That said, given the many cuts the agency has endured in the past, all this money is doing is restoring the balance. The government has armed itself with slingshots to fight a massive problem, one that requires special attention from both the Department of Finance and the Prime Minister's Office instead of disclosure mechanisms, which, despite carrying some weight, are not enough.

As far as Europe is concerned, the debate is raging. It's a tremendous challenge. It's a fact that, in Europe, Luxembourg literally soaks up the tax revenues of other governments by allowing companies that operate in the European Union to record their profits in the grand duchy, even though all of their operations are located elsewhere and they benefit from taxpayer-funded public infrastructure in those countries. When all is said and done, we are missing the boat in a big way.

[English]

The Chair: Thank you both. You're well over time.

Mr. Aboultaif.

Mr. Ziad Aboultaif (Edmonton Manning, CPC): At the very beginning of your speech there were a lot of mixed messages in different directions. That led me to the conclusion that what has happened with tax havens is more political than anything. If that's the case, and it's what you're truly suggesting, it means that no matter how much money we invest in the CRA, the result is going to be the same.

Is that correct?

[Translation]

Mr. Alain Deneault: That's not what I was saying. I was saying that it's a complementary approach. If we tackle the problem from the periphery by making investments in the Canada Revenue Agency to give it the tools to nab a certain number of tax evaders who may have otherwise gone undetected, we are making headway, yes, but the fact remains that we aren't dealing with the crux of the problem.

I'm referring to the automatic sharing of information, the lifting of bank secrecy, and the problems at the state level, as a result of which, the information may still be non-existent despite bank secrecy being lifted. The Panama Papers showed us that the shell companies are so numerous in many cases that it's almost impossible to identify who the holdings in question really belong to. These measures aren't enough, but it doesn't mean they are completely in vain. That's one aspect of the problem.

Fixing the problem of tax avoidance requires more than just investing more money to put additional tools and staff at the Canada Revenue Agency's disposal. It also requires revisiting a number of provisions, as well as treaties that Canada has signed, and doing that isn't overly costly. It would mean reviewing the agreements we've signed with Barbados and other tax havens. It's a matter of more than just making investments. Some problems also require a different way of thinking.

[English]

Mr. Ziad Aboultaif: I gather you're looking for a change of policies, which means you're suggesting that we're probably living on an island, and we have nothing to do with the rest of the world, so we can do whatever we want as Canada. That means there are other consequences to how to develop such measures and such policies. Don't you see any problem in doing so?

• (1155)

[Translation]

Mr. Alain Deneault: I'm saying the exact opposite. The witnesses who appeared before you last week, if I'm not mistaken, said the same thing: Canada is lagging behind. Canada is the one living on an island. If you keep track of what's happening internationally to combat tax havens, you know that the U.S. has quite a leg up on us. In fact, some U.S. multinationals are moving their head offices from the United States to Canada, precisely because of the tax advantages our country offers.

On a small scale, we serve as a tax haven for the U.S., instead of contributing to the broader international dynamic, including the implementation of FACTA by the U.S. and the efforts of the French Republic. France made the disclosure of assets and the number of subsidiaries owned by French banks around the world mandatory in order to better control and track French banking activities in the international arena, including tax havens. There are many examples of countries acting independently and adopting such an approach. I'm trying to convey to the members that Canada is lagging behind, as far as this movement is concerned. It's time for Canada to join the rest of the world on this issue, rather than standing on its own.

[English]

Mr. Ziad Aboultaif: How much time do I have left?

The Chair: You have time for another question, if one of you wanted.

Mr. Ziad Aboultaif: Lisa, do you want it? I can go.

The Chair: One more, Mr. Aboultaif.

Mr. Ziad Aboultaif: The bottom line from what I hear you saying it this. Don't you think that if we have such a policy that you are suggesting, then we would scare off investments coming to Canada and scare the multinational corporations or enterprises from coming here, and investing, and working, and putting their head offices here, and being part of Canadian business at large?

[Translation]

Mr. Alain Deneault: We are light years behind what the U.S. is doing right now, and to my knowledge, they aren't seeing American capital flow out of the country on a massive scale. Canada has one of the lowest corporate income tax rates in the OECD, so we have some room to manoeuvre. There's no reason for us to tax corporate income at a lower rate than Germany or the U.S. does. U.S. companies aren't going to pack up and move to Canada as though we were the tax haven of choice for the socialist republic that is the U.S., after all. We aren't there by any stretch of the imagination.

Rather than languishing in ideological mode and adopting rhetoric that leads us nowhere, I think Canada should take a hard look at the reality and see how other countries are dealing with it.

[English]

The Chair: Thank you, both.

