



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

## **Standing Committee on Finance**

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FINA • NUMBER 136 • 1st SESSION • 42nd PARLIAMENT

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**EVIDENCE**

**Thursday, March 1, 2018**

—  
**Chair**

**The Honourable Wayne Easter**



## Standing Committee on Finance

Thursday, March 1, 2018

• (0850)

[English]

**The Chair (Hon. Wayne Easter (Malpeque, Lib.)):** I'll call the meeting to order. Pursuant to Standing Order 81(5), the committee will look at supplementary estimates (C) for 2017-18, vote 1c under the Canada Revenue Agency and vote 1c under the Department of Finance, referred to the committee on Monday February 12, 2018.

To start we have from the Department of Finance, Ms. Laniel, chief financial officer; Mr. Jovanovic; and Mr. Stewart.

The floor is yours, I believe, Adelle.

**Ms. Adelle Laniel (Chief Financial Officer, Financial Management Directorate, Corporate Services Branch, Department of Finance):** Good morning, Mr. Chair and members of the committee.

As chief financial officer I am the lead executive responsible for financial reporting and disclosure of the 2017-18 supplementary estimates (C) for the Department of Finance. With me today are officials to assist in providing you with a more in-depth perspective on the rationale and policy that supports the numbers within these estimates.

[Translation]

The 2017-18 supplementary estimates (C) reflects a net decrease of \$463 million in departmental budgetary expenditures stemming from forecasted decreases in statutory spending of \$466.9 million and a \$3.9-million increase in voted expenditures, representing a net change of 0.5%. That brings the department's total budget to about \$90 billion.

These statutory items are listed in the budget document for information purposes and will not be part of the supply bill. However, they are included in these estimates to provide a more complete picture of total expenditures.

[English]

Within the statutory forecast the contributing factors to the \$466.9 million decrease are as follows.

There's a \$503 million decrease in interest on unmatured debt largely driven by lower projected inflation for 2017 and 2018 by private sector economists consistent with the 2017 fall economic statement, which results in lower expected real return bond adjustments for 2017 and 2018. There's a \$52 million decrease due to higher recoveries of alternative payments for standing programs driven by an increase in the estimated value of Quebec's

basic federal tax. There's a \$10.8 million decrease due to a higher use allowance recovery, which also reflects an increase in the basic federal tax in Quebec.

[Translation]

These decreases are partially compensated for through the following increases: a \$19-million funding increase for the Canada Infrastructure Bank for the activities the bank will undertake over the short term to establish the organization; a \$35-million increase for other interest costs, which represent in large part higher interest rates than what was forecasted by private sector economists, in accordance with the Fall Economic Statement 2017, which has an impact on the average long-term bond rate used to calculate the interest on bonds related to the public service pension funds in terms of services previous to April 1, 2000; finally,

[English]

a \$44.3 million increase for additional fiscal equalization payments to Nova Scotia due to updated data used for the calculation of the payment.

New vote 1 funding requirements are \$3.9 million and consist of the following.

There's an amount of \$1.8 million for the department's role in the 2018 G7 Summit. These costs involve policy analysis to shape the finance track work feeding into the G7 Summit and logistical support for related events including outreach.

There's an amount of \$1.3 million related to the financial sector policy funding renewal to ensure that Canada's federal financial sector remains robust and effective and meets the evolving needs of consumers and businesses.

There's an amount of \$0.4 million for personnel costs to support the corporate asset review program; and an amount of \$0.4 million to support the department's oversight role in the Canada Infrastructure Bank.

[Translation]

Supplementary estimates (C) also include an increase of \$53.4 million for non-budget expenditures planned for 2017-18 to purchase initial offerings in the Asian Infrastructure Investment Bank, pursuant to the Asian Infrastructure Investment Bank Agreement Act.

This concludes my overview of supplementary estimates (C) for the department.

We would be pleased to answer any questions the committee members may have.

[English]

**The Chair:** Thank you very much, Ms. Laniel.

Before I go to Mr. Sorbara, on the equalization, and I'm mainly looking at it for P.E.I., how does that work over time? When are the figures finally complete is what I'm asking? Is it three years after the fact? You look at certain data, and then the equalization payments apply. How does that work?

**Ms. Adelle Laniel:** Okay. I will introduce Mr. Countryman.

**Mr. Galen Countryman (Director General, Federal-Provincial Relations and Social Policy Branch, Department of Finance):** Hello. Galen Countryman, director general for fed-prov relations at Finance.

**The Chair:** Okay.

**Mr. Galen Countryman:** Your question is how do the equalization payments work?

**The Chair:** How do they roll out and how are they calculated over time? They change over time as the facts become more accurate.

**Mr. Galen Countryman:** The equalization payments are calculated every year. The total amount grows in line with the gross domestic product, it grows in line with the economy. The figures are calculated every December for the upcoming fiscal year. We would have calculated the amounts for the 2018-19 fiscal year this past December.

• (0855)

**The Chair:** Okay. But then are they not adjusted the following year?

**Mr. Galen Countryman:** For equalization in particular, it's a one-estimate system, so we only calculate it once and that's the amount that actually goes. There's no revision to the actual equalization amount except for the equalization payments.

**The Chair:** Okay, thank you.

Then we're turning to Mr. Sorbara.

**Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.):** Thank you, Mr. Chair.

Good morning, *bonjour*, to everyone.

MPs receive a lot of material to read, and here on the finance committee we're bombarded with material to read. One thing I'm trying to understand is the estimates in terms of the budgeting cycle. Our government has made a number of recommendations in aligning the budget and the main estimates. Can you provide colour on that, and how useful that alignment will be to MPs and to others who look at this information?

**Ms. Adelle Laniel:** I will let my colleagues answer about the alignment of the estimates with the budget. I apologize.

**Mr. Brad Recker (Director, Fiscal Policy Division, Economic and Fiscal Policy Branch, Department of Finance):** Hi there, I'm Brad Recker from the Fiscal Policy Division.

We have been pretty focused on the alignment between the budget and the estimates over the past couple of years, and in budget 2018 we made some significant progress. In annex 2, in the back pages of the budget, you'll find tables that, on a department-by-department basis, take you from planned estimates for the next fiscal year to planned expenses budget-wise for the top 23 spending departments. In addition, we've added a table in the budget that has cash disbursements approved through the budget to each of the departments through budget 2018. That's our first step in moving toward better alignment of the two documents.

**Mr. Francesco Sorbara:** Okay.

In my view, the number one responsibility of MPs is to have an overview of what government spends and to be able to understand how the process works. I think it's analogous to when you're looking at a company's finances and when they have an investor day and when they release their results in the timing of the two. I've made that point. When I arrived on the Hill, it was difficult to understand the timing of the process, so I'm glad to see that's being fixed.

Is there anything you wanted to add, Mr. Recker?

**Mr. Brad Recker:** No, that would be our first step for sure.

**Mr. Francesco Sorbara:** Thank you.

In terms of this document, "Supplementary Estimates (C)", versus your introductory remarks, Ms. Laniel, why are there differences in terms of the numbers and everything? Is the information in here a subset of the information in here that's being approved on this?

**Ms. Adelle Laniel:** The comments I was giving were the net changes, but they should be aligned.

**Mr. Francesco Sorbara:** They should be aligned? Okay.

**Ms. Adelle Laniel:** Yes, so maybe it's because of the order; we went from the highest to the lowest decrease and then increase, so the order may have been slightly different.

**Mr. Francesco Sorbara:** When I read through the estimates document, it just seemed like there was more than \$4 billion increase. Maybe I'm referencing it wrong: "Supplementary estimates 2017-2018 provides information in support of voted budgetary expenditures in the amount of \$4 billion for a total of \$115 billion, representing a 3.6 increase over the authorities to date." That's on page 1-3 of the "Supplementary Estimates (C)"

**The Chair:** What's the title of the document you're reading?

**Mr. Francesco Sorbara:** "Supplementary Estimates (C), 2017-18", for the year ending March 31, 2018, Chair. I was just trying to understand the numbers in terms of how they're connected between this document and this document.

• (0900)

**Ms. Adelle Laniel:** The "Supplementary Estimates (C)" document we're going to today is purely Department of Finance versus the entire public accounts.

**Mr. Francesco Sorbara:** Okay.

**The Chair:** Yes.

**Ms. Adelle Laniel:** Sorry.

**Mr. Francesco Sorbara:** No, no.

**The Chair:** That clears it up. Thank you.

**Mr. Francesco Sorbara:** Thank you very much for that.

I have just a quick follow-on question, On the back page, in terms of the initial shares of the Asian Infrastructure Bank, the purchase of \$53.4 million, I would assume that we'll see this as a recurring item for a number of years up to the amount that we've committed to within the Asian Infrastructure Bank.

**Ms. Adelle Laniel:** Yes.

**Mr. Rick Stewart (Assistant Deputy Minister, International Trade and Finance Branch, Department of Finance):** That is correct. We are planning to make our capitalization contribution as a member of the bank through five instalments in successive years. This is the first instalment.

**Mr. Francesco Sorbara:** Okay. My final question is on the largest item, the \$503-million decrease in interest. I take it these are real return bonds that we're looking at and just the inflation component. Is this an actual cash charge? I would assume it's a non-cash charge, but I want clarification on that.

**Ms. Adelle Laniel:** The real return interest is paid, I believe, annually, but I will confirm.

It's paid annually so it is a cash saving and an expense saving. So the timing can be slightly different due to accruals, but it does match.

**Mr. Francesco Sorbara:** Thank you very much, and again good morning.

Chair, I'm done.

