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Chair

Mr. David Christopherson

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● (1530)

[*English*]

The Chair (Mr. David Christopherson (Hamilton Centre, NDP)): I now declare this 60th meeting of the Standing Committee on Public Accounts in order.

Colleagues, I have no particular business to bring to you before we start, so unless someone else has an intervention, it is my intention to move directly to the public hearing at hand.

I see none, so we will move forward with the hearing, pursuant to Standing Order 108(3)(g), chapter 3, "Tax-Based Expenditures", of the spring 2015 report of the Auditor General of Canada. It was sent to us on April 28.

Mr. Ferguson, our Auditor General, is here with us today to kick things off.

To begin with your opening remarks I'll turn the floor over to you, Mr. Ferguson. You now have the floor, sir.

Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General of Canada): Thank you, Mr. Chair, for this opportunity to discuss our 2015 spring report on tax-based expenditures. Joining me at the table is Richard Domingue, principal, who was responsible for the audit.

The federal government can attain its policy objectives either through direct program spending or through tax expenditures. In this audit, we refer to the tax expenditures that could be replaced by direct spending as tax-based expenditures. In support of this point the International Monetary Fund's fiscal transparency code states that:

> ...because the government policy objectives could be achieved alternatively through a subsidy or other direct outlays, [tax expenditures] are regarded as equivalent to budget expenditure.

[*Translation*]

Tax-based expenditures account for billions of dollars annually. We looked at how the Department of Finance Canada and the Canada Revenue Agency managed these expenditures. More specifically, we examined whether clear and useful information is reported, whether analyses are performed before the implementation of these expenditures, and whether existing tax measures are monitored and evaluated.

We selected nine tax-based expenditures. We found that the information provided by the Department of Finance Canada on tax-based expenditures does not adequately support Parliamentary oversight. Although these expenditures are similar to direct program spending, less information is provided to Parliament about these expenditures than about direct program spending.

For example, the Tax Expenditures and Evaluations report does not include future cost projections. Reporting practices in some international jurisdictions provided examples where additional details related to tax expenditures are disclosed. The number of beneficiaries, the administrative costs, and links between direct spending programs and these expenditures are sometimes reported in other jurisdictions.

We believe that Parliament needs comprehensive and consolidated information about tax expenditures to better understand total government spending.

[*English*]

We found that the Department of Finance did a good job of analyzing new tax measures before they were implemented. For the measures we selected, the department considered most key elements of its analytical framework, such as a need for government intervention, and efficiency, effectiveness, and equity.

Analysis on potential tax measures are prepared to support decision-making. We found that although the Department of Finance monitored existing tax-based expenditures, it did not systematically evaluate those expenditures to determine whether they achieved the expected results and whether they were performing as intended.

The policy requirement to evaluate direct program spending does not apply to tax-based expenditures. Also, tax expenditures are not included in comprehensive spending reviews such as strategic reviews.

We found examples where the Department of Finance identified issues in relation to certain tax measures before implementing them. Despite those issues, the department had yet to evaluate these tax measures after they were implemented. When the department evaluated tax measures, it did not publish the evaluations. For example, although the department evaluated the children's fitness tax credit, it did not make the information public.

We believe that information needs to be disclosed for parliamentarians to understand what the money spent through the tax system is accomplishing.

● (1535)

[*Translation*]

We also examined the monitoring of costs and the sharing of information. We found that the Canada Revenue Agency monitored costs to implement new measures and compliance issues. It also shared relevant information with the Department of Finance Canada on an ongoing basis.

The Department of Finance Canada has prepared a detailed action plan to address each of our recommendations.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer any questions the committee may have.

Thank you.

[*English*]

The Chair: Very good, thank you, Mr. Auditor General.

Now we go over to the Department of Finance and the senior assistant deputy minister, Mr. Marsland.

I offer you the floor and ask you to introduce your delegation and give us your opening remarks, sir. You now have the floor.

Mr. Andrew Marsland (Senior Assistant Deputy Minister, Tax Policy Branch, Department of Finance): Thank you, Mr. Chair. Good afternoon.

I'm joined here today by Mr. Geoff Trueman, who is general director in the tax policy branch; Maude Lavoie, director of intergovernmental policy and evaluation and research; and Miodrag Jovanovic, the director of the personal income tax division.

I will begin my remarks today with a brief overview of the role of the tax policy branch. I'll then say a few words about the Department of Finance's reporting on tax expenditures and the steps we're taking to address the recent recommendations by the Auditor General to improve our reporting on tax expenditures.

The main responsibility of the Department of Finance with respect to taxation is to support the government in the development of federal tax policy. For the tax policy branch, this involves developing, analyzing, and evaluating potential tax measures or adjustments to existing measures. It also involves drafting legislation and supporting its passage through Parliament.

Our analysis is guided by sound tax policy principles in line with the objectives of ensuring a competitive, efficient, fair, and simple tax system. The analysis, review, and evaluation of either new or existing measures are carried out by highly qualified Finance Canada employees with in-depth knowledge of the Canadian tax system.

The branch's analytical and evaluation work is systematic and thorough. Our analytical framework incorporates several elements. These elements include, for example, a detailed assessment of the need for policy intervention; an assessment of the effectiveness of a measure in meeting its policy objectives; assessment of whether measures meet fundamental policy objectives of efficiency, fairness, and simplicity; consideration of alternative delivery mechanisms; a review of gender or environmental concerns as well as potential provincial or territorial impacts; and assessment of potential fiscal implications.

We also consider administrative, compliance, and legislative concerns, and we consult other departments, stakeholders, and other jurisdictions.

[*Translation*]

After a measure is implemented, the department monitors the performance of the tax system on an ongoing basis, meets stakeholders, analyzes trends in relevant data, monitors jurisprudence, and consults the Canada Revenue Agency, other departments, agencies and the general public.

When issues are identified, they are carefully reviewed by the department and decision-makers are briefed when appropriate.

Although it may differ in some respects from the rules applicable to direct program spending, the review process for tax expenditures is effective in identifying potential issues with the tax system. It is also effective in leading us to the desired outcome, which is to ensure that the tax system performs as intended.

Allow me to give you a few statistics that illustrate the scope and breadth of the branch's work.

In the course of the four last federal budget exercises, the branch prepared detailed analyses of about 400 different tax proposals, and about 110 of these measures were either implemented or on course of being implemented. The department prepared 1,274 pages of new tax legislation in 2013, and 363 pages in 2014. Since 2006, more than one third of all existing income tax expenditures were either adopted or modified to some extent.

● (1540)

[*English*]

Let me speak now, briefly, about the department's reporting on tax expenditures. The department first reported on federal tax expenditures in 1979 and was one of the first countries to do so. Since then the department has been proactive in providing extensive information on tax expenditures to Canadians in a manner that contributes to transparency and accountability.

Through its annual “Tax Expenditures and Evaluations” report and its companion reference document “Tax Expenditures: Notes to the Estimates/Projections”, the department provides valuable information to the public. This includes information on the objectives and design of federal tax expenditures as well as their actual and projected costs.

Canada is also one of a handful of countries that publish evaluations of tax expenditures on a regular basis. The Organisation for Economic Cooperation and Development and the International Monetary Fund have recognized the high quality of Canada's reporting on tax expenditures.

We're pleased with the Auditor General's finding that the department does a good job of analyzing new tax measures and monitoring existing ones. While the department is of the view that we have a robust approach to the management of tax expenditures, we recognize there is always room for improvement, and it's in this spirit that we welcome the Auditor General's recommendations.

Starting next year the department will be providing two additional years of information as recommended by the Auditor General. Also, as recommended, the department will add information in the companion reference document to better inform readers on government spending programs.

The department is committed to continuously improving the public information available on tax expenditures. We'll make sure that high-quality analyses and evaluations of tax expenditures continue to be performed.

Thank you, Mr. Chair.

The Chair: That's very good. Thank you.

Now over to the Canada Revenue Agency and the director general of the legislative policy directorate, Mr. Dimitrakopoulos.

Sir, you now have the floor.

Mr. Costa Dimitrakopoulos (Director General, Legislative Policy Directorate, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency): Good afternoon, Mr. Chair.

[*Translation*]

Thank you for the invitation to testify before the committee today.