Ms. O'Connell, the last series of questions.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you for your testimony today. I want to ask a couple of questions and summarize this. I don't think there's a question or a doubt, based on the testimony we've heard, that there were severe cuts to CRA in the past that have led to our falling behind. We're not quite where we should be in comparison with other countries around the world in dealing with tax evasion.

I guess where I'm having difficulty with your testimony is that it almost gives the impression that we're continuing the ways of the past—doing nothing and turning a blind eye. I recognize, in your testimony that it's not just the CRA, but that there has to be a more global approach to this. But when I look at CRA and the investment made there, in addition to the money, there was a committee formed, the Offshore Compliance Advisory Committee, with the following initial focus:

- Strategies to help alleviate and discourage offshore non-compliance;
- Administrative policies being used by other tax administrations to address this global issue;
- Advice to the CRA in moving forward with its measurement of the tax gap;
- Additional strategies and practices related to promoters of tax schemes; and
- Potential ways to improve the CRA's criminal investigation functions.

Isn't that essentially what you're asking for, what we're moving forward with? We don't have all the answers, because, for example, we've had years of cuts to the CRA in this regard. We're moving forward in that direction, but we're getting international experts as well as local ones to provide the specifics and the strategies needed to implement the very policies you're speaking of.

•(1200)

[Translation]

Mr. Alain Deneault: I agree with you.

In my view, I don't think we should look at the issue of tax havens as simply a curse befalling us and an external phenomenon that we should fight against. As Canadians, we have created our own problem in large part.

The avoidance of double taxation agreement, which Canada signed with Barbados in 1980, will actually be voted on in the House of Commons for the first time, after the non-partisan initiative of Gabriel Ste-Marie, MP. This agreement encourages tax avoidance and makes it legal, as is the case with other agreements, which I will not mention because it would take too long. With this agreement, it is the Government of Canada that caused our problems. We were not required to sign it and nothing justifies the fact that it still exists today. Similarly, there was no reason for Canada to sign an accommodating free trade agreement with Panama.

In addition to what you have mentioned, which are certainly positive steps, we must obtain a clear diagnosis of the geopolitical issue and Canada's active responsibility in creating the problem so that we can sort of undo what we did wrong. I think the avoidance of double taxation agreement with Barbados is a good example. Barbados is the country with the second highest level of investment by Canadian companies in the world, after the United States. That makes no sense because there will be no Olympic Games in Barbados in two years. There is no capital spending, no real investment. We are using that agreement, which Canada voluntarily signed with Barbados and which was renewed, strictly for tax avoidance purposes. It's hugely expedient. It is also one of the problems that we need to have the courage to raise now.

[English]

The Chair: This will be your last question, Ms. O'Connell.

Ms. Jennifer O'Connell: Thank you.

Again, I don't disagree. The errors of the past don't preclude the good work happening now and into the future to deal with this.

For my last point, I want to touch on the tax gap. I think that until we as Canadians really understand what that tax gap is, how can we aggressively combat it? I know that previous calls to have the CRA calculate the tax gap were "stonewalled", according to some media reports. How important is CRA's initiative, in terms of the measurement of the tax gap and that being released, in the work moving forward?

[Translation]

Mr. Alain Deneault: I would simply say that the double taxation treaty with Barbados is not a mistake of the past, but a mistake being made every day. Every day, we are repeating the same mistake. Some day, we have to put an end to it. It is a contemporary problem. This agreement is still a problem today since Barbados is the country with the second highest level of investment by Canadian companies.

In terms of the tax losses measure, I mentioned just now a sociological method that I think is complementary to an arithmetic approach. This method consists of seeing to what extent the problem is exponential and immeasurable. The more tax havens attract capital

from Canadian companies legally, or from individual wealth holders illegally, and the more we tend to scale back the corporate tax rate, the less adequately public areas are financed and the more debt and service charges increase. If we really want to take a nuanced approach to address these complex issues, we will have to incorporate the sociological considerations. That is what I am advocating.

[English]

Ms. Jennifer O'Connell: Thank you.

The Chair: I'll have to cut it there.

Thank you very much, Mr. Deneault. There was a lot of information given. In fact, I think some reading may be required in terms of some of the broader issues relating to taxation.

Mr. MacKinnon.

[Translation]

Mr. Steven MacKinnon: Mr. Deneault, you mentioned a book. Could you tell us the title?

Mr. Alain Deneault: The title is *Paradis fiscaux: la filière canadienne*. This book describes the pioneering role of Canadians with tax havens in the Caribbean British territories and the way Canada capitalized on them.

•(1205)

Mr. Steven MacKinnon: Thank you.

Mr. Alain Deneault: It is translated into English as *Canada: A New Tax Haven*.

[English]

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

We will suspend for a few minutes and come back for committee business.