**The Chair:** Thank you, Mr. Sorbara.

Who's on? Pat? Or is it Pierre?

**Mr. Pat Kelly (Calgary Rocky Ridge, CPC):** Pierre's going to start.

**The Chair:** Mr. Poilievre.

**Hon. Pierre Poilievre (Carleton, CPC):** Can you talk to us about the debt-management strategy of the Department of Finance? In particular, how big will be the bond offering in this coming fiscal year, 2018-19? And what proportion of the bonds that we offer the market will be two, three, five, 10, and 30 years?

**Mr. Nicolas Moreau (Director, Funds Management Division, Financial Sector Policy Branch, Department of Finance):** I can answer this question. I'm Nicolas Moreau. I'm the general director of the funds management division. It's a very good question. Thank you.

We will have a larger share in the two-, three-, and five-year sectors. This is strictly by construction. As you know, when we issue two-year bonds in order to have about the same amount for 10 years, we need to do five times more two-year than 10-year bonds. When you look at the overall structure of our debt right now, about 40% have been issued in the 10-year and 30-year sectors. For the rest of the debt, it's about 40% in the two-year to five-year sector and 20% in T-Bills.

For this year, we will increase our T-bill issuance, because last year we were surprised on the upside with revenues, which have

resulted in a lower financial requirement. When we do our adjustments, we always do our adjustments in the T-bill sector. Since we want to be as transparent as possible to the market in with our bond program, we always adjust in the more liquid sector, the T-bills, and we leave the rest of the bond program unadjusted for the year. Therefore, in terms of the proportion this year, we'll keep our share of 20-40-40 about constant, relative to last year.

**Hon. Pierre Poilievre:** You'll keep the overall share of...? Twenty will be T-bills, 40 will be short-term, and 40 will be long-term?

**Mr. Nicolas Moreau:** Approximately, yes.

**Hon. Pierre Poilievre:** The long-term, the 40% in longer-term issuances, when were most of them issued? I mean, obviously they were issued at various times. The reason I ask is that I noticed in the last several years that there has been much more issuance of shorter-term debt and less of long-term debt. Are these 10s and 30s earlier issuances from five or ten years ago, or are they more recent?

**Mr. Nicolas Moreau:** There are some that are more recent. Every year we are issuing 10-years and 30-years. When we go back to those shares, the 10-years and above have been growing over the past few years. We used to have a much shorter-term debt in circulation, especially after the financial crisis when the market was really asking for short-term products, T-bills of two years or five years. Since then, we have increased our benchmarks in the 10-years and 30-years. We also have issued some 50-year bonds. Overall, when you look at the share of our debt in circulation right now, we have increased the portion that is 10-years and above.

• (0905)

**Hon. Pierre Poilievre:** In the last three years we've increased...? Of the issuances over the last three years, what percentage have been in 10s and 30s and 50s, and what percentage have been in twos, threes, and fives? Just give me a ballpark figure. I know I'm putting you on the spot, but you mentioned the 40, 40, 20, and I think that's the whole portfolio of debt. I'm just talking about the issuances in the last three years.

**Mr. Nicolas Moreau:** In the last three years, I will say it's about 45% in long, two to five is about 35%, and then 20% in T-bills.

**Hon. Pierre Poilievre:** Is there not an argument to up the long-term above that 40% to 45% right now? The two-year U.S. Government bond has almost doubled in the last five months. We know interest rates really can't go much further down than they have, and there's plenty of upside. Therefore, if we're all in the gambling business, we know that we bet on higher interest rates over the medium-term and long-term. Would it not be wise for the future of Canada to lock in, just like Canadians lock in when rates are low on their personal mortgages?

**Mr. Nicolas Moreau:** It's one way of looking at it. When we look at the market, we see there's a lot of volatility and uncertainty about where the rates will be in the future. When we plan our debt strategy, we want to plan it to be able to face different economic circumstances. We also need to make sure there's sufficient liquidity in all the sectors.

As a sovereign issuer, we need to make sure we're creating sufficient benchmarks in all the different sectors where we are issuing debt, in order to help the provincial, municipal, and also the corporate sector to be able to borrow on their side.

Like I said, we've been slightly increasing our issuance in the long-term, 10-year, and above, but at the end of the day we need to ensure that we still issue sufficient amounts in the two-year, three-year, five-year, and the T-bill sector in order to have a sufficiently liquid market. The market prefers shorter issuances to the long-term ones, because they are a more liquid instrument right now.

**Hon. Pierre Poilievre:** How much of a discount are they giving us for those short...? If the market prefers shorter-term issuances, then surely they would be giving us a discount on the interest they charge. How big is that discount?

**Mr. Nicolas Moreau:** I cannot calculate the discount, but I know when I talk to investors—

**Hon. Pierre Poilievre:** What's the difference between the two-year and the 10-year bond?

**Mr. Nicolas Moreau:** The difference right now?

**Hon. Pierre Poilievre:** Yes.

**Mr. Nicolas Moreau:** It's about 70 basis points right now.

**Hon. Pierre Poilievre:** The two versus the 30, what are we getting?

**Mr. Nicolas Moreau:** About 15 basis points, so maybe 85 or 90 basis points.

**Hon. Pierre Poilievre:** Ninety basis points. Basically, by selling short-term bonds we pay a little bit less today, but we risk paying a lot more tomorrow if rates go up.

**Mr. Nicolas Moreau:** You can also see it the other way around. If I lock in today, I take the risk of potentially having benefits in the future, which is unsure compared to making sure today we're paying less interest rates. The best example would be after the financial crisis when rates went to an all-time low, and people were saying that rates could not go any lower. However, if we had used that strategy of locking in a lot more long-term debt, today we would be paying a lot more interest also on our debt, because rates have continued to decline. They've been turning down for the last 30 years.

When I look at the market today, I see 30 years at 2.3%. That's what the market is pricing for the next 30 years. It means you also anticipate that rates will be lower in the short term.

**Hon. Pierre Poilievre:** You mentioned the need for liquidity in the market, so I guess what you're saying is, we don't want to sell a bunch of government bonds that would crowd out corporate bond issuances and therefore prevent our businesses from borrowing. Is that what you meant?

**Mr. Nicolas Moreau:** No, we want liquidity. On markets when they buy our bonds to be sure that they will be able to sell it back in the market and that's what we referred to as liquidity. It's really in the three- to five-year sector that you see more liquidity. Investors like to be able to buy a product and sell it back to the market. Ten- and 30-year bonds — especially the 30s — are mostly buy and hold, so investors will buy it and keep them. We don't create liquidity. We therefore don't put a benchmark, a price out there for the provincial entities in order to compare our debt to.

**Hon. Pierre Poilievre:** Thank you for your expertise.

**The Chair:** Thank you both.

Mr. Julian.

● (0910)

**Mr. Peter Julian (New Westminster—Burnaby, NDP):** Thanks very much, Mr. Chair.

Thank you for being here today. I'm going to follow up with you, Mr. Moreau, on Mr. Poilievre's comments, just so I can fully understand the structure of the debt, particularly when it comes to long-term and very long-term bonds. You said that 40% of the bond offerings are long-term and very long-term. What is the percentage between the 10-year as opposed to 30- or even 50-year within that portfolio?

**Mr. Nicolas Moreau:** For example, this year we're going to be issuing \$15-billion in 10-year debt, relative to about \$4.5 billion in 30-year debt.

**Mr. Peter Julian:** Okay, that's for this year?

**Mr. Nicolas Moreau:** Exactly.

**Mr. Peter Julian:** Over all, right now in terms of our total debt structuring, it's basically 40-40-20, but of that 40% how much is long-term 10-year as opposed to very long-term, 30 or 50?

**Mr. Nicolas Moreau:** The share is fairly equal, because the 10-year will come to maturity after 10 years and the 30-year will last a lot longer, so you can issue a lot less of the 30-year ones in order to have the same proportion of debt that's been issued with a maturity of 10 years. I don't have the exact figure, but looking at the number based on what we are issuing this year, I'll assume it's roughly the same. It's slightly higher on the 10-year and maybe 60-40, but that's a number I could confirm with you if you want.

**Mr. Peter Julian:** Okay, if you could come back to the committee with that it would be helpful and the 50-year is rare or a more recent occurrence?

**Mr. Nicolas Moreau:** Yes, it's more recent. We started in 2014 with the first issuance, and we did three issuances over fiscal year 2017-18. Overall, we have a stock of 50-year bonds of about \$5 billion right now in circulation.

**Mr. Peter Julian:** Okay. Thank you. That's very helpful.

In the last three years we've been seeing a greater issuing of the long-term and very long-term?

**Mr. Nicolas Moreau:** Yes, we weren't doing any ultra-long, as we call it—we were not doing any 50-year bonds before.

**Mr. Peter Julian:** Thank you. That's very helpful.

I don't have a lot of time, so I'll move on to the next issue, which is the increase in financial sector policy funding. I'd like to start with asking for the justification around that amount for financial sector policy funding, and then I would like to get an explanation around the overall program.

**The Chair:** Who's going? Ms. Anderson.

**Ms. Leah Anderson (Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance):** Yes, I'm Leah Anderson. I'm the Assistant Deputy Minister of the Financial Sector Policy Branch. I heard the first part of your question, but not the second. Which program you're—

**Mr. Peter Julian:** You're requesting, for the financial sector policy funding, an increase of \$1.3 million. Why the increase in funding, and can you give us the parameters of the overall program in terms of what the overall funding is and what it serves to do?