[*English*]

I'm here today to answer questions relating to the CRA's work with the Department of Finance on tax-based expenditures, as examined in the Auditor General's report released on April 28, 2015. The CRA is pleased to note that no points of concern were raised by the Auditor General with our administration of tax-based expenditures and that there were no recommendations specific to the Canada Revenue Agency.

By way of background, the Canada Revenue Agency is responsible for administering Canada's tax laws, including the Income Tax Act and the Excise Tax Act. We undertake a wide range of activities to assess and process tax returns, information returns, and payments for individuals and businesses. Additionally, we are also responsible for ensuring compliance with tax laws, which we do through a variety of means, including risk assessment, third party data matching, verification, and audits.

The Canada Revenue Agency works with the Tax Policy Branch within the Department of Finance to provide administrative considerations on tax changes in two ways. First, when the legislation is being developed we provide analysis around administrative, compliance, enforceability, and costing matters. Second, once legislation has been implemented, we assess on an ongoing basis the administration of tax measures to identify any unforeseen consequences or issues in the practical application of the legislative measure.

An ongoing dialogue helps ensure that the Department of Finance is in a position to fully consider potential compliance issues and implementation costs of tax-based expenditures. To support this, the Canada Revenue Agency examines a number of operational aspects, including impacts on our internal operations, provincial or territorial tax administrations and, where possible, the number of taxpayers affected.

In addition to the information provided to support Department of Finance analysis, the Canada Revenue Agency's analysis also allows us to identify issues important to our effective administration of the tax change, including changes to our information technology systems, the expected number of inquiries the change will generate, and necessary changes to our publications.

After tax measures have been implemented, the Canada Revenue Agency provides the Department of Finance with further comments and analysis on issues such as compliance or additional costs related to the tax measure.

In closing, I would like to reiterate that the Canada Revenue Agency works closely with the Department of Finance to assist the administrative aspects of new tax-based expenditures. I'm happy to take questions on this process.

Thank you, Mr. Chair.

● (1545)

The Chair: That's very good. Thank you.

Now to begin our rotation of questions and comments, Mr. Falk.

You, sir, now have the floor.

Mr. Ted Falk (Provencher, CPC): Thank you, Mr. Chairman, and thank you, Mr. Auditor General, and also all the officials for joining us at committee here today. I always enjoy reading your reports.

Mr. Ferguson, I'd like to start off with questions for you. I'd first like to say that our government is very pleased that the Auditor General concluded that our government has appropriate practices to analyze proposed tax expenditures, monitor existing ones, and share information with the Canada Revenue Agency.

In your report you stated that Finance Canada does a good job of analyzing new tax measures and monitoring existing ones. Can you elaborate on your findings and how the government is providing transparency and accountability?

Mr. Michael Ferguson: We were looking at a couple of different aspects in the audit. We were looking at what the Department of Finance does before a tax measure is put in place, and then we were also looking at what it does once a tax measure has been implemented.

As for what it does before a tax measure is put in place, we cover that starting in paragraph 3.34, which is where we say the following:

> ...when analyzing tax-based expenditures before they were implemented, the Department of Finance Canada considered most key elements of its analytical framework, such as the need for government intervention, and efficiency, effectiveness, and equity.

Throughout that section we do say, for example, in paragraph 3.42, that:

> We found that the Department analyzed the issues related to policy need, efficiency, effectiveness, equity, and forgone revenues for most of the selected tax measures. However, the Department did not consider spending alternatives for the tax measures we examined.

Overall, in the area of looking at measures before they're implemented, we felt that the department was doing a good job of analyzing them and doing most of the things that were in its framework. We did say, in paragraph 3.42, however, that we found in some cases that it hadn't considered spending alternatives for the tax measures we examined.

Mr. Ted Falk: That would be after their implementation.

Mr. Michael Ferguson: No, this is all part of the pre-implementation of measures. In paragraph 3.42 we say that “We found that he department analyzed the issues related to policy need, efficiency, effectiveness”, meaning all of those considerations before a measure was implemented. However, one thing it was not always considering was whether a spending alternative would be an option instead of the tax measure itself.

Mr. Ted Falk: That's good, thank you.

The OECD has called Canada's tax measurement methodology “very thoroughly documented” and said that Canada's approach to tax expenditures evaluation “has an apparently successful track record of publication of reviews in some detail”. It called these reviews “impressive research products”.

In comparison to other countries, how does Canada fare when it comes to reporting tax expenditures?

Mr. Michael Ferguson: The only reference we made in comparison to other jurisdictions was in paragraph 3.29, and this was in terms of the type of information that is made public by other jurisdictions. In paragraph 3.29, we refer to Australia, France, and Pennsylvania, and the types of things they include. For example:

> ...a short description of the tax measure, a discussion of its purpose or objective, the future cost of each tax expenditure, the number of beneficiaries, the administrative costs, and the reliability of the estimation method, as well as references to direct spending programs.

I think if you look at Finance Canada's report on tax expenditures, you will see that there is a lot of information contained in there. However, when we compared it to reports that were produced in other jurisdictions, we felt there was room for Finance Canada to improve its reporting on its tax expenditures.

● (1550)

Mr. Ted Falk: Okay, thank you.

Mr. Marsland, could you elaborate a little bit on other jurisdictions and how they provide their cost projections in direct program spending as Canada does?

Mr. Andrew Marsland: I will begin by saying that every country makes its own choices with respect to this. Some countries provide additional data that Canada does not provide at the moment, and some don't provide some of the data that Canada provides.

I think there is a variety of approaches, but I think the starting point really has to be how you define a tax expenditure. An important thing from Canada's perspective is that we.... Essentially, a tax expenditure is a deviation from the benchmark tax system, so how you define the benchmark tax system is very important for how you define the scope of expenditures on which you report. We take a very broad approach in Canada, which means that we report on a very wide selection of tax expenditures, and I think the OECD, in particular, has noted the breadth of the number of tax expenditures that we report.

I think it's fair to say that there are examples in other countries or other jurisdictions of data points that are provided—for example, more projections of revenues—but none of the jurisdictions provide all of those. What I'm saying is that they make particular choices.

We welcome the Auditor General's recommendation to provide more cost projections, and we've committed to providing an additional two years, where appropriate.

I think the challenge in that respect is the ability to project forward on tax expenditures. Some tax expenditures are related, for example, to business cycles or the market, and it's quite difficult and could be misleading to provide too long a projection of costs going forward. But we will try to provide as much as possible.

The Chair: That's very good. Thank you.

The time has expired, and we'll now move to Mr. Allen.

You now have the floor, sir.

Mr. Malcolm Allen (Welland, NDP): Thank you, Chair.

Thank you to our guests.

Mr. Marsland, the Auditor General walked us through a number of things in paragraphs 3.41 and 3.42. It seems that his paragraph 3.41 lines up with the text of your opening statements on page 2, where you refer to “a detailed assessment” and an “assessment of the effectiveness of a measure”. It seems that the Auditor General's points in paragraph 3.41 mirror yours, except that in paragraph 3.42 he says that the department didn't consider spending alternatives for the tax measures they examined—albeit took a look at some, but not all.

Can you tell me why you wouldn't have looked at other alternatives beyond just the tax expenditure?

Mr. Andrew Marsland: Part of our analytical framework is to look at alternatives to tax expenditures where appropriate. There are cases where it would not be appropriate, for example, where a tax expenditure relates to the accurate measurement of income for tax purposes. Quite clearly a direct spending program would not apply there.

I can't comment on the specific gaps there because I'm not really aware of what those gaps are. But as a matter of practice, our analytical framework does—

Mr. Malcolm Allen: I understand that, but I'm looking at the specific ones that the Auditor General looked at. Either you do know or you don't know.

If you don't know, that's fair because it's a pretty specific question and I don't expect you, Mr. Marsland, to have every document in front of you. I appreciate the fact you may not know exactly why it didn't happen, but you may want to tell the committee at some point in the future why it didn't. It may well fit inside those parameters. That's fair.

The Auditor General also talked about the department "not systematically evaluat[ing] these expenditures to determine whether they achieved the expected results and whether they were performing as intended". If I look at page 2 of the text of your opening remarks, sir, you say, "After a measure is implemented, the Department monitors the performance of the tax system on an ongoing basis...".