Thank you.

•(1205)

_____ (Pause) _____

•(1215)

The Chair: Everybody is here. Let's reconvene for committee business.

We have a motion first. Then we have to determine where we're at on the KPMG study in terms of getting a report drafted, having time to discuss recommendations, and deciding when to table it. Furthermore, we really have to deal with the budget for the fall pre-budget consultations.

The way I would suggest we proceed is that, first, on KPMG, I'll ask Michaël to outline where we're at. I know that the analysts and the library have been working pretty steadily to try to get a draft prepared.

Michaël.

Mr. Michaël Lambert-Racine (Committee Researcher): *Merci.*

We're already working on a draft report based on the testimony that was provided during the previous meetings. We have some parts in translation already, and we are working to finalize other parts. We will need to add the testimony that was provided today.

We are aiming to provide the committee with a draft report, in both languages, either next Monday or Tuesday, depending on translation and formatting. That would allow the committee, if the committee wishes to do so, to meet on June 23 to provide comments and feedback and to review the report.

The Chair: Okay.

I would remind people that we still are public and still are televised.

Mr. Caron.

[Translation]

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you very much, Mr. Chair. My thanks to the analysts for their outstanding work on this matter.

Could you tell us whether a motion is necessary to ask the analysts to include in their report a section on the situation we are in with respect to the *sub judice* convention and its impact on the evidence or the lack thereof. The scope of the convention must be considered in a situation like this. I think this would be extremely interesting, because we have not been confronted with a situation like this very often. I don't remember it being raised in previous Parliaments. It might be extremely useful in future studies if we have to study the issue of tax havens again. For instance, we have not dealt with the Panama Papers at all in this study. We should really see, based on the analysis, the agreement and the case law, what the powers of the committee are and to what constraints it is subject, if any. You see where I am going with this. I think this should also be part of the report. We have been confronted with this situation rather directly.

[English]

The Chair: Mr. Caron, you mean the difficulty of a committee dealing with an issue when it's also, at the same time, before the courts; in simple terms, that's what you mean.

[Translation]

Mr. Guy Caron: Yes, indeed.

In addition, perhaps the various situations need to be studied based on whether a case is before the Supreme Court or another court, the Tax Court of Canada, the Federal Court and so on. It would be helpful for the report to provide us with at least an analysis and perhaps even guidelines if we decide to continue to study the issue.

• (1220)

[English]

The Chair: Yes. Well, I think it is up to the committee, when we get a draft, to determine what further we may want in that report. I guess if we get too extensive we wouldn't be able to table it until the fall with the recommendations that I think we would want as well. Be that as it may, that's where we're at.

Mr. MacKinnon.

[Translation]

Mr. Steven MacKinnon: I agree.

We should certainly report on the decision made as a result of the legal advice we have received. We have asked the witnesses to limit their remarks and to avoid talking about the KPMG case directly based on the legal advice we have received. However, I'm not sure why that should be a big part of the report. I think it is a completely different issue. Why should we use a big part of the report in order to discuss this issue instead of focusing on the topic we are interested in, namely the Canada Revenue Agency's efforts regarding tax evasion and fraud?

I agree that we could put an asterisk, if you will, for a later time—and come back to it—as my colleague suggested. However, I don't think we should devote a major analysis and a part of the report to the legal advice we have received.

[English]

The Chair: Mr. Caron.

[Translation]

Mr. Guy Caron: Well, it's not a decision, but a convention. We were told to be careful, and that it was going to limit the scope of the questions we could ask. It also limited the witnesses we could hear from. One witness decided not to appear because of this convention.

With constraints like this, I seriously wonder how we can really say that we are getting to the bottom of the KPMG issue and the actions of the Canada Revenue Agency, given the few answers that we have gotten so far from agency officials about how this works. We have also gotten few responses from witnesses who have held back a little regarding KPMG. The *sub judice* rule has influenced the direction that this committee could take. This surely isn't the last time we will talk about tax evasion or aggressive tax avoidance at this committee.

If we don't talk about the repercussions of this convention or how we are going to consider it, chances are, this committee will have no way of doing any moderately effective work on tax havens or aggressive tax avoidance.

As a committee, we have very wide powers. Our powers are even greater than professional privilege or solicitor-client privilege. We can use them if we want to. I'm not saying we have to, but it shows the reach of a committee's powers. Limiting ourselves to accepting the convention from the Office of the Law Clerk and Parliamentary Counsel will seriously affect our ability to do our work.

That's why I think this should count for three quarters of the report, but it's important to mention the situation the committee is in after receiving this warning from the Office of the Law Clerk and Parliamentary Counsel. Analysts do not make recommendations. That's our job, but I need some information about what this means for our work. We discussed it at our last meeting, when we heard from the Parliamentary Budget Officer. We acknowledged that the committee did not fully understand the entire scope of the *sub judice* issue.