**Ms. Leah Anderson:** Absolutely. At the financial sector policy branch, we advise the minister on financial sector policy issues. Since the crisis back in 2008-09, we've found an increasing workload over those years. Since that time, the branch has received temporary funding to do the work we need to do to oversee the financial sector and make sure it's stable, efficient, and competitive.

We've found over the course of the years, just given the increasing complexity of the financial sector, that our needs have grown rather than shrunk, so the temporary funding we've received since the crisis is essentially made more permanent by this new funding. That allows us to proactively assess and monitor financial sector developments, particularly on the stability side.

We're looking at vulnerabilities in the economy—particularly with respect to, for example, housing finance—and more broadly working with our international counterparts on strengthening international resolution regimes for financial institutions. If there were ever another crisis, we would then have effective ways to deal with systemically important financial institutions.

**Mr. Peter Julian:** What is the overall funding if you include this increase for the financial sector policy?

**Ms. Leah Anderson:** I believe it's around \$9 million.

**Mr. Peter Julian:** How many staff are working there?

**Ms. Leah Anderson:** We have 120 staff.

**Mr. Peter Julian:** Can you tell us the departments, agencies, and organizations that you liaise with, in brief?

**Ms. Leah Anderson:** We liaise with the Office of the Superintendent of Financial Institutions, Bank of Canada, Canada Deposit Insurance Corporation, Financial Consumer Agency of Canada, and the FINTRAC....

I don't know the actual....

• (0915)

**Mr. Peter Julian:** That's okay.

**The Chair:** We do. We're looking at money laundering right now.

**Ms. Leah Anderson:** I could try, but....

**The Chair:** Go ahead, Peter.

**Mr. Peter Julian:** Do you have any role, then, in estimating recoverables through the financial sector, given changes in tax policy?

**Ms. Leah Anderson:** Sorry, do we...?

**Mr. Peter Julian:** Do you have any role in estimating returns, given changes in tax policy, with the financial sector?

**Ms. Leah Anderson:** That would be my colleague Miodrag's area.

**Mr. Miodrag Jovanovic (Associate Assistant Deputy Minister, Tax Policy Branch, Department of Finance):** So your question is with respect to the changes proposed with respect to financial institutions?

**Mr. Peter Julian:** I'm particularly thinking about the changes in tax policy. I'll just cut to the chase so you know what I'm looking for. It's the overall estimate in the budget in terms of recoverables. It goes to the financial sector but also beyond the financial sector. Budget 2018, it says on page 69, accounts for an "expected revenue impact of \$354 million".

I understand, of course, that we have CRA coming forward and that we'll be asking similar questions of them, but I'm interested in knowing whether, in terms of financial sector policy, you have any role in determining changes in tax policy and how that can actually increase revenue back to help pay for the programs that Canadians need.

**Mr. Miodrag Jovanovic:** So you are referring to the additional funding provided to the CRA to better enforce the tax regime and the portion coming from...?

**Mr. Peter Julian:** It's also about the changes in tax policy and how that might impact financial institutions, and then how that might increase revenue to the federal government. It's just to see whether, within that program, there is any role there. I gather from your expression that there probably is not.

**Mr. Miodrag Jovanovic:** I just wanted to make sure I properly understood your question.

There are different aspects here. We've made in this budget a few changes to the Income Tax Act to ensure that financial institutions, banks, pay their fair share. It's basically to ensure that some of the strategies they've undertaken to avoid taxes are closed. That will generate a substantial amount of money, maybe \$2.5 billion over a five-year period. These are legislative changes to the Income Tax Act.

In parallel to that, there's also funding provided to the Canada Revenue Agency to better enforce the regime. This is getting at tax avoidance as well as tax evasion. That will affect different types of taxpayers. I mean, some may be in the financial sector, but I'm not sure we have a breakdown there.

I don't know if I've answered your question.

**Mr. Peter Julian:** Yes you have actually, thank you. I appreciate that. Am I up?

**The Chair:** You're out. But if it's on the same thing and you want to finish it, go ahead.

**Mr. Peter Julian:** No, I was going to take another topic. Thank you.

**The Chair:** All right.

Ms. O'Connell.

**Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.):** Thank you, Mr. Chair.

Thank you all for being here.

I'm going to start with the opening remarks, specifically the notes around alternative payments for standing programs. There's a \$52-million decrease because of the increase in the estimated value of Quebec's basic federal tax. What is this? One, what's the alternative payment, and two, what's the increase in value for the basic federal tax? The same goes for the next bullet point, the \$10.8 million that is, again, due to an increase in the value of basic federal tax in Quebec.

**Mr. Galen Countryman:** So your question is about the alternative payments for standing programs?

**Ms. Jennifer O'Connell:** No, it's more about the increase in Quebec's basic federal tax. It's a significant increase that was not projected. What is this increase attributed to?

**Mr. Galen Countryman:** In terms of the basic federal tax, all that is, basically, is the amount of tax assessed at the federal level within the province of Quebec. The program is basically because in the 1960s there was an abatement. There was a transfer of tax points from the federal government to the Province of Quebec.

The purpose is that because the major transfers—for example, the Canada health transfer, the Canada social transfer—are calculated on a per capita basis for all provinces, we needed to take into account the fact that there was a transfer of tax points to Quebec. This is the recovery of that.

• (0920)

**Ms. Jennifer O'Connell:** I see.

**Mr. Galen Countryman:** It's based on the federal tax points, so we're transferring the value of that. As the economy grows, the basic federal tax would go up in Quebec and therefore there would be a recovery that would be larger.

**Ms. Jennifer O'Connell:** Okay, that makes more sense. The way you read it plainly as the average Canadian would, it would seem like you would unexpectedly receive more money in terms of federal taxes in one province, but I understand it's more of the transfer component, so, thank you.

In regard to the corporate asset review, my question on this is why the additional cost? Asset reviews, to my understanding and correct me if I'm wrong, are usually scheduled, you would do them once every three to five years, whatever; and I would assume you would have known from the last asset review how much they generally cost or what the reason is for the increase or the new projection really? What's the difference from the last time it was done or when was the last time it was done?

**Mr. Richard Botham (Assistant Deputy Minister, Economic Development and Corporate Finance Branch, Department of Finance):** I'm Richard Botham and I'm the assistant deputy minister of economic development and corporate finance, which includes activities related to review of corporate assets. The funding you see in supplementary estimates (C) is a continuation of temporary funding that has been provided to the department. In part, I think your question is about the periodicity of reviews.

Under this current government and under the previous government, there was temporary funding provided to the department to look at large corporate assets of the Government of Canada to provide analysis advice and recommendations, and this funding supports that. As directed by the government, it also supports

execution of transactions related to corporate assets, which would be either crown corporations or assets that the government holds, and there are a variety of those.

**Ms. Jennifer O'Connell:** But when was the last corporate asset review done and how much did it cost? I understand what you're saying in terms of temporary funding. Is there anything that's mandated?

In the municipal sector in Ontario we were mandated to do asset reviews at a certain period of time. Is there any legislation that requires it and then for the government direction and if so, if it is just government direction, when was the last time this was done?

**Mr. Richard Botham:** It is not mandated by legislation. It is mandated by policy decision of the government and, as I say, this is a continuation. It's a continuation, not a last time issue; it's ongoing.

**Ms. Jennifer O'Connell:** It never stops. Will the additional money bring you up to what you think the cost will be, so moving forward, the budgeted amount or the amount needed will be budgeted for and not always this kind of temporary additional funding?

**Mr. Richard Botham:** It certainly is an amount that has allowed the department to carry out the work that the mandate has governed our department to do in the current year. Should that mandate change, either to end or increase, then, yes, there would probably be a request for a different amount of resources.

**Ms. Jennifer O'Connell:** Okay, thank you.

Do I have time?

**The Chair:** You have time.

**Ms. Jennifer O'Connell:** Okay.

In regard to the G7 summit, I understand from the comments that a lot of it is policy analysis to shape it in advance. Am I assuming correctly that that's why this work is being done and the money is being requested in this fiscal year and not 2018-2019 when the summit actually happens?

**Mr. Rick Stewart:** Mr. Chair, I'll respond to that question.

The answer to your question is, partially, yes. There will be a need for resources in the next fiscal year as well, and that resource request was included as part of the main estimates that were recently tabled.

Preparation for a summit, when you are the G7 president, requires a period of lead-up to support the leader's track in framing the policy agenda that Canada wants to lead in the G7 for the year ahead. But these moneys also include resources to support the operational preparations for summitry: the logistics support, venue, reservations, those sorts of things, and of course, the necessary travel.

G7 work is part of the kind of core responsibility of my branch on an ongoing basis as a participant in the G7 process. I think as you can appreciate, during a presidency year there's—I'll express it as a surge capacity requirement.

• (0925)

**Ms. Jennifer O'Connell:** Would you say this is consistent with previous types of summits, or would you say this is significantly more? Is this consistent with this kind of work when Canada is in this kind of role?



**Mr. Rick Stewart:** For the Finance ministry, this is not significantly more. This is consistent with our experience in the past and what we've spent and these are "up to" figures. We will endeavour to deliver below these levels.

**Ms. Jennifer O'Connell:** Thank you.

**The Chair:** If I could, I'll come back to Mr. Botham, or maybe you can answer, Ms. Laniel, on this temporary funding. Mr. Botham said it's basically to look at large corporate assets. One of the problems with temporary funding in government is that it eventually seems to become permanent and the bureaucracy grows. What's the benefit to Canadians from Finance looking at large corporate assets?