The tax system is very broad, I understand, but he said that you didn't evaluate a certain number of these programs and you seem to be alluding on page 2 that you in fact do. Was this just a question of oversight or was this a question of what we're getting to this one or what exactly happened? The Auditor General was clear that you didn't. You're suggesting that you do.

It would be helpful to know whether.... Obviously it didn't get done because you're not refuting it. The issue is, why wasn't it done if that was your intention, because you said you'd do it. And if you didn't do it, as the Auditor General said, then why didn't you?

And, sir, when I say "you", I don't mean you personally, of course.

● (1555)

Mr. Andrew Marsland: I understand.

I believe the Auditor General selected eight tax-based expenditures and concluded that we evaluated four of them and didn't evaluate the other four.

I guess our position is that, in effect, we did evaluate seven of those measures and we provided information in relation to those measures in terms of how we did it. I think where we differ is whether or not there is a single document that evaluates that as opposed to whether we looked at all of the components over a period of time that would go into an evaluation.

I believe the measures that the report indicated that we didn't evaluate included the mineral exploration tax credit for flow-through shares. We provided documents, and again I stress—not a single document or evaluation, but documents that went to an evaluation, including an evaluation we published on flow-through shares, which explicitly accounted for the mineral exploration tax credit. The two measures are very closely related in that the mineral exploration tax credit builds on the flow-through share regime. That evaluation dealt with that.

Mr. Malcolm Allen: I'm going to run out of time.

You know what it's like at this committee, the taskmaster over here has a big gavel.

I hate to cut you or anybody off, but the bottom line is that it is time-limited around here.

I get all that. I appreciate that, sir. You're saying it's in other places.

The other point that the Auditor General makes is about reporting to Parliament. At the end of the day, you folks in the department work extremely hard to try to figure these things out that are requested of you. We have to approve them or not. We don't know what we've approved because we don't really understand the long-term implications necessarily, because there's no reporting back to us in any official way in a report. The Auditor General in his report is saying that there is no tabled report that talks about tax expenditures going forward.

I know you agreed with that. Why wouldn't we have done it in the past?

Mr. Andrew Marsland: Is this in terms of projections going forward of the cost of these expenditures?

In fact, we used to do more projections and we found that there were some problems with the data and the methodology going forward. As I alluded to earlier, sometimes it's difficult to estimate with a degree of assurance what the cost is. What we commit to do is to add another two years. There will be circumstances where it's simply not possible and we will explain in detail why it's not possible, or we'll explain the weaknesses in the projections going forward. As I say, some tax expenditures—

Mr. Malcolm Allen: Mr. Marsland, really, it's just about the information coming forward, not about how good it is, right?

The Chair: Thank you. The time has expired.

We're moving along, over to Mr. Albas.

You have the floor, sir.

Mr. Dan Albas (Okanagan—Coquihalla, CPC): Thank you, Mr. Chair.

I just want to thank all of our witnesses here today for the work you do through your quite different roles.

I'd like to go back to where Mr. Falk left off, Mr. Chair, specifically where he talked about the international community and how we rank. Sometimes comparative analysis is helpful in pointing out the bigger picture, although I do understand Mr. Marsland's point that while some countries may have specific measures in place, maybe they have a much different comprehensive system compared to ours.

The Inter-American Center of Tax Administrations described Canada's tax expenditure reports as containing "the greatest possible amount of information". Given the information Canada already provides, Mr. Marsland, would you say that we have an appropriate proactive process in place to analyze new tax expenditures and to monitor the existing ones?

● (1600)

Mr. Andrew Marsland: Yes. As I said in my opening remarks, I think we have a robust approach in both respects. We provide the information to Parliament and the public through the tax expenditures report. Having said that, we welcome the Auditor General's recommendations on improving that information going forward.

Mr. Dan Albas: Do all jurisdictions provide cost projections and direct program spending, as Canada does?

Ms. Maude Lavoie (Director, Intergovernmental Tax Policy, Evaluation and Research Division, Tax Policy Branch, Department of Finance): Yes. Most OECD countries have publications that are similar to ours.

Mr. Dan Albas: Okay.

The IMF has reported that countries typically report estimates for only one year. Currently, I believe we report for two years. Is that correct?

Ms. Maude Lavoie: Our report has six years of data. That is four years of historical estimates and two years of projections.

Mr. Dan Albas: All right. I appreciate that.

This question is for the Auditor General. With regard to paragraph 3.34, when you looked at the children's fitness tax credit, for example, what did you find specifically to determine that the government had properly analyzed it?

How did you arrive at your conclusion, Auditor General?

Mr. Michael Ferguson: In that whole section starting at paragraph 3.34, we talked about whether the department considered the key elements we had identified. I think in paragraph 3.40 we talked about its analytical framework and the various types of things that it would consider when it's doing an analysis before the implementation of an item. The particular ones we were interested in and selected included the policy need or relevance, efficiency, effectiveness, equity, spending alternatives, and foregone revenue. We wanted to see whether it was examining those before recommending the implementation of a measure. As we say in paragraph 3.42, we found that it had done most of those, the one exception being the consideration of spending alternatives for the tax measures that we examined.

Mr. Dan Albas: Going back to Finance, how does the department analyze tax-based expenditures that you've implemented to ensure that they're helpful to Canadians?

Mr. Andrew Marsland: I believe that takes a number of different strands. In terms of the tax expenditures report, every year we re-cost every single expenditure. That allows us to see if there are divergences from what we would expect, and then we look at those. So that's a monitoring approach.

We also continually look at proposals that come from various quarters to change tax expenditures. So when we look at an adjustment to a tax expenditure, we effectively treat it as a new proposal. We take that opportunity to apply the analytical framework the Auditor General referred to to the whole measure, with the benefit of some data in that case.

We also select particular tax expenditures for an in-depth evaluation. This year we published an evaluation of the charitable donations tax credit. We selected that measure because there's a widespread interest in it throughout the voluntary sector; it's an expensive tax measure if you calculate it in tax expenditure terms; and it's one that we believe is particularly important. So we did an evaluation of that and published it.

I'd say there's a wide range of approaches. I think the Auditor General's observation that there's a requirement to be systematic, we take to heart. We are going to look at ensuring that across all of those approaches, we're covering all of the bases, and that to the extent there are gaps, we will make sure they are filled.

The Chair: The time has expired. Sorry. Thank you, Mr. Albas.

Over now to Monsieur Giguère.

You have the floor, sir.

[*Translation*]

Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP): Thank you, Mr. Chair.

I thank the witnesses for having come here to meet with us.

Mr. Marsland, on page 1 of the report you say something very important about tax exemptions, reports, deductions and credits. The purpose of all of these tax expenditures is quite well-defined in the report entitled*Tax Expenditures and Evaluations 2013* and what it says on flow-through shares.

I read and analyzed that document. I would like to draw your attention to page 51, where it says that the $1.4 billion yearly amount generated by these activities particularly benefits the high-income people who invest in flow-through shares.

Regarding that measure overall, not only do you not say whether this $1.4 billion amount could be financed in some other way than through flow-through shares—your report does not talk about that—but you say that the rich are the ones who mostly benefit from that tax deduction, which poses a problem.

I have a question on this. Tax measures have as their objective the reduction, so to speak, of wealth inequality. With these measures, the opposite is being achieved. And that is in fact noted on page 1 of the document provided by the Parliamentary Budget Officer who says this: “Over time, as inequality has increased, and as various tax and transfers have been added or removed, their impact on inequality has also changed.”

We have noted that since 1980—with a peak in 1991 and another in 2000— financial iniquity has only increased and continues to grow. Why do you not intervene to improve that situation rather than making it worse through your decisions?

● (1605)

[*English*]

Mr. Andrew Marsland: I think I'd respond by saying that when we analyze particular tax measures—and you referred to one and our work on flow-through shares and the mineral exploration tax credit —we apply a whole range of considerations.

Firstly, what's the policy objective of the measure? What's the policy gap in that case? The objective of the measures overall, stated broadly, is to encourage investment in the junior mining sector. So we look at that policy objective there. We look at the efficiency of the measure—its effectiveness in achieving its objective. We look at both the horizontal and vertical equity issues and how those apply. We look at the complexity, simplicity, and so on. So we apply a whole range of those. They are all important in looking at individual tax measures.