It would be a good idea for the analysts to tell us what this means for our work, particularly as part of the study on tax havens, tax legislation and tax avoidance.

[*English*]

The Chair: At our next meeting, when we have the draft, I wonder if we could further this discussion and whether it would be possible to do, either as part of the report or as a separate report, given our experience with this one.... Part of the problem here—and I've certainly felt it as chair—is that some of the advice is to go in camera, and I think that if we had gone in camera we would have missed some very good evidence, at both this meeting and the last meeting, but we are also bound by the rules of Parliament. That does make it very difficult for a parliamentary committee to get into the specifics of a certain issue that may be before the courts.

Maybe we can examine that a little further. I wonder how far you can stretch the testimony to avoid the *sub judice* convention, but in any event, can we further this discussion? We can ask the analysts to do.... I know there may be some problems in getting it through translation, but we'll see what the analysts can prepare for us so that we could look at a report a week from Thursday. It could go to committee on Tuesday and we could discuss it on Thursday. If we're able to do that, it would be nice to have our recommendations available for Parliament, and then to look at this other issue as well. We can talk about that on Thursday.

Is that agreed? Okay.

Michaël.

•(1225)

[*Translation*]

Mr. Michaël Lambert-Racine (Committee Researcher): I would like to clarify something.

Some issues were mentioned in the introduction in relation to the *sub judice* convention. It isn't a comprehensive analysis. I don't think we could provide an analysis like that in a draft report for next week. We will certainly raise the issue. When the committee discusses the report, it could decide what action to take.

[*English*]

The Chair: Mr. McColeman.

Mr. Phil McColeman (Brantford—Brant, CPC): I believe we've moved on from that issue, and we've decided on that.

I'd like to table a motion, Mr. Chair, and I have it both official languages. It has to do with committee business. Can I pass it around?

The Chair: Yes.

Mr. Phil McColeman: Thank you.

The Chair: This is for notice?

Mr. Phil McColeman: No, it's for discussion right now.

The Chair: Would you permit me to go to the pre-budget consultations first and then come back to that—

Mr. Phil McColeman: Yes.

The Chair: —because I have to go before the Liaison Committee at one o'clock.

Mr. Phil McColeman: That's fine.

The Chair: Okay, and then we'll agree to that next.

You have four budgets before you, all related to the pre-budget consultations.

Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Mr. Chairman, since we had the preliminary discussion a couple of weeks ago, I've been giving a fair bit of thought to what we have in front of us. I would like to make a case that we consider a slight alteration, but maybe some here would consider it to be more significant.

The reality of our committee, Mr. Chairman, is that we have one member on this committee from the three western provinces, and with all due respect, the Province of Prince Edward Island has as much representation on this committee as the three western provinces do. In fact, one could say it even has a little more, since the member from Prince Edward Island is the chair of the committee.

The Chair: Or co-chair. Or vice-chair, actually.

Mr. Ron Liepert: We also have five members who are within about a three iron from Pearson International Airport. I would like to propose that the committee consider spending one week in British Columbia, Alberta, Saskatchewan; one week in Manitoba and Ontario; and one week in Quebec and Atlantic Canada. Certainly it would give a better representation of some of the issues that western Canadians are dealing with in these times, and probably would give committee members, many of whom are not as familiar with western Canada as I would like them to be, a better sense of some of the challenges we are facing.

I don't think it would significantly alter the budget, but it would change where I would like to see us divide our time.

Thank you.

•(1230)

The Chair: I might have missed the point, Ron. You said one week in B.C. on its own?

Mr. Ron Liepert: No, it would be B.C., Alberta, and Saskatchewan.

The Chair: Okay. B.C., Alberta, and Saskatchewan.... I actually think—and I'll go to Mr. Caron on this, as well—you're right. In terms of the numbers for the overall budget, at the end of the day, your proposal is not going to change the budget much.

I do want to say this before I go to you, Mr. Caron, because we do have a considerable problem as to whether or not we can travel, which might make this point moot.

I still believe very firmly that as a committee we need to propose what we believe would do the best service to Canadians in terms of hearing their views on pre-budget consultations, and I expect that means being in their regions and gaining a little understanding of those regions. Having been a witness before a committee myself, I know that you're much more comfortable in making your point of view in your own region.

I think we have an obligation to do this if we can, but we do have a letter from the chair of the subcommittee of the Liaison Committee, which is basically saying that at the moment the “potential requests” expected to come in represent about “145% of the global envelope for committee activities” for this fiscal year.