**Mr. Richard Botham:** I guess there are two parts. The one part was a statement around temporary moving to permanent, and I guess from our perspective there are two opportunities for the government to evaluate whether government feels it's getting value for money. There is an approval required for the resources before it comes to the committee. The government has assessed that there's a perception that there's value for money or there's a task that the government feels our department is uniquely able to fulfill.

On value to Canadians, again, it's a policy choice. The government has made a policy choice that there is an absence of sufficient analysis of large corporate assets in its holdings and has asked our department to undertake such analysis. I think the fact that there's a perceived absence is a reflection of a lack of capacity in the government to undertake that activity on a regular basis. It's for that reason that there are additional resources requested for the department to do that.

**The Chair:** Okay, thank you for that.

Turning to a five minute round, Mr. Kelly.

**Mr. Pat Kelly:** Thank you.

I'd like to get back to the payments for the Canadian Infrastructure Bank. You had mentioned in your remarks about an increase in payment for activities that it will undertake in the near term. Could you please tell me what is the schedule of disbursements, not just to set up the bank, but to capitalize it for loans and loan guarantees? Could you give us the year that these expenditures and capitalization payments will be booked and how much they will be?

**Ms. Adelle Laniel:** The payments from the Department of Finance to the Infrastructure Bank or are you talking about the cash flows out of the Infrastructure Bank?

**Mr. Pat Kelly:** No, the payments to the bank.

**Mr. Richard Botham:** What you see represented here, as you've mentioned, is the first installment of funding provided to the bank. You're correct that it is money being used to establish the bank: start-up costs around buildings, real estate, staffing, and IT systems. This is start-up money.

The second part of your question was, is there a schedule of capitalization? The answer is no. The reason for that is really twofold. One, the bank, on an annual basis, will submit a corporate plan. There is one corporate plan that has been submitted, and only in respect so far of establishing its activities. In the coming year, the coming cycle will be a second corporate plan. In that corporate plan, the activities will be stipulated for the coming fiscal year and a preview of future fiscal years.

It's only at that time when the next corporate plan is approved that there will be a sense of what future draws will be and, like many other crown corporations, it will be on an annual rolling basis that this visibility is provided.

• (0930)

**Mr. Pat Kelly:** The budget announcing that this bank would exist called for something like \$35 billion.

**Mr. Richard Botham:** That's correct.

**Mr. Pat Kelly:** There's no current schedule of disbursement. There's no current plan. We're waiting for the bank to be established and for its management to present a plan.

**Mr. Richard Botham:** What I was trying to convey in my earlier statement was that there is a corporate planning process. One corporate plan has been received. The focus of that was on start-up. There will be another corporate plan in the next fiscal year that will give a longer-term view.

**Mr. Pat Kelly:** When do you expect that plan to be presented?

**Mr. Richard Botham:** Typically those plans would come forward to the Treasury Board for its review in spring or early summer, so that's what I would anticipate.

**Mr. Pat Kelly:** This spring or summer is when you expect their plan to be delivered?

**Mr. Richard Botham:** That's the typical planning framework for corporations, but not all corporations fit within the typical. I don't have a date at which that second corporate plan is going forward.

**Mr. Pat Kelly:** Regarding the Asian Infrastructure Bank, is there a known schedule for the purchase of shares in the Asian Infrastructure Bank?

**Mr. Rick Stewart:** Those payment schedules will be made near the end of successive fiscal years as we are planning to issue our first installment this March. We will do this in subsequent Marches.

**Mr. Pat Kelly:** Later this month?

**Mr. Rick Stewart:** We will make our first formal contribution, yes, and then successive years around this time of the year.

**Mr. Pat Kelly:** We don't yet know what the payment will be this March.

**Mr. Rick Stewart:** The payment will be the number you had. It will be \$53.4 million Canadian.

**Mr. Pat Kelly:** That's the number right before us. That \$53.4 million is for this year.

**Mr. Rick Stewart:** That is for this year.

**Mr. Pat Kelly:** We don't know what the subsequent schedule will be. That will be on an annual basis?

**Mr. Rick Stewart:** It will be on an annual basis, and it will be a comparable amount subject to fluctuations in exchange rates. This is the Canadian dollar. Canada's equity investment into the Asian Infrastructure Investment Bank is \$199 million U.S., which at current exchange rates is roughly \$256 million Canadian. That payment will vary a little bit each year.

**Mr. Pat Kelly:** I think I'm out of time.

**The Chair:** You have time for one more. Go ahead.

**Mr. Pat Kelly:** Mr. Albas has a question.

**The Chair:** Dan, go ahead.

**Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC):** While we have you here, Assistant Deputy Minister, in regard to the Canadian Infrastructure Bank, can you confirm again how much the government is giving them in these estimates?

**Mr. Richard Botham:** Yes. It's \$19,006,000.

**Mr. Dan Albas:** I do understand there's a corporate plan being created. Does the Infrastructure Bank have any policies written out yet?

**Mr. Richard Botham:** I'm sorry. Do they have....?

**Mr. Dan Albas:** Policies. Usually when you have an organization, especially, I would imagine, one that is akin to a crown corporation, there would be policies for how those monies are to be managed, maintained, and utilized properly.

**Mr. Richard Botham:** If I'm understanding you correctly, it's about internal operational policies regarding the organization. My understanding is yes. I'm not responsible for the management of the bank. I think you would be better placed to get details on that from the ministry of infrastructure, which has the direct responsibility for the bank as the bank reports to Parliament through the Minister of Infrastructure.

**Mr. Dan Albas:** Just to be clear, we're giving \$90 million to an agency that may or may not have policies and is still putting a plan together.

**Mr. Richard Botham:** When you say "to be clear", my answer is that my understanding is there is a policy suite relating to the operations. [*Inaudible-Editor*] different answer.

• (0935)

**The Chair:** We'll have to leave it there, Dan. You'll be on next after Mr. Grewal.

**Mr. Raj Grewal (Brampton East, Lib.):** Thank you, Mr. Chair.

Thank you to the witnesses for coming.

One thing that caught my eye was the \$44.3 million increase for additional fiscal equalization payments to the wonderful province of Nova Scotia due to updated data used for the calculation of the payment. Can you please explain what updated data was used for the calculation of the payment?

**The Chair:** Mr. Countryman, go ahead.

**Mr. Galen Countryman:** Half back.

On the efficient equalization for Nova Scotia, basically that is a comparison between two equalization formulas, the formula that's currently existing and the one that existed before 2007. As I basically said, it's a guarantee with Nova Scotia that there would always get the best of those two formulas. There's a calculation done each December because they both have different periods which they calculate the payments. So the existing formula that's calculated once as I've explained earlier in December for the upcoming fiscal year, and the others that was calculated twice. So what we have now is a more official estimate. So we calculate it once projection going forward for 2018-19 and we calculate in the following December for the actual amount. In this case, we calculated in last December for 2016 that there would have been a recovery. In other words, the current formula was going to be providing more than the old

formula. And now when we have the updated data for GDP for 2016-17, that goes into the old formula. It turns out the opposite. The old formula is better than the current one, so we're actually going to be making a small payment to Nova Scotia.

**Mr. Raj Grewal:** I'll take your word for it.

**The Chair:** I think, Raj, that was that due to the oil and gas, when that came when they had the choice of formulas, what was the reason for it? Was it due to the oil and gas industry?

**Mr. Galen Countryman:** Back in 2005, there was an offshore agreement, and it dates back to that.

**The Chair:** It dates back to the offshore agreement.

Go ahead, Raj.

**Mr. Raj Grewal:** Is Nova Scotia the only province that has that?

**Mr. Galen Countryman:** Yes.

**Mr. Raj Grewal:** Cool.

You're asking for \$0.4 million to support the development of the department's oversight role in the Canada Infrastructure Bank. What is that money being used for?

**Mr. Richard Botham:** Under the legislation that established the Canada Infrastructure Bank, the Minister of Finance has responsibility in a couple of key areas. One area is to approve any payments under the statutory authority that was established. The second is to approve any loans that are provided by the bank. The government's view was that, given those authorities invested with the Minister of Finance, there should be staff who provide support to the minister in his role. That's the purpose of those funds.

**Mr. Raj Grewal:** Okay.

This is my last question. There is going to be \$1.8 million for the department's role in the 2018 G7 summit. How much higher is that from the amount that we spent when we hosted the G20?

**Mr. Rick Stewart:** I do not have a comparison for the G7 and G20. They are, obviously, different entities. However, the Finance track costs in 2010 are somewhat smaller amounts than what was spent in 2010 for the G7 portion of our presidency. That was the last year we held the presidency.

**Mr. Raj Grewal:** Okay. Thank you very much.

Thank you, Mr. Chair.

**The Chair:** Okay.

We're going to debate who's going next.

Mr. Albas.

**Mr. Greg Fergus (Hull—Aylmer, Lib.):** You can go ahead.

**Mr. Dan Albas:** Thank you.

I'd like to go back to Assistant Deputy Minister Botham. With regard to the line of questioning by MP O'Connell, you mentioned that the government was doing a review of assets and that it was ongoing. Can you give an idea to the public as to what kind of assets that temporary funding is for?

**Mr. Richard Botham:** Generally, the kind of mandate that governments have provided the department in terms of that work includes two classes. One class would be a group called enterprise crown corporations. These are crown corporations that operate in a quasi-private market sphere. Examples would be Canada Post or any crown corporation with a commercial mandate. Other kinds of assets that governments could ask the department to look at would be holdings. Usually, they're natural resource holdings. They're legacy. They come from a variety of time periods. They were established for a certain policy reason in some decade and have persisted over time. Different governments have asked for a review of the relevancy of the government's activity in that sphere.