I think the second part of your question went to the overall distribution of the tax system, and I guess the equity considerations are important there when you're looking at particular measures.

[*Translation*]

Mr. Alain Giguère: If the objective is that important, explain one thing to me.

In theory, Registered Education Savings Plans were supposed to increase the number of university students. However, Canada Revenue Agency studies indicate that this is a total flop, that the plan has not increased the number of students in our universities, and that the people who benefit from it would in any case have paid for their children's higher education. However, this measure is renewed year after year, to the point where the objective of increasing the number of university students has been totally lost. It is simply a legal tax avoidance measure.

If the objective has absolutely not been reached according to your own analyses, why are you maintaining a measure that in fact increases financial iniquity?

[*English*]

The Chair: Somebody answer, please.

Mr. Miodrag Jovanovic (Director, Personal Income Tax, Tax Policy Branch, Department of Finance): Part of your question obviously referred to a positive decision that the government has made. I can't tell you much about the results of the study you are pointing to.

Mr. Andrew Marsland: It's not clear specifically which measure you're referring to, but there are a suite of measures in the Income Tax Act that touch upon education, one of which was covered by the audit: the textbook tax credit. There's an education credit.

● (1610)

The point made appears to be that these measures are not meeting the policy objective. I think our view would be that they are meeting the policy objective in supporting education. They're designed in a way that facilitates the claiming by the student; if the student has income...the transfer to a supporting person...or if he or she doesn't have any income...or carried forward to future years. They provide important support to assist students, but they're part of a suite of federal programs. And when we look at the operation of these tax credits, we look at them in concert with the other programs such as the Canada student loans program.

The Chair: Okay.

Mr. Giguère, you're on the list, so you'll get a second chance if you want to pick up where you left off, but the time has expired.

Mr. Alain Giguère: Okay.

The Chair: We need to move along now to Vice-Chair Carmichael, who now has the floor.

Mr. John Carmichael (Don Valley West, CPC): Thank you, Chair.

Madame Lavoie, with regard to your answer to my colleague Mr. Albas, you talked about the historical record-keeping that's posted on your website. I believe it's,s six years, one year, and two years. Is that correct?

Ms. Maude Lavoie: Our report presents six years of data in total on tax expenditures every year. Four of those are historical estimates and two years are projections.

Mr. John Carmichael: Thank you.

As I read through the report, and we look at the two years of projected data, Mr. Marsland, I wonder if you could talk about the benefit of the additional two years now, if you would. Then I would ask maybe Mr. Ferguson to offer his opinion on that as well.

Mr. Andrew Marsland: I would suggest that the objective of providing those measures will be to allow a better sense of how the tax expenditure will grow in importance over a few years.

I think you can do that in many tax expenditures by looking at the four years of historical data and the two years of projections, but I guess an additional two years would allow you a little more understanding of how they are growing.

Some tax expenditures would broadly follow growth in the economy or the growth in employment income, for example. That is relatively predictable, but I wouldn't say completely predictable. Others may have a higher degree of volatility, and in those cases we're more cautious about projecting out. We don't have a crystal ball and we can't tell with a degree of accuracy how the markets are going to perform over the next two years and what the business cycle will be.

I think in answer to your question, in some cases it would allow a better sense of the trend in the expenditure. In other cases, we would certainly want to provide a caveat about those additional two years to make sure that we don't mislead people.

Mr. John Carmichael: So is there value in adding these extra two years?

Mr. Andrew Marsland: I think there's always value in information. As I say, if I sound cautious, it's because we wouldn't want to give a false degree of assurance as to what those expenditures would be in particular cases where there's more volatility expected.

Mr. John Carmichael: Mr. Ferguson, did you want to add to that?

Mr. Michael Ferguson: Yes, thank you.

My understanding is, yes, if you look at the “Tax Expenditures and Evaluations” report, you will see that it contains four years of actuals. For example, if you look at the 2014 report, the four years of actuals go up to 2012. The projections are for 2013 and 2014. What they really represent is the fact that the final numbers are not known for 2013 and 2014 at the point in time that the 2014 report is prepared. They are not providing projections into the future, which would be what you would see, for example, in a report on plans and priorities of a department—what that department is expecting to spend a couple of years into the future.

In this conversation about projections and providing projections, I think we've got two different definitions of “projections” happening. What we're talking about essentially is the same type of information. In spending programs there's lots of lack of precision in those estimates going forward as well, but in spending programs it's possible to provide those projections beyond the year in question. So we're saying that because a number of these programs are similar to spending programs, that type of projection information would be useful for the reader to understand what the costs of these tax expenditures are going to be into the future.

● (1615)

Mr. John Carmichael: So are the additional two years, then, are strictly for future planning, future projections?

Mr. Michael Ferguson: It would be estimates of the value of the tax-based expenditures two years into the future.

Mr. John Carmichael: As we review this type of information and data, I heard one comment, and I think it was Mr. Marsland who mentioned that the cost expenditures are reviewed every year and updated within the tables.

Does that mean, then, that the previous two years are updated annually, as that information comes available?

Mr. Andrew Marsland: Yes. We publish the tax expenditure report in line with the tabling of the main estimates every year. In preparation for that, we use the latest available data, which will vary from measure to measure. Whether it's a corporate measure or a GST measure, the data sources are different. We use the most up-to-date information to revise the numbers and look forward. As I say, that's an important part of the monitoring of these tax expenditures.

The Chair: Thank you. Sorry, the time's expired.

Moving along, we go over to Mr. Woodworth now. You, sir, have the floor.

Sorry, my mistake: you don't get enough spots and I ran right over you. My apologies, Mr. Vaughan. You, sir, now have the floor

Mr. Adam Vaughan (Trinity—Spadina, Lib.): Thank you very much.

I have a couple of questions.

Regarding the child tax credit and the decision not to make public its benefit, in terms of how it's quantified, why wouldn't that happen as just a regular practice? Why would it have to be mandated to occur?

Mr. Andrew Marsland: The document referred to was an internal policy development paper that we prepared in looking at evolving the policy. It wasn't a document that we prepared for public release.

Mr. Adam Vaughan: But why wouldn't that be released as part of a process to understand exactly the impact that the tax is having? Why wouldn't that be part and parcel with the launch of a new tax like that?

Mr. Andrew Marsland: As I say, it was prepared for an internal purpose, in terms of the policy development and the changes under consideration at the time.

Mr. Adam Vaughan: You say that you don't consider the spending alternatives, that in some of these taxes you're looking at the tax credit just as a tax credit, but you don't examine what the alternatives would be as an expenditure. Unpack that for me. Why is the alternative not asked for, and why is the alternative not presented as part of a proposal going forward?

Mr. Andrew Marsland: I think I said that it's part of our analytical framework. We have a kind of template that we use when we look at any tax measure, and part of that is looking at spending alternatives, alternative delivery mechanisms. I think there are exceptions where we don't get much further than looking at it and saying, well, there isn't an exception. If it's a measure that really goes to the measurement, for example, of employment income, you're trying to get at what's the person's real employment income. You're recognizing tradesmen's tools, for example, what they're required spend on those, and it's not really practical to envisage a spending alternative for that at the federal level. So we probably don't go to great lengths to analyze it, but we certainly kind of consider it. It's a question we ask in every case.

Mr. Adam Vaughan: On the first-time home buyers’ tax credit at 3.60, the report says:

> For the First-Time Home Buyers’ Tax Credit, we found that the Department identified some risks regarding this tax credit that the government had introduced to stimulate housing demand.... We found that the Department did not evaluate these two tax credits years after their implementation....

If there were risks, why wouldn't you evaluate the years after, and why wouldn't you report out as to whether or not those risks where mitigated or whether they came to fruition?

Mr. Andrew Marsland: I'm not aware of the specific risks referred to in the report.

But I guess what I would say as a general statement before I come back to the specific is that I don't think there is any case where there aren't risks, in my experience, when looking at a tax measure. There are always risks, whether they be compliance risks or risks that the reality will be different than our anticipation of the reaction of taxpayers. There are always risks. I guess our role is to identify those risks, analyze them, and mitigate them or provide ways of mitigating them.