There's certainly pressure. I'll just read this line: “If travel is necessary, the committee should set out clear objectives for a potential trip and plan in advance to the greatest extent possible, including foreseeing all travel plans for a study...”. There's also emphasis in the letter on looking at video conferences as much as possible. That's the reality of what we're dealing with in terms of putting our budget proposal to the centre. The difficulty for the Liaison subcommittee on budgets is that the committee is allocated a budget, and we have to stay within that budget. That's the reality we're facing.

Having said that, we can put forward options if we so decide.

Mr. Caron and then Mr. Liepert.

[Translation]

Mr. Guy Caron: That's partly what I wanted to bring up. Should we be able to travel, which has not been determined, I would like to know if Mr. Liepert would agree not to forget northern Canada. Once again, should we be able to do this work, in the week set aside for British Columbia, Alberta and Saskatchewan, I would like the list to include the Yukon and Northwest Territories. For the week set aside for Manitoba and Ontario, we should also see if we can include Nunavut. That doesn't require the committee to go there, but we could at least take these destinations into consideration during our discussions.

[English]

The Chair: Mr. Liepert.

Mr. Ron Liepert: I've been looking through these budget documents. Are we basing the budget on seven members of the committee being at each one of these? I'm not sure that's required.

The Chair: Yes, one of the difficulties...and if anybody wants to comment here, please do.

Regardless of whether you have five members, say, or seven—seven seems to be the balancing point—there's usually a motion that no motions can be made when you're travelling anyway, so usually there aren't any partisan political games played with reference to motions when you travel. But we do need two analysts, one clerk, one logistics officer, three interpreters, and two proceedings and verification officers. So beyond your committee, Ron...

Is it the rules of Parliament or the negotiations with the staff unions or whatever...?

Mr. Ron Liepert: I'm not—

The Chair: You have nine staff—

• (1235)

Mr. Ron Liepert: I'm not questioning the staff, Mr. Chair. I'm asking about the number of committee members, elected members, who would be at each one of these. It seems to me that seven is probably more than we need.

Mr. Steven MacKinnon: Mr. Chair, I was going to go the other way.

The added cost of taking the entire committee in this important round of pre-budget consultations, I would argue is a valid one. We're talking about the difference between seven MPs and ten MPs. The submissions here include all of the committee infrastructure in any event.

I, like Ron, don't question the staff requirements that are envisaged here, but the difference between having the entire committee and a portion of the committee, to me, it seems immaterial to the overall budget.

The Chair: In any event, there's been a motion passed at the Liaison Committee that the maximum number to travel with committees is seven. So that's a moot point on that one anymore.

Mr. Steven MacKinnon: Would a motion be in order for these budgets then?

The Chair: Yes, a motion would be in order just to get the numbers.

We can discuss at another time in committee business exactly how we want to lay it out, but I would think, whether we decide to place more emphasis on the committee being in the west, or having more video conferencing here, or whatever we decide about the locations, we'd likely be looking basically at the same locations, but just with more time in one area or another, or not.

Is that correct?

Mr. Steven MacKinnon: I don't think we have a problem with Mr. Liepert's suggestion.

The Chair: Do we need three motions, Suzie, or one?

The Clerk: Just adopt each budget.

The Chair: This may impact what Ron was suggesting, but I think we can juggle this somewhat.

On the first motion, for our travel to St. John's, Fredericton, Charlottetown, and Halifax, are we agreed on the \$84,963?

(Motion agreed to)

The Chair: On Kelowna, Edmonton, Regina, Winnipeg, are we agreed on the budget \$89,138?

(Motion agreed to)

The Chair: On the budget for Quebec City, Montreal, Windsor, Toronto, are we agreed on a budget for \$67,225?

(Motion agreed to)

The Chair: There is one more, and this is for the video conferencing meetings in Ottawa, etc., to do the study as well, for a budgeted amount of \$37,500.

(Motion agreed to)

The Chair: We'll add all of that up and present it to the Liaison Committee, and I expect we'll be back.

Okay, that's out of the way.

Phil, you have a motion.

Mr. Phil McColeman: Yes, and I'm not sure if it's been circulated, but could it be circulated now?

While it's being circulated I'll read the motion and provide a little bit of rationale after I have read it. Mr. Chair, here is the motion I'm putting on the table:

That the Standing Committee on Finance undertake a comprehensive study of issues surrounding the Canadian residential real estate market;

That the Study focus on the impact of the housing market on the Canadian Financial System and challenges surrounding access to residential home ownership; and

That the Committee report its findings and recommendations before the end of February, 2017.