● (0940)

**Mr. Dan Albas:** Can you give a better description of the second class? Can you give an example?

**Mr. Richard Botham:** At the time of the establishment of the transcontinental railway, there was ceding of property to the Government of Canada of coal blocks in British Columbia. They're referred to as the Dominion Coal Blocks. That is an asset of the Government of Canada that was not developed by the governments over time as active coal properties, but at different time periods, depending on commodity prices, they would have a value to the private sector. A government could decide to continue to hold that. The government could decide, for different policy reasons, to divest it to a province, to indigenous people, or to the private sector. It's of that type.

**Mr. Dan Albas:** You said the previous government had supported temporary funding for such reviews. Has the amount of money in these estimates, compared to the previous three years, gone up?

**Mr. Richard Botham:** Compared to the previous three years, I don't believe so.

**Ms. Adelle Laniel:** It has been \$0.4 million every year.

**Mr. Dan Albas:** The work has been steady and ongoing.

**Mr. Richard Botham:** It has been ongoing on a temporary basis, yes.

**Voices:** Oh, oh!

**Mr. Dan Albas:** I think we could probably describe a good amount of government in that way.

**Mr. Richard Botham:** Sometimes that's the case, yes.

**Mr. Dan Albas:** In regard to the first asset class you mentioned—the assets that have commercial interest or commercial applications—what goes into the reviews, and what is the ultimate point of some of these reviews?

**Mr. Richard Botham:** The ultimate point goes back to a point in time in the 1990s when there was a fundamental review of asset activities of the Government of Canada. Up until about seven years ago, there hadn't been that kind of in-depth review again. There was a decision made that the government should be looking at those kinds of assets.

**Mr. Dan Albas:** That decision was made in the previous government.

**Mr. Richard Botham:** Both governments, current and previous, have come to the same conclusion that there's utility in looking at

that. The mandates given by the government vary depending on the time period.

**Mr. Dan Albas:** Are there any matching funds in the estimates that are for the sale of those assets?

**Mr. Richard Botham:** I'm sorry?

**Mr. Dan Albas:** Are there matching funds within these estimates for the sale of those assets or considered sale?

**Mr. Richard Botham:** No.

**Mr. Dan Albas:** This is just a review so that the government knows what's in its inventory and basically has an idea of how those enterprises are interacting in the commercial sphere today.

**Mr. Richard Botham:** It also provides advice on different options for the government, and then the government decides which direction it would like to proceed in.

**The Chair:** We'll have to leave it there.

Thanks, Mr. Botham.

Mr. Fergus, you have the last questions.

[*Translation*]

**Mr. Greg Fergus:** Good morning, everyone.

Ms. Laniel, thank you very much for your presentation.

I assume that the day after the budget presentation is similar to a hangover. In addition, we are still talking about the expenditures for the current year.

I would like to come back to a question raised by my colleague Mr. Grewal about the expenditures related to the Canada Infrastructure Bank. You mentioned that those expenditures were earmarked for establishing the organization.

First, are those expenditures temporary in nature or will they be committed on an annual basis?

● (0945)

[*English*]

**Ms. Adelle Laniel:** I can speak to that. The costs are set-up costs, because that's the stage they're in within their organization, so there will be permanent costs related to the organization in the future as they get into the future stages of the program. They are staffing up, but those staff will remain.

[*Translation*]

**Mr. Greg Fergus:** My apologies. I thought those were additional expenses.

[*English*]

**Ms. Adelle Laniel:** No. These are staffing—

[*Translation*]

**Mr. Greg Fergus:** Okay, so those are expenditures used to prepare for its establishment.

[*English*]

**Ms. Adelle Laniel:** This is about getting their building and their location.

[Translation]

**Mr. Greg Fergus:** I would like to come back to the issue of the money allocated to Nova Scotia as equalization payments. Did the government have to readjust the equalization payments for any other provinces?

[English]

**The Chair:** You may as well stay there, Mr. Bothman. Come on up, Mr. Countryman, we might as well have taken the whole team up in the beginning. Welcome.

**Mr. Galen Countryman:** For equalization payments the additional equalization that is specific to Nova Scotia. Equalization currently goes to six provinces for 2017-18 Ontario, Quebec, Nova Scotia, New Brunswick, Prince Edward Island, and Manitoba.

[Translation]

**Mr. Greg Fergus:** Was the calculation of payments for other provinces accurate? Was it necessary to readjust those payments, as in Nova Scotia's case?

[English]

**Mr. Galen Countryman:** We calculate the regular equalization payments once per year for the upcoming fiscal year. So they do not change over the course of the fiscal year. It will not change in the supplementary estimates.

[Translation]

**Mr. Greg Fergus:** Okay.

According to what you said, the readjustment done for Nova Scotia was the result of an update to the data used to calculate payments.

Given that update, do you plan to recalculate the amount of equalization payments for other provinces and provide additional funding as a result?

[English]

**Mr. Galen Countryman:** If I understood your question, basically the amount of the regular equalization does not change. It does not get revised for any of the other provinces. Because this particular payment is a comparison between the two equalization formulas, the old formula actually does get revised. It has two estimates, whereas the new one stays the same. As it gets revised the second time around, there's going to be a change, and that's what's reflected here in the supplementary estimates.

[Translation]

**Mr. Greg Fergus:** Thank you very much.

[English]

Thank you, Mr. Chair.

**The Chair:** Before we turn to the CRA, does anybody have an absolutely burning question that didn't get answered? If not, we will thank the representatives from the Department of Finance for coming in and bringing the whole team.

Ms. Laniel, that was a good exchange. Thank you very much.

We'll suspend for a couple of minutes while the Canada Revenue Agency comes forward.

- \_\_\_\_\_ (Pause) \_\_\_\_\_
- 
- (0950)

**The Chair:** We'll reconvene.

Welcome to the committee. The Canada Revenue Agency is here for further discussion on supplementary estimates (C). We have Ms. Ramcharan, the chief financial officer and assistant commissioner, finance and administration branch. With her are Mr. Gallivan and Mr. Trueman.

Welcome, folks.

The floor is yours, Ms. Ramcharan.

**Ms. Kami Ramcharan (Chief Financial Officer and Assistant Commissioner, Finance and Administration Branch, Canada Revenue Agency):** Thank you.

Good morning. Thank you for the opportunity to appear before the committee to present the Canada Revenue Agency's 2017-18 supplementary estimates (C).

First, the agency is seeking \$11.7 million as a result of a reduction in its accommodations requirement. This was made possible due to a series of cost-saving exercises carried out by the Canada Revenue Agency which has resulted in a reduction in our office space requirements by approximately 36,000 square metres of space, representing a total savings of \$11.7 million. These savings can now be applied against other operating priorities.

[Translation]

Second, the Canada Revenue Agency is seeking \$6.2 million to support its operations related to the legalization of cannabis, which will include the introduction of a related tax regime.

The incremental funding will be used to expand processing systems to accommodate the new tax and introduce the associated administrative framework. In addition, it will be used to start processing early licence applications, so that cultivators and manufacturers are able to provide legal cannabis on the implementation date.

[English]

We're also receiving a backlog in resolving pay issues. Also included in the supplementary estimates is \$1.3 million for the increased workload in providing tax service support resulting from the implementation of the Phoenix payroll system.

A backlog in resolving the pay problems has resulted in 2016 tax slips being issued with many expected to result in personal income tax reassessments, creating an additional workload pressure. The one-year funding will be used to adjust staffing levels in the T1 adjustments team in order to manage the increased number of reassessment requests.

Also included in these supplementary estimates is a statutory increase of \$1 million associated with adjustments to employee benefit plans for new salary funding being sought through these estimates. Following approval of these supplementary estimates, the agency's revised 2017-18 authorities will total \$4.7 billion.

• (0955)

[Translation]

In closing, I will say that the resources sought through these estimates will allow the Canada Revenue Agency to continue to deliver on its mission to administer tax, benefits and related programs, and to ensure compliance on behalf of governments across Canada.

Mr. Chair, we will be pleased to respond to any questions you may have.

[English]

**The Chair:** Thank you very much, Ms. Ramcharan.

Mr. McLeod.

**Mr. Michael McLeod (Northwest Territories, Lib.):** Thank you, Mr. Chair.

Thank you for the presentation.

I was going to ask a question on the Phoenix pay system, but I think my colleagues will probably ask you a lot of questions in that area.

I do want to ask some questions on the cannabis issue. This is an issue that's still garnering a lot of discussion, especially in my riding. I have a large aboriginal population, so when we talk about the issue of cannabis, our elders roll everything into one, and cannabis is looked at in the same way as any other drug and it's all bad. We have to have ongoing discussions with our smaller communities, for sure. Even as recent as yesterday, some of the members of the legislative assembly in the territorial government were talking about concerns around costing. Are both the pricing and revenue going to meet up? There's lots of concern around this issue.

I'm going to assume that the CRA did a forensic review when they costed out what they were going to need for resources, and what they were going to need to implement the taxation regime for cannabis.

Are there going to be additional requirements to properly implement the tax regime for cannabis? How firm is this number? Are there going to be more requirements?

**Mr. Geoff Trueman (Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency):** I'm happy to take that question.

The funding request that we've prepared is based on our best estimates for the cannabis market in Canada in terms of the number of producers and the legal production. We're comfortable and confident in the numbers we've prepared. We have significant experience in the world of excise duty taxation with respect to tobacco, alcohol, and other excisable products, and so we are working to prepare a similar robust framework for the taxation and control of cannabis from the duty perspective.