We did monitor the first-time home buyers' credit. The government reported out on that in its reports on the economic action plan, and we continue to monitor that in the context of developments in the housing market, but we did not do a single evaluation on that measure.

● (1620)

Mr. Adam Vaughan: You didn't, even though you identified it as a potential problem.

Mr. Andrew Marsland: As I say, I don't know the specific risk, but there are always risks and issues with tax measures, given their nature.

Mr. Adam Vaughan: Would that mean....

The tax credit isn't indexed. It's stayed at the same level since its introduction. Does that mean that you haven't, for example, evaluated whether or not flat-lining it has actually led to a decline in it being employed or its usefulness or whether it's no longer stimulating first-time buyers to enter the market? Is that assessment not being done, or is it being done?

Mr. Andrew Marsland: We do a lot of work in the context of budgets, which I can't really talk to. We do look at these issues kind of continually.

But I can't tell you whether we've evaluated specifically the threshold and whether we've thought about increasing it.

Mr. Adam Vaughan: I guess what we're then concerned about is that you say you identify risk, you don't do the follow-up to identify whether that risk has been mitigated or not, and you don't necessarily disclose whether the risk has been breached. So how are we to assess whether or not the due diligence is being done if you don't give us the due diligence as a report?

Mr. Andrew Marsland: I guess what I'm saying is when we analyze a measure, when we look at changes in the measure, we look at the risks associated with that, and we provide advice in relation to that.

Mr. Adam Vaughan: But you don't table that advice. That advice is provided to the minister.

Mr. Andrew Marsland: It's provided to the minister.

The Chair: Thank you. The time has expired.

I'll leave myself open to being corrected again, but I do believe, Mr. Woodworth, that it is your turn to have the floor, sir.

Mr. Stephen Woodworth (Kitchener Centre, CPC): Thank you, Mr. Chair.

Thank you to the witnesses for attending today.

I'd like to begin at least with some questions for you, Mr. Marsland, specifically about the issue of evaluation.

I'd like to begin by confirming whether I heard you say at some point that it is your view that the department did evaluate seven of the eight programs the Auditor General looked at. Did I hear that correctly?

Mr. Andrew Marsland: You did.

Mr. Stephen Woodworth: All right, may I ask which one of the eight you feel that the department did not evaluate?

Mr. Andrew Marsland: It's the one I referred to, the first-time home buyers' tax credit.

Mr. Stephen Woodworth: It's the home buyers' tax credit. Thank you. I must have just missed that.

The Auditor General makes the point that there is a distinction between monitoring and evaluation, so I want to be clear about whether or not, when you tell us the department did evaluate seven of those eight programs, you do mean evaluate, not simply monitor?

Mr. Andrew Marsland: I do, yes.

Mr. Stephen Woodworth: By that I take you to mean from your opening remarks that your monitoring does in fact result in identifying potential issues with the tax system and also ensures that the tax system performs as intended. Is that correct?

Mr. Andrew Marsland: That's correct.

Mr. Stephen Woodworth: I want to be certain about whether there is any issue with wording here. I would have preferred you to say that the monitoring does identify potential issues with any particular tax expenditure, or does in fact ensure that every particular tax expenditure performs as intended. Is that what you mean, or are you just talking about the tax system generally?

Mr. Andrew Marsland: I'm not sure.... I mean, the tax system is a collection of those individual measures—

Mr. Stephen Woodworth: Yes.

Mr. Andrew Marsland: —so we're looking at those individual measures.

Mr. Stephen Woodworth: Let me ask it more specifically, then. When you monitored and evaluated the mineral exploration tax credit, did your evaluation lead you to a conclusion about whether that program was performing as intended?

Mr. Andrew Marsland: Yes.

Mr. Stephen Woodworth: Thank you.

What I gather from your action plan, then, is that while you are telling us, and it's your evidence, that in fact you are monitoring and evaluating tax expenditure programs, it may be that you could improve how that monitoring is formalized and documented. Is that correct?

● (1625)

Mr. Andrew Marsland: I think what we're saying is that our view is that we effectively evaluate tax measures, that we monitor appropriately and so on, but we accept that we need to be able to demonstrate that, both to others and to ourselves—

Mr. Stephen Woodworth: Right.

Mr. Andrew Marsland: —so we will systematically look at our work and make sure there are no gaps, and to the extent that there are gaps, we will make sure they're filled.

Mr. Stephen Woodworth: This is actually a very excellent function that the Auditor General's office provides, in that it's not infrequent that departments are doing things and are just not able to document them in a way that demonstrates they're doing them. I understand that this is the point of your evidence on this.

I also understand that this process design will be completed by the summer of this year and implemented during the fall of this year. Is that correct?

Mr. Andrew Marsland: That's correct.

Mr. Stephen Woodworth: It seems like kind of an ambitious timetable to me. Are you pretty certain that it will be accomplished?

Mr. Andrew Marsland: We've committed to do that, and we will do it.

Mr. Stephen Woodworth: So you'll burn the midnight oil. Thank you.

Mr. Andrew Marsland: Thank you.

Mr. Stephen Woodworth: Do I have time left?

The chair is busy, so that means I have time left.

Voices: Oh, oh!

Mr. Stephen Woodworth: I'd like to know a little bit—

The Chair: You have 15 seconds.

Mr. Stephen Woodworth: I understand that you can cherry-pick particular issues on which to report or not report. “Cherry-pick” is my word, by the way, in that some things we decide to report and some we don't. But overall, what does the IMF, for example, or the OECD say about our Canadian reporting on tax expenditures as compared to reporting of tax expenditures elsewhere in the world, in an overall basis?

Ms. Maude Lavoie: As Mr. Marsland alluded to earlier, the OECD frequently notes that we're providing information on a very wide range of tax expenditures. It is seen as being very transparent that we list not only information on the types of tax expenditures that were part of this chapter, but information on a lot of other tax measures.

The way we document the methodology has been noted by the OECD. The number of years for which we provide projections has been noted by the IMF. The fact that we do publish some evaluation also has been noted as something important by the OECD, because not many countries do so.

The Chair: Thank you. We're done.

By the way, you had 20 seconds when you asked.

Mr. Allen, you have the floor, sir.

Mr. Malcolm Allen: Thank you, Chair.

Mr. Marsland, I was sort of distracted, so I wanted to be sure about the eight that were looked at. You talked about that and said that seven, in your view, were evaluated or things were done to them. Was the one that was missing the first-time home buyers' tax credit? Was it the one that you said wasn't in the eight?

Mr. Andrew Marsland: That's correct, but we did provide evidence and monitor it.

Mr. Malcolm Allen: That's okay.

Mr. Ferguson, you looked at that, and I believe that in your report you talk about the issue of it not being done. Can you tell us what you found from that and why you thought it was important and should have been done?

Mr. Michael Ferguson: What we were looking at was whether, after implementation of these tax measures, monitoring and evaluation were done. We have defined in paragraph 3.55 what we mean by “monitoring” and in paragraph 3.56 what we mean by “evaluation”.

The reason we felt it was important to consider the evaluation aspect was that this type of evaluation is what is done for direct program spending, and there's a Treasury Board policy on direct program spending around evaluation. We felt that this type of evaluation work would be important when you're dealing with a tax measure that could be a substitute for direct spending.

Certainly, I think we have identified that Finance has done a good job with the monitoring. In only four of the eight cases did we feel they had covered off everything that we would expect them to cover off in terms of being able to say that it was evaluated. Certainly, we have agreed that they have done monitoring of them, but not to the full extent of what an evaluation would cover.

● (1630)

Mr. Malcolm Allen: Mr. Ferguson, at the tail end of paragraph 3.60, which is on page 15 of the English text, you talk about the first-time home buyers' tax credit and also the textbook tax credit, which was one of the ones you flagged. The department said at the outset that there were potential risks. Your report says, “The Department does not have complete information to determine if these tax measures are relevant and performing as intended.”