Mr. Chair, this is subject matter that I obviously have a very close connection to, given my background before politics. More importantly, the housing situation and home ownership in this country are in a very fragile situation, often going in many different directions very quickly. I think we're at a point right now in the scheme of things, particularly in certain markets, where I think this committee should take a look at it and try to write a report to the government that will give a better sense of the risks out there to the overall financial system. Indeed, it's often mentioned by economists and others that the bellwether for the economy is often housing and the multipliers of housing.

I won't go further on that, other than to say that it's a very important issue for this country, especially given that there's seemingly no end in sight for where prices are going in certain markets, which is affecting Canadians on many different levels—household debt levels, and interest rates—all of which factor into the financial markets. I think we'd be wise, as a committee, to study this. That's why I'm putting the motion on the floor, Mr. Chair.

●(1240)

The Chair: The motion is on the floor.

Mr. Sorbara.

Mr. Francesco Sorbara: Thank you, Mr. McColeman, for the motion.

As an individual from a riding representing the city of Vaughan, which has the largest housing developer in Canada, and probably a number of the other largest developers of housing in Canada, I'm quite familiar with how important these are to the economy of Canada and how important the housing market is to the economy of Ontario.

Mr. McColeman, I support this motion. I think I've received enough phone calls and emails from friends—be they Liberal, Conservative, or New Democrat—dealing with housing prices, and how a teacher these days cannot afford to enter the housing market, even though teaching is considered to be a good job with good benefits and good pay. I think it behooves us to undertake a study on the risks within the housing market and the bifurcation that's going on within housing markets in Canada, and to understand some of the trends that we're witnessing in terms of accessibility, prices, and so forth. So I support this motion.

The Chair: Mr. Caron.

[Translation]

Mr. Guy Caron: I also support the motion and its intent. Could Mr. McColeman give us an idea of the number of meetings he thinks would be needed to cover the issue.

[English]

Mr. Phil McColeman: To be honest, Mr. Caron, I haven't given that consideration. I would be happy to lay out a plan over the next short while and get back to you on that.

There are many players in the housing industry. Obviously, all of the financial institutions are involved, as are the many layers of people who provide housing, plus all of the associated ripple effects from that. It's said in the industry that there is a tenfold multiplier when someone buys a house. It affects the economy. People are buying furniture, they're buying all of these other things, and it is huge multiplier. That's why housing is characterized as a bellwether industry.

I will get back to you on that, but I would suggest to you that if we put this on our schedule, we will be able to do it by the end of February, for sure.

[Translation]

Mr. Guy Caron: Thank you.

[English]

The Chair: Is there any further discussion?

(Motion agreed to)

The Chair: We will turn to Mr. Caron's motion.

Ron, can you chair? I have to go to the Liaison Committee.

Mr. Caron, go ahead.

●(1245)

[Translation]

Mr. Guy Caron: Thank you, Mr. Chair.

The motion reads as follows: That, pursuant to Standing Order 108 (2), the Standing Committee on Finance undertake a study on the benefits and potential impacts of introducing a guaranteed minimum income, and that the Committee report its findings to the House by Friday, February 17, 2017.

By establishing February 17, 2017, as the date, the intent was first to set a date that would not be in conflict with the budget speech, which is usually at the end of February or at the beginning of March. This motion is similar to the one moved previously. I think there have been discussions to determine whether it was in order.

[English]

I would say this at least has to be accepted as something we can vote on. The reason is that when the initial motion I presented was voted down, it was with the understanding that a letter would be sent and that the human resources committee would take on the study of this issue. We haven't heard officially from that committee. I've spoken to members of the human resources committee. They haven't even discussed or officially received the letter as a committee. So it's problematic. It seems that the human resources committee does not have this issue as a priority, which I think makes it relevant to bring it back to the finance committee. We're talking about what impact a guaranteed minimum income, or basic income or whatever we want to call it, would have. It will definitely have a financial impact.

If we're studying issues of EI and issues of veterans affairs during the budget, which should have been discussed in those committees, this issue should actually be addressed by the finance committee.

I'd also like to remind my Liberal friends on the committee that in both their 2012 convention and their last convention, Liberal members agreed to a motion to study a basic income and to implement a basic income pilot. So it might be something that would be welcomed by the Liberal members of this committee.

I've also seen the proposal.... I'll wait with this.

I just think that right now we should make a decision to discuss it in the finance committee, and if the members don't want to take the time in finance, we could strike a subcommittee to discuss the study outside of the realm of finance. I'm open to this possibility. I just want it to be addressed. I'm not even saying that I'm in favour of or opposed to it, but it is something that is being debated out there, and we should fulfill our responsibility to address this issue and give some of these questions the answers they deserve.