**Mr. Michael McLeod:** My next question is again around the \$6.2 million. Is this funding earmarked for compliance-related aspects of the tax regime?

**Mr. Geoff Trueman:** The money for the CRA would involve a robust administrative framework for the excise duty, which does include a compliance and oversight function with regard to

producers. It's about focusing on legal production and making sure that the product is properly produced, properly stamped, and properly entered into the market in Canada for legal consumption. Yes, there is a compliance aspect to that as well, including reviews and visits with producers, which we would undertake, similar to most excise products.

**Mr. Michael McLeod:** I also want to ask a question regarding the reduction in accommodation requirements that resulted in a fairly significant saving of \$11.7 million. I'm really interested to know how that happened. That seems to be a fairly large number. Could you give me a little more detail on what happened? How did that end up being such a big number? Is there more that we can do in this area?

**Ms. Kami Ramcharan:** Over the past couple of years the agency has been looking at its operation. It has a very large footprint from coast to coast with our various tax centre offices, the office buildings where our people work. We found vacancies in some of our buildings.

Like every other government department, we pay rent to support those facilities. We wanted to think about how to reduce our overall accommodation footprint, to bring our people closer together, and to think about synergies associated with some of the work.

At previous committees you would have heard about the revitalization of our service, by bringing people together, by centralizing our services. By virtue of bringing those groups together, we were able to reduce our footprint. As I mentioned in my opening remarks, doing that resulted in 36,000 square metres of vacant space. We were able to turn to our colleagues in Public Services and Procurement Canada and say we no longer needed this space, that we would like the equivalent of whatever rent it would have been paying for those buildings to be returned to the agency.

It's one of those things we would very much like to consider going forward, but it is a policy in government that another government department makes those rules associated with it. We will continue to try to do our best to maximize people in our existing footprint, and look for cost savings wherever we can.

• (1000)

**Mr. Michael McLeod:** You talked about doing a cost-saving exercise. I think most governments try to do that on a regular basis. But when we do some of these exercises and try to do more with less, it doesn't always result in best efficiencies.

Are you seeing results? Are you seeing any change one way or the other? Have you looked at other cost-saving exercises, along with the accommodation and the footprint?

**Ms. Kami Ramcharan:** The agency does that on a regular basis. It does look at what it's spending its money on and asks if there is an opportunity to really reinvest in higher priorities for government, and reducing things that are lower priorities.

Space is one of those things. This initiative didn't really result in any loss of efficiencies, because it didn't result in loss of people. It was bringing people together and making sure that was more synergistic.

We undertook an exercise last year to take a look at some of our programs. It was an agency-wide initiative, and it resulted in about \$20 million that could be reallocated to other priorities.

We're not trying to do wholesale changes. We're looking at the margins where we can create some efficiencies and continue to do that. We do that on a regular basis.

**The Chair:** Thank you.

We'll have to leave it there.

Mr. Kelly.

**Mr. Pat Kelly:** Thank you.

It's nice to have the officials from the department back. This is their first appearance since the November meetings.

At those meetings, I raised several questions on our side, as did Mr. Fergus and Mr. Easter, about the disability tax credit and the changes that had occurred in May that generated a whole series of rejections of applications from diabetics.

We received the department's response yesterday. It acknowledged that the clarification letter had an impact on the approval rate of diabetes-related cases, and confirmed that the minister announced they would return to the pre-May 17 clarification letter.

The minister had also said they would review the rejected applications, and these ran into the thousands. I see additional money is being requested in these estimates to deal with the debacle around Phoenix—and that's another scenario that, if we have time, I'd certainly like to get into as well. What additional resources are going to be put toward ensuring we finally deal with the Canadians who were denied the credit to which they were entitled since the clarification letter was changed in May?

**The Chair:** Go ahead, Ms. Ramcharan, if you're able to answer that question. I know this is in the supplementary estimates (C), and we did get the letter just yesterday.

The floor is yours.

**Ms. Kami Ramcharan:** Maybe what I can do is just speak to the dollars you talked about, if money would be reallocated to that. We don't have any additional resources coming into the agency to help support that. However, as I mentioned, in two exercises just recently we looked at how can we shift resources to deal with high priority areas, and this would be one of those areas. The agency made a commitment to review those letters and they'll be doing that within the conjunction of the existing resources they have or additional resources we can find within the agency to support that. That commitment was made in November. I'm not exactly certain when we'll see the results of the review, because it is a manual process to go through all those forms and do that, but I know they're committed to doing it and revisiting it as well.

• (1005)

**Mr. Pat Kelly:** Then there's sufficient flexibility within existing funding to go back and manually reassess all the rejected applications to ensure that Canadians entitled to that credit can receive it.

**Ms. Kami Ramcharan:** Would I say "sufficient"? I would say we will make a point of making sure that resources are made available. The agency has flexibilities to move from some areas into other areas in order to deal with it, recognizing that it's a one-time-only type of

initiative that's going to happen. We aren't seeking any additional resources to undertake that work.

**Mr. Pat Kelly:** Okay.

Yesterday's letter said that wait times still are outside the window you've set for a target. That suggests that there is still congestion and that credits are not being approved.

These credits are important. They are tied to many other supports. They're tied to the ability to continue to hold a disability savings plan, so people are worried about having to have their plans struck, to lose the matching grants that they've received, because they have been rejected for this credit. This is a very serious matter for thousands of Canadians and I hope we're able to address that.

How are we for time?

**The Chair:** You're okay. You have two minutes.

Mr. Gallivan, did you want in on that?

**Mr. Ted Gallivan (Assistant Commissioner, International, Large Business and Investigations Branch, Canada Revenue Agency):** Yes. Just to the point, as my colleague mentioned, the agency has a specific reserve to deal with pressures that occur in the year that aren't planned for. It's that type of funding that will go to address this situation.

In terms of the timeliness, the agency is absolutely seized with the need to put attention to this. The challenge is to have trained employees. To put in employees who haven't had the appropriate training might help the timeliness problem but might bring us back to a quality issue.

The agency has the funds within the department to deal with the issue. It has been made a priority.

**Mr. Pat Kelly:** I've never understood why training and having adequately skilled and trained employees has been offered as an excuse for the debacle that has taken place. This credit was approved without any problem or any absence of trained employees right up until the letter was changed in May 2017. Why suddenly is an absence of trained employees an issue with this credit?

**Mr. Ted Gallivan:** The challenge is to do the current work that's coming in—in other words, the normal monthly volume that has to be addressed—and in addition, redo the cases that need a second look. That increases the volume of cases per month, which creates a pressure to have additional resources with eyeballs on those types of funds.

**Mr. Pat Kelly:** Okay.

I don't know if we have time to really get an answer on Phoenix. In terms of the dollar amount requested here to deal with the anticipated amount of difficulties around assessing returns with incorrectly prepared T4s and other problems associated with the Phoenix system, how was that figure derived and what confidence do we have, as this problem continues to snowball and expand on an exponential basis, that the resources are sufficient?

**Mr. Geoff Trueman:** What we're trying to do is ensure we have sufficient capacity on the T1 processing side to deal with the amended T4s being issued to employees who find themselves with a Phoenix issue. Where the initial T4 from the employer is wrong and the amended T4 comes in after the fact, we want to make sure we're able to process that in a timely manner, very quickly for those employees, so that we can rectify certainly the tax situation for them at a minimum.

**The Chair:** I think we'll have time later to come back to that, Pat. I understand that some MPs' T4s are wrong too. I got a call on mine, which was good. It's good to see we're affected the same way as everybody else.

I have one question on this Phoenix system that may be related to policy, and you may not be able to answer.

Public servants were overpaid and underpaid, so it is going to affect them in one of the taxation years fairly severely. Is there an analysis being made to tax them on the basis that they should have been paid at rather than...? In fact, I know one individual who is \$45,000 behind. That \$45,000, I understand will come in this taxation year, which puts that individual substantially in a higher tax bracket.

Are there going to be calculations made to have the taxation levels on the year that they should have been received? That's a complicated area, I know, but what is going to happen there?

• (1010)

**Mr. Geoff Trueman:** The ability to produce a correct amended T4 will allow the employee to be taxed on the correct amount of income in the correct year. When an amended T4 is issued to reflect what should have been the accurate pay level in the year, that will ensure the taxation takes place on what should have been the employee's pay.

**The Chair:** Thank you.

Mr. Julian.

**Mr. Peter Julian:** Thanks for being here.

I'm going to follow up on Mr. Kelly's comments around the disability tax credit, because it is very important. We've certainly been hearing about it in our ridings. You may have mentioned this, but I wanted to come back to it. How many forms are being reviewed across the country?

**Ms. Kami Ramcharan:** I'm sorry, I don't have the information with regard to how many forms are being reviewed.

**Mr. Peter Julian:** Are we talking about hundreds, thousands, tens of thousands?

**Ms. Kami Ramcharan:** We generally receive 250,000 forms in a given year. Depending on how far back we go where we're looking at reviewing those that have been rejected, it would be hard to say exactly what number that looks like.

I haven't seen in any of the material that I've received that exact number of the ones we're reviewing right now. We do receive 250,000 requests in a given year for the credit.

**Mr. Peter Julian:** Normally what's the rejection rate?

**Ms. Kami Ramcharan:** The rejection rate is quite low. What we've seen in terms of the number of cases allowed versus the disallowed percentage in 2016-2017 is 14% in terms of those rejections. That's of the total number of cases of 266. That would relate to all of the requests coming in. It wouldn't just relate to a very specific groups of people, it would be everyone.