From your perspective, is that a weakness in how this system operated? Is this a systemic thing? Is it an issue of how they monitor but don't really evaluate? It's like counting things: this month so many went past, and last month so many went past, but we didn't bother to evaluate what went past. It just went past. It's just a number. I find that really quite striking, to be truthful. I know that it's taxes and we count taxes, but this is actually not counting money. It's actually money that we're not getting because we're letting it go somewhere else.

It just strikes me, sir, that at the tail end of that program.... This brings me to exhibit 3.3 on page 12 of the English text. I believe you touched on it. It talks about “Direct program spending” and “Tax-based expenditures”. It actually says under “Evaluation” that with “Direct program spending”, it is required, and with “Tax-based expenditures”, it's not required. Under “Subject to expenditure reviews”, direct programming has a “Yes” and tax-based expenditures has a “No”.

Does that seem appropriate to you? Do you think we should actually evaluate it? Should we have a policy that says “thou shall evaluate” rather than a policy that presently says you don't have to if you don't want to, or that says you may but you don't have to?

Mr. Michael Ferguson: The recommendation we made in paragraph 3.61 was that “The Department of Finance Canada should conduct systematic and ongoing prioritized evaluations of all tax-based expenditures, similar to what all departments and agencies are required to do for direct program spending.” Then we list what that should include.

I think the fact that in paragraph 3.60 we talk about the fact that there were some risks identified in these tax measures speaks to the importance of doing later evaluations once they have been implemented, understanding that all tax measures, all of these tax-based expenditures, have risks associated with them. But all government programs have risks associated with them. I think the fact that programs have risks associated with them, whether they're tax-based expenditures or direct spending programs, is exactly the reason why there need to be systematic evaluations covering all aspects of the evaluations. That's why we made that specific recommendation in paragraph 3.61.

The Chair: I'm sorry. The time has expired.

Mr. Albas, you now have the floor again, sir.

Mr. Dan Albas: Thank you.

[*Technical difficulty—Editor*].... My question is for the CRA. Specifically when we're talking about implementation of a new tax expenditure, can you talk about the monitoring and how that is important? I would imagine that, just like for any new measure, certain documentation would be required. The CRA may or may not see certain patterns when taxpayers are filing for certain tax credits and whether they have the proper documentation. Can you explain the importance of monitoring that?

Mr. Costa Dimitrakopoulos: Yes, when we're looking at new measures, we're monitoring them to see how they affect enforceability, the compliance aspects, and our internal operations. We're also looking at whether there's an impact in terms of the size of the measure and at how many taxpayers are affected, which could impact the number of tax enquiries we may get on our phone lines and the number of objections or appeals. There is also an impact on verification.

● (1635)

Mr. Dan Albas: There's a continuing conversation, I imagine, between Finance and your department to ascertain these things and to share information.

Mr. Costa Dimitrakopoulos: Yes, there's an ongoing dialogue. When we see something that causes us concern, we have discussions at the officials level to make sure the Department of Finance is kept fully apprised.

Mr. Dan Albas: Okay.

Auditor General, when we look at implementing a new tax measure, that obviously can affect the tax system's complexity. It's important, I think, that CRA and Finance communicate when they consider implementing a new tax measure. Can you tell us a little bit about the finding in paragraph 3.64 of your report?

Mr. Michael Ferguson: We did indicate that CRA monitors the cost of implementing the new measures, and that it monitors the compliance issues and shares the relevant information with the Department of Finance on an ongoing basis. I think we say further on—for example, in paragraph 3.73—that according to the agency, adding one line to the T1 tax return related to a new non-refundable tax credit can involve significant effort and cost the agency up to a million dollars.

So they've done analysis of what the administrative impact and the administrative costs are, as well as the issues related to compliance.

Mr. Dan Albas: Thank you.

Again, we have obviously our tax code here, and we have other jurisdictions. Specifically, I'd just like to ask about the part in the spring Auditor General report where it states that in some international jurisdictions, they have adopted reporting practices where they provide short descriptions of a tax measure, a discussion of its purpose or objective, the future cost of each tax expenditure, and the number of beneficiaries.

The Auditor General listed Australia, France, and Pennsylvania as examples. Do they all provide such information or is it just a little bit? Can you tell us about a few areas where Australia, France, and Pennsylvania may also be falling behind our approach?

Ms. Maude Lavoie: Sure. Well, all these countries have very good tax expenditure publications and provide a lot of information. We all make different choices in terms of what we provide as information. Certainly in Canada we do have descriptions of the objectives of the tax measures. We provide six years of data. We provide integral products.

In Australia they have a lot of that, but they would not provide information on the objectives, for instance. In France they also do a quite comprehensive report, but they do not include a description. Those are just examples that show that we all make different choices. I do want to underscore the fact that all those countries have very high-quality publications as well. It's just that the choice in terms of what is presented differs across countries.

Mr. Dan Albas: It sounds to me like a lot of monitoring goes on. Both departments are constantly checking to make sure that the integrity of the tax system is there.

For constituents in my area, Okanagan—Coquihalla, where would they go online to be able to view some of these tax expenditure reports? How could they find out the information themselves?

Ms. Maude Lavoie: The Department of Finance has two publications. The one that we update annually is available on our website. Every year it provides six years of cost projections, and also typically provides two analytical papers on topics of interest. Accompanying that is another document that's available on our website. It provides more information on the methodology, the objectives of each tax expenditure, and a description of all those tax expenditures. That one is not updated every year. The last time it was updated was in 2010. When there are changes to any of those measures, it's noted in the annual report.

The CRA, I would add, also provides extensive statistical information on tax expenditures on the personal income tax side, and all the tax expenditures are noted there. You can have information by income level, by major source of income, by age, by sex. A wide range of statistical information is also available on CRA's website.

● (1640)

Mr. Dan Albas: Thank you very much.

The Chair: Thanks. You were on time. I appreciate it. We will move over to Mr. Vaughan.

Mr. Adam Vaughan: I want to go back to the first-time homebuyers. The question is for Mr. Ferguson.

The report says, “the Department does not have complete information to determine if these tax measures are relevant and performing as intended”. That surely has to raise some red flags as to whether or not the goals are being met and whether or not you're tracking impact. That has to be beyond just a significant concern. That has to be a worry, doesn't it?

Mr. Michael Ferguson: I think we have specifically highlighted this in the report, because we felt it was something that needed to be brought to Parliament's attention. These types of tax measures could be substituted for through direct program spending, in which complete evaluations would be done on a periodic basis, but the same kind of evaluation rigour does not exist for these types of credits. That's why we made the recommendation in paragraph 3.61.

Mr. Adam Vaughan: This particular credit was brought in in 2009 when the housing market across North America was in extraordinary turmoil, with the mortgage crisis that hit the United States and the downturn in the housing market in this country. A stimulus package was brought in, but how do you know how to evaluate whether that stimulus package is still needed? How do you know whether it's needed in certain parts of the country in different ways than in other parts of the country? If you're not evaluating that particular tax policy, it appears to be a tax credit for the sake of making a tax credit, but you have no idea how effective it is, you're not monitoring its effectiveness, and you're not tracking how it's being used and whether it is in fact stimulating an uptake in first-time buyers that might be present with or without the measure.

Mr. Michael Ferguson: In your question, you're touching on something we have dealt with as well in our recommendation in paragraph 3.33, where we say, "To adequately support parliamentary oversight, the Department of Finance Canada should adopt improved reporting practices for tax-based expenditures to provide additional information, including cross-references of tax expenditures to direct program spending, so that readers can understand total government spending".

It's important to do the evaluations of the tax measures, the tax-based expenditures, but I think that's also why it's important to make sure that when people see this type of a program, they can understand if there are other types of programs that would be linked to the tax measure. As I understood your question, you're talking about an evaluation of more than just the individual tax measure, which we think is something that should be done and which is part of our recommendation in paragraph 3.61. You're talking about an evaluation that would look at the broader interaction of this tax measure with other measures, whether they be tax measures or direct program spending. We would say that at least the first step in that is our other recommendation in paragraph 3.33 that helps the reader understand the linkage between a particular tax measure and direct program spending.

Mr. Adam Vaughan: The concern would arise that you're moving on changing the tax code with a stated objective, but you never go back to check whether or not you've achieved what you started out to achieve. It's almost a tax break for the sake of a tax break without ever understanding whether or not it had the impact you wanted it to have on the market. It's one thing to track the accounting rules and to make sure it's being used properly, but if it's brought in as a stimulus to respond to a particular crisis, surely you have to assess whether or not it had any impact on that crisis to know whether you should stop it or start it again the next time the same conditions exist.