The Vice-Chair (Mr. Ron Liepert (Calgary Signal Hill, CPC)): There is a motion on the floor, and I'm told by the clerk that despite the earlier discussion we had, this motion is in order because it is different from the previous one. It needs to be put on the table, however, that the earlier motion, which was slightly different because it didn't include a date, has been referred to the committee on human resources. It is my understanding that the human resources committee has agreed to include the guaranteed minimum income as part of an overall study that it is undertaking.

With that background, we're open for discussion.

Mr. MacKinnon is up.

[Translation]

Mr. Steven MacKinnon: Mr. Chair, the Standing Committee on Finance decided to recommend to the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities to undertake studies and steps dealing with that issue. Like you, I was waiting for news from this committee as to its intentions. I think we now know that the members of this committee are ready to review the issue. It remains to be seen if it is done in depth or as an overview.

In light of the prebudget issues regarding housing and the price of housing in Canada, tax evasion, which we have discussed and will surely also discuss in other future studies, I am inclined not to

support the idea of carrying out a study on such a broad topic. In addition, I don't think it is appropriate for this committee to take this approach and undertake such a study. As a result, I will be voting against the motion.

• (1250)

[English]

The Vice-Chair (Mr. Ron Liepert): Are there any others?

Mr. Ouellette, then Mr. Caron.

[Translation]

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Thank you very much, Mr. Chair.

[English]

The guaranteed income is important to people in my riding, and it's not simply because people want to get a free lunch. We often talk about government programs and how they benefit people, but often those government programs are hard to navigate in our system. We have so many different government programs. They're everywhere. The idea of a guaranteed annual income or a negative income tax is to simplify the process and give people the resources they need directly without their having to go through bureaucracy, without having to go through a specific application process to obtain those resources. They can then use those resources as they see fit as autonomous individuals within a collective society.

I hate having to explain to individuals who ask me what I am doing for them. They're autistic or have fetal alcohol spectrum disorder. Their mother was drinking, they're indigenous, they can't work, and it's really hard. What programs do I have for them? I have to say that we've got the child tax benefit, \$540 a month tax free. If they don't have kids, we have some housing programs and dollars coming. A lot of people are looking for housing.

I have the floor and I can speak for a long time.

The Vice-Chair (Mr. Ron Liepert): You can, unless I cut you off.

Mr. Robert-Falcon Ouellette: Really?

The Vice-Chair (Mr. Ron Liepert): I'd like to try to get this motion dealt with. All the points you're making are very valid, but can we determine first whether the motion proceeds or not before you make the case why we should have a guaranteed income?

Mr. Robert-Falcon Ouellette: So we're just discussing right now...?

The Vice-Chair (Mr. Ron Liepert): Whether the motion proceeds or not.

Mr. Robert-Falcon Ouellette: Yes, it should proceed. You've already made the decision that it's going to proceed.

Mr. Phil McColeman: I have a point of order.

The Chair: Go ahead.

Mr. Phil McColeman: It's not challenging you, Chair, but having been in your position when a member has the floor, they have the floor. It's within Mr. Ouellette's parliamentary rights to speak as little or as long as he wants.

The Vice-Chair (Mr. Ron Liepert): All right. I'm asking Robert if he could try to summarize as quickly as he can so we can deal with this issue, or it won't get dealt with today.

Mr. Robert-Falcon Ouellette: This issue is not going away. We're going to have to deal with this eventually, because Finland is doing it, Brazil has been doing it, Namibia has been doing it, other countries have been doing it. This is an important issue around the world because people are asking how we can be most productive with our tax dollars. Switzerland recently talked about it, and had a vote on it.

When I think and I talk to my constituents about this issue, it's important to them because housing is \$700, \$800, \$900, \$1,000 in Winnipeg. It's not Toronto, it's not Vancouver, but a single apartment in downtown Winnipeg is expensive. When you only get welfare because you have disabilities, you don't always fit the requirements and receive the income that you have.

I sometimes become afraid that in this place we become disconnected from the realities faced by many Canadians. We can tell them to work hard, to pull up their bootstraps and get on with it and do it, and that if they work hard, they'll succeed. But unfortunately in life, we all come with different capacities, and not all of us have the same mental capacities to become a Bay Street lawyer and be successful like my colleague Raj, whose family came from....

• (1255)

Mr. Raj Grewal (Brampton East, Lib.): Punjab.

Mr. Robert-Falcon Ouellette: From Punjab, and worked hard and became successful and looked after their education. However, they had something different. They had social capital. When you don't have social capital, when you don't have any capital at all, what do you do?

We can say we're working at it and we're looking at it, but I think our job here in this place is to think extremely long term. What I've heard in my discussions with the other members from the human resources committee whom we've asked to study this is that they're going to look at it in a very small segment, maybe one day. I think this requires a profound understanding of guaranteed annual income, and about what we should be doing.