**Mr. Peter Julian:** For 2017-2018, what has the rejection rate been?

**Ms. Kami Ramcharan:** I don't have 2017-2018 in my stats.

**Mr. Peter Julian:** That's really the question that Mr. Kelly was getting at as well: how much higher was the rejection rate? It's not available in the materials, but that tells us, and the number of forms being reviewed tells us, the size and scope of the problem.

All of us have had constituents who have come forward who are concerned about this or have received rejections. I've never seen a figure cited as to the number of rejections over and above the normal rejection rate. If you could provide that to the committee, that would be very helpful for our work here, around the supplementary estimates as well, and also for work in the House of Commons. We need to know how many were rejected who shouldn't have been.

The other question related to that is how many Canadians have been asked to pay back their RDSPs. I have a woman in the city of Burnaby who is undergoing chemotherapy. She has a disabled son, and she is under enormous stress. She has asked for her son to be reappraised, and then he was rejected after many years of being accepted for the DTC. Of course, now they're being asked to pay back out of the registered disabilities savings plan money that they've saved up through his childhood and youth. It's incredibly stressful.

I'd be interested in knowing how many Canadians have been asked to pay back funds with their RDSPs being wrapped up, despite the fact that they previously qualified. They are no longer qualified, given the changed criteria from May until earlier this year.

Do you have any idea how many people have been asked to pay back the funds, basically wrap up their RDSPs?

• (1015)

**Ms. Kami Ramcharan:** I don't have an answer specifically to your question because it's a program that's not run through the agency but through Employment and Social Development Canada. They would probably be better positioned to say how people are being included or disallowed in that system. But coming back to the point of what you said, just because an application initially is disallowed doesn't mean that a taxpayer client doesn't have the right to come back and provide additional information. It could have been disallowed by virtue of the fact that it didn't have enough information and more information was needed. We really encourage people whose claims have been disallowed to come back to us and have a bit of a conversation to figure out why it was disallowed and what additional information might be required from that perspective.

**Mr. Peter Julian:** Moving on to Phoenix, how many CRA staff have been impacted by Phoenix in terms of overpayments, underpayments, and how many staff basically have repayment orders? One of the things we've heard from a lot of public servants is that they were overpaid and that instead of having to pay back that overpayment they're being asked to pay back the gross amount. It is of course very stressful for somebody to have to pay back money they never received in the first place. Within the agency, how many staff do you believe have been impacted, and how many staff are being asked to pay back amounts that were far beyond what they actually received?

**Ms. Kami Ramcharan:** There's a couple of things I would want to take from your question. The backlog of compensation cases within the agency right now stands at about 25% of all CRA employees that have been—

**Mr. Peter Julian:** How many people would that be?

**Ms. Kami Ramcharan:** We have roughly 40,000. So you could say roughly one-quarter, or 10,000 people. It's a significant number. One of the things in the agency that is much better is that we have our own compensation advisers. We have people that our employees can go to directly to talk about their pay and to get additional information. Although that doesn't resolve the issues of overpayments or underpayments, at least we have a line of sight with regard to doing that. This also gives us an opportunity to understand what's happening from the employee's perspective and also to look forward to doing that. Policy has come out right across government that talks about the overpayments, especially as we talk about the tax year, and all of those individuals who had overpayments were encouraged to connect with compensation advisers, either within their own departments or in Miramichi, to identify the fact that they've had an overpayment. This is where it fits in to getting amended T4s and looking at how you recover the overpayment.

The policy right now is that no payments will be recovered until the amended T4 happens. So it's along the lines of our recognizing that there have been challenges. We aren't putting any repayment plans in place until these things have been resolved. Once we know that the T4 has been amended and the appropriate amount is in there, we will start working with the employees to figure out a recovery plan.

**Mr. Peter Julian:** Is there any budget or provision for a replacement system?

**Ms. Kami Ramcharan:** Not within our supplementary estimates. No, there isn't.

**The Chair:** Mr. Fergus.

[*Translation*]

**Mr. Greg Fergus:** Thank you very much, Ms. Ramcharan, Mr. Gallivan and Mr. Trueman. I will come back to the issues of the Phoenix pay system.

I have the privilege of representing the riding of Hull—Aylmer. However, the problems related to the Phoenix pay system are among the difficulties my constituents are facing.

In response to a question from Mr. Julian, you said that about 10,000 Canada Revenue Agency employees were affected by the problems caused by the Phoenix pay system. You said there were

pay advisors who could at least interact directly with your employees. Congratulations, you are among the agencies or departments who have that opportunity.

In your presentation, you said that you needed \$1.3 million to support the increased workload.

Were you talking only about an increase in the workload of agency employees or rather of all Canadians or federal public servants?

Can you clarify?

• (1020)

[*English*]

**Ms. Kami Ramcharan:** The 1.3 million that we're asking for has nothing to do directly with our employees within the agency. The 1.3 million is related to the support that our tax specialists will provide to all federal public servants who are having problems with Phoenix. It's not an internal CRA issue. It's related to CRA providing support to all federal public servants who are having problems with their T4s.

[*Translation*]

**Mr. Greg Fergus:** Thank you for that very important clarification.

How many public servants would you say have had problems related to income tax? Can you give us an estimate? What does the \$1.3-million amount represent? What was the increase in the workload?

**Mr. Ted Gallivan:** We know that it affects several thousand public servants because one of the measures taken by the Canada Revenue Agency was to create a telephone service for public servants affected by the Phoenix pay system. To date, more than 10,000 public servants have called us directly.

The Canada Revenue Agency has produced forecasts for the fiscal year that is starting out. According to the budget, money will be set aside to process amended T4 slips, in addition to the funding we are seeking today. I'm not sure what the amounts are, but I know that the agency's experts are predicting that a higher number of amended T4 slips will have to be processed than we were expecting. Several thousand amended T4 slips are coming.

**Mr. Greg Fergus:** Thank you very much, Mr. Gallivan.

You probably had to provide a more accurate estimate of the workload increase to determine that you needed an additional \$1.3 million. Not only 10,000 public servants are affected. There are 300,000 public servants in the federal government. There are at least 200,000 cases related to problems caused by the Phoenix pay system.

Can you give me a more refined estimate?

[*English*]

**Ms. Kami Ramcharan:** In terms of some of the background notes that I have, Public Services and Procurement Canada, which is responsible for the management of Phoenix, has estimated that between 100,000 and 150,000 amended tax slips will be required, so that's the neighbourhood.



[Translation]

**Mr. Greg Fergus:** Is that estimate reflected in the requested amount of \$1.3 million?

[English]

**Ms. Kami Ramcharan:** Yes.

[Translation]

**Mr. Greg Fergus:** You're talking about the 2016 fiscal year, and not the 2017 one. Do you think that figure will increase or perhaps remain the same for the 2017 fiscal year?

[English]

**Ms. Kami Ramcharan:** It's really hard to tell right now. It will depend on what kinds of improvements happen to the system. It will depend on whether the backlog reduces. There are too many variables to really have a good sense of what that would look like.

[Translation]

**Mr. Greg Fergus:** The \$1.3 million sought takes into account the increase over the 2016 fiscal year. Those are expenses you have already incurred and you still have no estimate for this fiscal year.

Will you have that estimate in a few months, or have you already planned the increase? I would like to get clarifications on that.

[English]

**Ms. Kami Ramcharan:** Yes. No, and in budget 2018 we did seek additional resources to help support us. We will be receiving additional dollars. I can't remember the exact amounts.

Sorry. I didn't bring my budget 2018 documents with me, but we will be seeking additional amounts related to Phoenix in the same area of support as well.

**Mr. Greg Fergus:** Forgive me for not looking carefully at those numbers, but we would love to get them. If you could please report back to the chair on that, I would love to know what that number represents and what your estimate it would be for the 2017 taxation year.

• (1025)

**Ms. Kami Ramcharan:** Oh, we do have it.

For next year we are roughly estimating around \$4 million, so it's a bigger number.

**Mr. Greg Fergus:** It's a much bigger number. Is that because there are a greater number of adjustments that you would expect to have?

**Ms. Kami Ramcharan:** Well, if you think about it, the tax year is starting on April 1, 2018, so this is for money....

A lot of the work that we're going to do will start to ramp up as we get into tax season. That's why you're seeing a much more significant number. It will be based on our experience from this past year in terms of the support that we would have needed.

**The Chair:** We will have to leave it there.

We're now on to five-minute rounds.

Mr. Poilievre.

**Hon. Pierre Poilievre:** Can you share with us some of the performance requirements and incentives that are in place for your

officials to deliver revenue through their audits and assessments, just in list form?

**Mr. Ted Gallivan:** The first one might be what we call the audit change rate. In other words, of the audits that they take past certain threshold hours—20 hours in small and medium enterprises, 200 hours in large businesses—once they pass that preliminary phase, how many of those audits result in a change of one form or another. That's 75%.

Depending on the audit line, we have quality expectations.

**Hon. Pierre Poilievre:** Sorry, just to clarify, once they pass the 20- or 200-hour threshold for small and big businesses, respectively, are they incented to produce a change?

**Mr. Ted Gallivan:** There's no financial incentive, but there's an expectation that, past those preliminary hours, there would be a change. I'd almost frame it the other way. We give our auditors 200 hours or 20 hours to make sure that it isn't the case of a compliant taxpayer. If it is, they down screen the audit, and they don't proceed. If they pass that hourly threshold, the expectation is that there would be a change. There is absolutely no financial incentive for the auditor related to that, though.