Mr. Michael Ferguson: In the course of your question, you've let me touch on all three of our recommendations. Our other recommendation was about providing more information. We've talked about the fact that there is information available on the website, but at the same time that the main estimates come out, the tax expenditure and evaluation report is prepared. The main estimates are tabled with Parliament, but the tax expenditure and evaluation report is not tabled with Parliament, so making sure that Parliament is aware of all of this information at once would be important to make sure that it isn't forgotten. Again, because these types of expenditures, these tax measures, are substitutes for direct program spending, it's important that there be a way for Parliament to be aware of what they are, that they exist, that the information be tabled, and that it contain the same type of information going forward, future year projections. That is how Parliament can make sure it can still ask questions about the programs and that they still have relevance.

Then from the department point of view, treating the tax measures the same way direct program spending is treated, and doing the same types of evaluations on them that would happen on direct program spending would ensure consistency in the way those types of programs are being evaluated.

● (1645)

The Chair: Thank you. The time has expired.

Once again we will go to Mr. Woodworth.

You have the floor, sir.

Mr. Stephen Woodworth: I'd like to follow up on a few loose ends from my earlier questioning, and I'll begin with Mr. Marsland.

We didn't really have time to discuss what happened in relation to the evaluation of the first-time homebuyers tax credit. Could you tell me just a little bit about why that evaluation didn't occur, or has it now occurred? What is the status of that?

Mr. Andrew Marsland: In relation to the first-time homebuyers tax credit, in the period in question, which I think is 2008-14, we closely monitored the credits and, in the context of the department's broader monitoring of the housing market, we covered aspects such as the credit's relevance, its fiscal cost, and possible compliance and administrative issues. In terms of the reporting on that, we provided estimates of the stimulus value and the job impact in relation to the credit under the housing investment measures. Those were part of the government's periodic reports on the economic action plan.

The department also monitored the evolution of real estate prices in Canada and conducted studies to understand the determinants of price changes, and that, of course, involved monitoring the potential effects, desirable and undesirable, of the first-time homebuyers' tax credit on the real estate market.

Mr. Stephen Woodworth: Is there any intent to tie all of that together in what might be described as an evaluation rather than merely monitoring?

Mr. Andrew Marsland: As I mentioned earlier, this is one of the eight measures whereby we don't think we evaluated it, but I think part of our response to the Auditor General's recommendation is to ensure we have a system in place to cover all the bases in terms of evaluating these measures.

Mr. Stephen Woodworth: Right. You heard earlier the Auditor General's critique about the evaluations and how there seemed to be gaps. Can you add anything further on that?

Mr. Andrew Marsland: It rather goes to the issue of what's a tax expenditure. As I mentioned earlier, we define a tax expenditure as any deviation from a benchmarked tax system. We define our benchmarked tax system as broadly as possible, so we report on as many tax expenditures as possible really.

In that context, we capture a whole range of different measures that serve different purposes in the tax system. Some, as the Auditor General observed, are closer to substitutes for direct spending, but many are not. They go to the accurate measurement of income. They go to simplicity. For example, we report as a tax expenditure the taxation of capital gains on realization as opposed to accrual. We do that for practical purposes. It would be extraordinarily complex to tax capital gains as they accrue before the property is sold.

I say that to point out that there is not a homogenous nature to a tax expenditure. There's a vast range of measures, and in looking at them in terms of how you evaluate them, you need to take into account and look at the risks associated with them, the expenditures, whether or not they're really an integral part of the tax system and whether the risks are perhaps not as high. You need to understand the cost of them and how they're performing but to look at them in slightly different lights.

● (1650)

Mr. Stephen Woodworth: Thank you.

Now I'll go back to Madame Lavoie just for a moment. I'll try to squeeze in a question about whether the IMF or the OECD at any point has ever said that Canada's reporting on tax expenditures is second to anyone else's, or have they said the opposite? Has there been a comparative exercise or comment from them?

Ms. Maude Lavoie: I'm not aware that the OECD or the IMF or other international organizations would have ranked countries. As I mentioned earlier, countries make different choices in the information they provide. Certainly, some organizations have tried to develop guidelines and things like that, and they've noted that Canada is doing very well in certain respects. But I'm not aware of specific ranking, if that's your question.

Mr. Stephen Woodworth: How about on the question of how frequently tax expenditure reports are published? Where does Canada stand relative to the rest of the world in that measure?

Ms. Maude Lavoie: As far as I'm aware, many countries publish a similar report providing cost estimates of their tax expenditures on an annual basis, but I'm not completely sure about that question.

The Chair: That's very good, thank you. The time has expired.

Back over to Monsieur Giguère who gets the floor again, sir.

[*Translation*]

Mr. Alain Giguère: Thank you, Mr. Chair.

I hope the witnesses are not too surprised by my questions. In any case, I think that they will be able to answer them quite easily.

In point 3.58, it says that the issue also represents a global vision. There is a paradox here; we saw what Professor Léo-Paul Lauzon said. I hope you are familiar with his research work on this. He says that gradually, we are seeing the richest 5% of the population not have to pay any income tax whatsoever. A large proportion of these highest-income people manage from one year to the next not to pay any income tax, or to pay very little.

The question we must ask ourselves is the following: Is what you are doing to the Canadian tax system, overall, not going to result in a situation where our grandchildren are going to have to pay for the tax credits we have at this time? The problem is serious, and we note that tax expenditures increase constantly. These tax expenditures systematically favour the richest group of the Canadian population. We don't want our grandchildren to have to pay our bills. As point 3.58 indicates, there is a some kind of flaw in the overall analysis.

Please do not all answer at the same time.

[*English*]

The Chair: Anybody?

[*Translation*]

Mr. Miodrag Jovanovic: I think that Mr. Giguère has raised an important concern about the system, which is that everyone must pay their fair share of tax. As for people with high incomes, I would simply like to mention that those who are in the highest tax bracket, which is 29% at the federal level, represent 3% of the Canadian population, but they pay 35% of the income tax. I would also like to add that every year, the department takes a close look at things in order to ensure that the system is fair. And with every budget, we list what we call the integrity measures that were established by the government.

Mr. Alain Giguère: Nevertheless, we still have the same problem.

As for the 3% you refer to, the richest Canadians, we see that the gap between their growing wealth and their taxable income continues to grow. In fact, those people are not taxed on the increase in their wealth but only on a fraction of it. You say that they pay a lot of tax. They do pay a good part of Canadian income tax, but the question is, do they pay their fair share? You say that they are in a 29% tax bracket, but the issue is that very few of these people pay 29% on the increase in their wealth. They only pay that on a fraction of their taxable income. Which brings us back to the conclusion of the Carter Commission, which was that Canadians are not taxed fairly.

● (1655)

Mr. Miodrag Jovanovic: I think that there is a much broader question here, regarding how the Canadian tax system should be set up. In my opinion this goes somewhat beyond the framework of our discussion today.

Mr. Alain Giguère: From time to time we need this information in order to make a decision.

If income tax should help us to reduce inequality, and if you are not able to inform us on how to reduce it, how can we adopt legislation to make things progress? In fact, these questions have been raised by the Parliamentary Budget Officer. We need this information.

Mr. Miodrag Jovanovic: I would like to add a comment.

Is the question to determine whether tax expenditures are systematically regressive? I do not know. In fact, we have tax expenditures which by definition are far from regressive. For instance, the Working Income Tax Benefit definitely targets low-income people. This is a measure that was conceived to counter what we call the *welfare wall*.

Mr. Alain Giguère: Mr. Chair, you understand the problem we have.

If the witnesses cannot answer these questions, how can we correct a situation we feel is unacceptable, through legislation?

Still on this topic, I will refer to Mr. Marsland's opening statement. He stated that in 2014, there were 364 pages of legal, tax and financial legislation. For the majority of Canadians, the Income Tax Act is a madly complex legal document. I'm referring to the report of the Ordre des comptables professionnels agréés du Québec, the Quebec CPA Order. Their report stated that the Income Tax Act had become an Aladdin's cave in which people get lost. Here again, the officials from the department are worsening the problem. They are increasing the size of the Income Tax Act rather than simplifying it.