If you go online, if you just Google this and look at it on Wikipedia, for instance, the first model encompassing the guaranteed annual income is a negative income tax, meaning that people under a certain level will receive a certain amount of money and those above it won't receive anything. Then you have the guaranteed annual income model, which means that you will receive a certain amount of funds each and every year no matter what your income level.

This is important in how we do taxation. This actually hits at the very heart of the way we do taxation. We did this once before. We did this under Trudeau the elder Pierre Trudeau. They studied this in the 1970s. We are now 1990, 2000, 2016—we're 40 years on from that pilot project.

We had a representative, Evelyn Forget, a doctor and an economist in the health sciences come to testify about this issue. She talked about how it was important. She talked about how we didn't actually see a reduction in the working hours of people as a

result, how people didn't become lazy, how it does have an impact on governments, how it does and can reduce costs for government over the long term, how it reduced health costs. Whether we like it or not, Ontario right now is moving ahead with this.

We can go to the other committee, HUMA, the human resources committee, and hope they have the expertise and the experts and the analysis and that they'll do a good job, but sometimes we also have the expertise here—the economists, the people who have been studying financial arrangements and how they work.

The Vice-Chair (Mr. Ron Liepert): Robert, I have a point of order from Mr. Caron.

[*Translation*]

Mr. Guy Caron: Thank you, Mr. Chair.

I fully understand my colleague's intent. I think it is clear, on the Liberal side, that it would not be very popular to discuss the motion of the Standing Committee on Finance. I recognize my colleague's effort to avoid the vote today, since we have only two minutes left.

Mr. Robert-Falcon Ouellette: I want us to vote.

Mr. Guy Caron: We need to do so in the next two minutes, if that's the consensus. If we don't do the vote in the next two minutes, the committee—

Mr. Robert-Falcon Ouellette: I want the people from outside to hear what we have to say.

[*English*]

The Vice-Chair (Mr. Ron Liepert): Robert, go ahead.

[*Translation*]

Mr. Robert-Falcon Ouellette: I want the people to know why it is important and why it is not a matter that pertains to one committee only. This has an impact on everything that we do in the House of Commons and we need to plan for the long term. Whether we vote today or in September, we will have to vote some day. I think it is important that all my colleagues understand that we cannot talk about taxation only. The issue of guaranteed annual income has an impact on taxation and deeply affects our economy.

[*English*]

How much should you tax someone? How much should someone receive, how much from social programs? For instance, if you give a guaranteed annual income to a student and you decide they're getting a guaranteed income, do they need the student loans anymore? Do they need to have student grants anymore? Do we eliminate that from some of the government programs? Do we eliminate those jobs and those people working on that?

There are other issues related to our economy. Our economy is moving in a far different direction related to guaranteed annual income. If you think about our economy now, our jobs are moving offshore. They're moving to other places, and not everyone has the same levels of support.

We have seen the stagnation, in a lot of cases, in the types of employment. For family income, you have to have two work incomes now, and it has become more and more difficult for people simply to get by.

I'm sorry, Guy, but I'm really passionate about this because I have people coming up and asking me about it.

[*Translation*]

People come to see me and are asking me what I am doing about this. I have to at least be able to answer that I am studying the issues, that I am not passing them on to someone else and that I will take care of them. That is why it is important and I think we can move on to the vote.

Mr. Guy Caron: That is exactly what my motion is asking, but we will not have an opportunity to adopt it.

• (1300)

Mr. Robert-Falcon Ouellette: I want the public and my colleagues to know why this is important for me.

Mr. Guy Caron: Let's vote then, Mr. Ouellette.

Mr. Robert-Falcon Ouellette: The problem is that I want my colleagues to vote with me and to support me. I'm not the only one to believe in it. Other members of the Liberal Party also believe in it.

Mr. Guy Caron: Of course.

Mr. Robert-Falcon Ouellette: I attended the last biennial convention. The people there said yes to this matter, most recently

in 2016 in Winnipeg. They also said yes in 2014 in Montreal. They all said yes.

[*English*]

Mr. Phil McColeman: On a point of order, Mr. Chair—

The Vice-Chair (Mr. Ron Liepert): Yes.

Mr. Phil McColeman: —I see the clock at 1 p.m. I would make a request that you call this meeting ended.

The Vice-Chair (Mr. Ron Liepert): Okay. I have a motion to adjourn.

Those in favour? Please vote.

Some hon. members: Yes.

The Vice-Chair (Mr. Ron Liepert): That's carried.

(Motion agreed to)

Mr. Guy Caron: [*Inaudible—Editor*] it takes unanimous consent to go on after one o'clock.

The Vice-Chair (Mr. Ron Liepert): Okay. Fair enough. We're adjourned.

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