Here is the best example I can give. All we have to do is look at page 17 of the document on tax expenditures and evaluations published in 2013, regarding the tax credits for disabled persons. Still today, many members have to inform disabled persons regarding the definition of a disabled person and the rights they have. It is all well and good to have a law—and I echo Mr. Albas' statements on this—but it has to be accessible to the vast majority of Canadians. Canadians have to know that this is accessible and they have to know how to access these credits. Once again, in all of these documents that were submitted and in all of the report, there is a problem. The whole issue is the accessibility of tax deductions or credits in this maze of tax legislation.

[*English*]

The Chair: I'm sorry, but we're a minute and 15 seconds over the time. You got your question in, but I'm afraid you're not going to get an answer. We're going to move along.

Mr. Albas, sir, you have the floor.

Mr. Dan Albas: Thank you, Mr. Chair.

Again, thank you to everyone who has been here today to offer their views on the Auditor General's report.

Specifically, I'd like to cap off with a conversation around the action plan.

Mr. Marsland, perhaps you or some of the other officials here today can point out some of the steps that you will be taking in response to the Auditor General's report.

Mr. Geoff Trueman (General Director (Analysis), Tax Policy Branch, Department of Finance): I'm happy to respond to that one, Mr. Albas.

To recap some of the material that I think has already been covered today, in order to respond very directly to the comments in the Auditor General's report, we will be adding those two additional years of cost projections. What that will do is give those two forward-looking years that move beyond the backward and the present, and we'll be able to have some forward projections for a couple of years, subject to any caveats that are necessary about the robustness of those estimates.

We'll also undertake to provide additional information on government spending programs so that we can add that into the companion document, the somewhat more in-depth explanatory document that accompanies the tax expenditures. Also, we'll try to provide links to relevant programs, so that when individuals do go to look at the tax expenditures they'll be able to undertake a comprehensive approach. For example, if you look at information about the scientific research and experimental development tax credit, there could also be information then directing you to certain programs that are offered by Industry Canada that also target research and development. That would be an obvious one to add there.

We've also certainly committed to the ongoing monitoring of tax expenditures and to undertake that in a more formalized systematic process. That will help to inform the breadth and depth of our analysis. Where possible gaps are identified, we'll be able to move to address those gaps more quickly by undertaking relevant evaluation reports.

Finally, I would note that we certainly are committed to continuing to publish pertinent information. In recent years, we've been able to publish at least two evaluations per year over the recent past, and we would certainly like to be able to continue to do that going forward, providing that kind of robust analysis and quality information and making that available to the public and parliamentarians.

● (1700)

Mr. Dan Albas: Thank you.

Mr. Chair, I'd like to thank all of our witnesses today for their efforts. We all have different roles, but I do appreciate your service to your country. Many of my constituents really like the different tax credits that are available. I received phone calls last week asking about the new ones that will be installed. I'm sure your methodology and your continued vigilance towards the integrity of our tax system, while making sure that all Canadians have a high quality of life, will be very helpful.

Thank you again, Auditor General, for your work on this.

I have no further questions.

The Chair: Very good. Thank you.

Mr. Giguère, do you have an intervention?

[*Translation*]

Mr. Alain Giguère: Since it is 5 p.m. and the room is available until 5:30 p.m., I would have liked to ask a question and I would have liked all of the members to allow one of our witnesses to answer it.

The question concerns the issues posed by the complexity of the act. And in fact, it only gets more and more complex. I think it would be useful to ask ourselves whether there could be some solutions that could be brought to the table.

[*English*]

The Chair: It sounds like you'd like to know whether the committee is interested in extending the discussion. We have completed the usual rotation once. It's always up to the committee if they wish to continue or not.

Did you want to make a particular suggestion, Monsieur Giguère? Did you want to go for a whole half-hour, or one more each? Just quickly, please, what are you looking for?

[*Translation*]

Mr. Alain Giguère: I don't want to force my colleagues to listen to endless discussions. However, I did ask a question and unfortunately because it took me too long to formulate it...

[*English*]

The Chair: Ah. So you're just asking for permission for that answer.

Mr. Alain Giguère: Yes.

The Chair: Sorry, I'd misunderstood. Just to be 100% clear, you're just asking for the time to hear the answer to the question you'd asked.

[*Translation*]

Mr. Alain Giguère: Yes.

[*English*]

The Chair: Let me test the floor.

Mr. Dan Albas: If it's a minute, I don't think it's an issue.

The Chair: Yes, that's my sense of it.

Okay? Very good. That's fair.

Just to retune here, Mr. Giguère asked a question and ran out of time. It went too far over for me to allow an answer. The committee has now agreed to allow that time.

If one of you would just provide a brief answer to Monsieur Giguère's question, we'd very much appreciate it.

Mr. Andrew Marsland: I'll attempt to do that.

I believe the question related in a general sense to the complexity and growing complexity of the tax system, specifically the disability tax credit as an example of that.

In terms of the complexity of the tax system, I can't sit here and tell you that it's not a complex tax system. Any tax system is complex in that it's the application of somewhat complicated rules to extremely complicated economic and social activities. To some extent there's an inevitability about the complexity. But in looking at a specific tax measure or the tax system as a whole, there's a balancing of a number of considerations—for example, its relevance in addressing a policy objective, its effectiveness in doing so, its economic efficiency, its equity considerations in terms of vertical equity and horizontal equity, and its simplicity in terms of its simplicity for our colleagues at CRA to administer. More importantly, there's the compliance burden it places on individuals. Any tax policy consideration requires a balancing of those considerations. Simplicity is an important one.

In the context of a measure such as the disability tax credit, this is a generous measure in the context of the tax system. It's focused on people who are suffering severe mental or physical impairment. It's important that it be appropriately targeted, because if it weren't, it would be extraordinarily expensive. It needs to be targeted to the appropriate group of people who unfortunately suffer from those impairments. There have to be rules. That's inevitable. I think our colleagues at CRA make great efforts to try to explain those rules, not in legislative language but in language that's accessible to people.

I guess the point I'm making is that this complexity is to some extent inevitable, but the search for simplicity should continue.

I hope that's helpful, Monsieur Giguère.

● (1705)

The Chair: That's very good. Thank you very much.

Thanks to the committee.

I have one quick question, not so much on this but relative to the whole issue of tax expenditures. *The Economist* just did a major front-page story on tax-free debt, making the case that the ability to deduct interest payments on debt is a little-known problem and a ticking time bomb within the world economy.

By the way, no one has to answer this. I'm just asking for any feedback if it's there.

They make the case that it's so damaging it's why Britain has moved from the American style system, where you are are allowed to deduct your mortgage payment interest, to the Canadian style where you're not.

They make the case on the corporate side that it would be worthwhile. Does anyone here agree with this or have any thoughts on it? *The Economist* was making the argument that switching away from allowing debt to be deducted, interest to be deducted, and, even, if you changed the tax rate to make it revenue neutral, would be an improvement in the way we run our national economies.

I wonder if anybody has any thoughts on whether this is an issue, because it is a tax expenditure. Any time there's a tax deduction, we're talking about the same as if we were spending money.

Has anything been said about this in the Canadian context or, quite frankly, has nobody talked about it? Did anybody even see the article? I'm throwing it out there to see if there's any take-up.

Mr. Andrew Marsland: It was an interesting article, and I felt the blog afterwards was even more interesting in terms of the difference of views on that particular aspect, which I think was indicative of this complex issue.

Specifically on the deduction of mortgage interest payments, I think the evidence would probably show that when countries provide that, it gets capitalized in the price of houses, so it becomes a zero-sum game.

The Chair: That was the concern. It's artificially raising the price, and that's why Britain moved away from it.

Thanks. I appreciate it. I just wanted to get that off my chest, given that we were talking about tax expenditures.

I see no other interventions, and so on behalf of the committee I thank our Auditor General and his staff and our guests here today. We appreciate your answers. By the way, the action plan was here on time in advance. That's much appreciated. Good job. Thank you.

With that, this committee now stands adjourned.

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