**Hon. Pierre Poilievre:** You were starting another....

**Mr. Ted Gallivan:** The second relates to quality, for small, medium, and large enterprises. We have a quality regime where there is a distinct unit that looks at the quality of the file. We have material and non-material errors, and auditors, based on their level of training, are expected to work towards zero errors in terms of their audit work, their working papers, and the clarity of the letter going to the taxpayer.

**Hon. Pierre Poilievre:** Are there any performance requirements or incentives related to the amount of money audits and assessments produce?

**Mr. Ted Gallivan:** The answer is no. Individual auditors receive no financial incentive or performance pay. There are projections established by region, because from a headquarters perspective, we have to allocate resources between small and medium enterprises and large enterprises, and between Atlantic Canada, the Prairies, and the Pacific provinces. At that very high level, we do have projections around how much revenue is expected to be yielded.

**Hon. Pierre Poilievre:** What if it's not yielded? Are managers, auditors, or any other employee of the agency rated based on whether or not those revenue expectations are achieved?

**The Chair:** We're probably sliding a little beyond the estimates, but it's up to you if you want to go beyond the estimates, Mr. Gallivan.

**Mr. Ted Gallivan:** I would say the primary purpose of that is to prompt a conversation and an adjustment.

**Hon. Pierre Poilievre:** I'm sorry, the primary purpose?

**Mr. Ted Gallivan:** The primary purpose of that number and analysis. In other words, you may not be surprised that Atlantic Canada, population for population, has less of a financial need than Bay Street.

**Hon. Pierre Poilievre:** Sorry. The question wasn't what the purpose or primary purpose was. The question was whether managers or anyone else in the agency is assessed based on whether they yield the revenues that are expected.

**Mr. Ted Gallivan:** We work very hard to have a broad-based assessment of all of our executives on a number of different criteria.

**Hon. Pierre Poilievre:** Does that include revenue-generated assessments?

**Mr. Ted Gallivan:** Again, of maybe 50 line items that may appear in my assessment, there may be one line related to a revenue target alongside 50 other items.

**Hon. Pierre Poilievre:** Therefore, they are assessed, and their performance is rated based on how much revenue they generate by audits and assessments.

**Mr. Ted Gallivan:** I would say that the Government of Canada made certain commitments around revenue-generation, and at my level, it's part of my accountability to see whether I met it or not, alongside numerous other measures.

**Hon. Pierre Poilievre:** Can you list the expectations? You said the government has made certain expectations around revenue generation for CRA. Can you list them?

• (1030)

**Mr. Ted Gallivan:** Again, right on point, in budget 2015 from the prior government and in budgets 2016 and 2017 under the current government, when incremental resources are made available to the CRA, there is an expectation around how many audit bills will result from that.

**Hon. Pierre Poilievre:** The government says it has dedicated an incremental \$1 billion to the CRA's budget to crack down on "tax cheats". How many dollars did CRA commit to generating out of that \$1 billion commitment?

**Mr. Ted Gallivan:** Five billion.

**Hon. Pierre Poilievre:** You are under pressure now to find \$5 billion.

**Mr. Ted Gallivan:** Last year the expectation or the projection was that we would find \$380 million, and we found \$500 million. This fiscal year the expectation was \$800 million, at Q3 we were roughly at \$800 million.

**Hon. Pierre Poilievre:** How much of that \$500 million came—

**The Chair:** We'll have to stop you there, Pierre. Mr. Sorbara.

**Mr. Francesco Sorbara:** Thank you, Chair.

Good morning, everyone.

I just wanted to elaborate on the \$1-billion investment that we've made in CRA. That \$1 billion was \$500 million in year one, in budget 2016, and then another \$444 million was in year two. I think those were the numbers.

In terms of the progress that CRA has made and the tools available to CRA, are we at a point where you folks at CRA have the

resources to ensure that all Canadians, all Canadian organizations, and foreign organizations in Canada are paying their fair share of taxes?

**Mr. Ted Gallivan:** Let's look at the behaviour of the taxpayers most directly affected. Form T1135 is for the disclosure of offshore assets. Individuals and corporations have to report them. Since 2013, the number of those reported each year has more than doubled.

Taxpayers, as a general rule of thumb, are twice as likely to disclose their offshore assets as they were in the past. With regard to voluntary disclosures, if you look at the three previous years versus the three years prior to that, in a six-year period, the offshore voluntary disclosure has doubled. Taxpayers who have assets offshore were twice as likely to come in through the voluntary disclosure program to disclose those assets.

In the November 2017 Fiscal Monitor, the Department of Finance noted that corporate tax revenue had increased 7.5%. GDP growth was 2% or 3%, but there is an extra \$10 billion on an annual basis in corporate tax revenue coming in voluntarily. I can talk a bit about the agency's actual results, but if you look at the behaviour of multinationals, non-residents' tax is up roughly 23%. Non-residents are paying more tax voluntarily.

In terms of the ultimate outcome of people complying voluntarily, the results are there. I mentioned the direct revenue generation target from the budget funding, which was \$380 million. We had \$500 million, but we are also building the automated tools that convince the insiders, the aggressive tax planners, that we have the technology.

We talk a lot about electronic funds transfers over \$10,000 and using that as a line of sight to aggressive tax planning. The budget money gave us the funds to automate that process. We are on track to automating that system, which will allow us to peer into 1.5 million international fund flows per year, and to have the data analytics to reach in and find the ones that are problematic.

Five or six years ago we had a few offshore audits. We perhaps had one criminal investigation in that space, and today we can report that we have more than 40 criminal investigations, like the Panama Papers search that was reported widely recently, and more than 1,000 audits in this space.

I would say it remains a \$1-billion issue. It remains a priority for the agency, but there are promising early signs.

**Mr. Francesco Sorbara:** Thank you for that colour.

What about in terms of the culture within CRA, in terms of the service culture, when an average Canadian calls in? I know in our office, we deal with CRA continually. I am just saying that with the increased investments.... I would argue that the prior government actually did a lot of cutting at CRA. Even if you don't increase your budget, year over year, an increase in population and an increase in filers really means an effective cut.

How has the culture at CRA changed over the last two and a half years with these investments that our government has made? Can you give us any colour on that front? I think it's important for Canadians to understand that these are folks who are being paid by the taxpayers.

• (1035)

**Mr. Ted Gallivan:** One of the focal points of the agency's senior leadership right now is world-class tax administration, and looking outward to other countries to see what best in class is. You spend a lot of time on the call centres. You heard some critical words from the office of the Auditor General.

The agency's response around better technology, stronger training, and having the right number of employees there is part of the solution. We have a service culture task force within the agency, which launched a survey to the employees to begin a dialogue around service. Even in the audit space, we have something called the liaison officer initiative, whereby we go out and do outreach, and we help businesses without the threat of a bill.

I think we work very hard to pick the right intervention for the right issue in the agency, from support and assistance to audit.

**Mr. Francesco Sorbara:** If I can just...

**The Chair:** Go ahead.

**Mr. Francesco Sorbara:** Your comment about going out and helping our SME, small and medium-sized enterprises...I think that program is crucial. I don't know how vast it is, but I have heard about that; where someone goes in and assists a business in terms of compliance, of ensuring they're doing everything correctly, and not receiving bad advice from whichever financial advisor or accountant they're using. I think that is of paramount importance. I think it'll lead to more voluntary disclosure, better disclosure, higher tax revenues, and at the end of the day using those tax revenues. First to invest in services, but also from my personal perspective, to lower tax rates across the board.

**The Chair:** Mr. Kelly, you have five minutes.

**Mr. Pat Kelly:** Thank you.

I would like to ask the question, and I'd like just the simple yes or no answer, about whether or not there are any employees of the CRA who received performance pay for taxes found?

**Mr. Ted Gallivan:** No.

**Mr. Pat Kelly:** Okay.

Nobody in the CRA gets a bonus because of taxes they've found? Nobody?

**The Chair:** I remind people that we are on estimates, but Mr. Gallivan you answered that question directly. That's your choice.

**Mr. Pat Kelly:** Okay. So the answer is no.

I will go back then to the answer to Mr. Poilievre's question about the expectation of finding \$5 billion in new taxes as a result of the billion dollars in additional funding to the agency. The answer that the minister has given many times in response to a variety of questions from both opposition parties has been an expectation of collecting \$24.5 billion.

What is the difference between those two numbers?

**Mr. Ted Gallivan:** The \$12.5-billion annual fiscal impact is from all of our core activities. That's our base budget that we've had for decades—sales tax, large business, SMEs.... That's the overall audit effort of the agency. The \$5 billion over five years is the incremental lift over and above that from the incremental dollars.

**Mr. Pat Kelly:** That's \$5 billion over five years, resulting from an additional billion dollars that has been allocated. What's the time spread of the billion dollars that the agency will receive?

**Mr. Ted Gallivan:** It's six years, because there were two budgets of five years each—so six years. Much of the money is ongoing after that.

**Mr. Pat Kelly:** Maybe I can ask about the other side or other half of the process of assessing and collecting taxes. On the collections side, what performance measures, metrics, or indeed bonuses are those employed in collections subject to?

**Mr. Ted Gallivan:** Again, there is no direct percentage or performance pay that links the dollars collected by an individual collector and their compensation.

Having said that, there is an expectation that employees will do their jobs. An employee who isn't successfully collecting will prompt a dialogue. Is it a training issue? Is it a mental health issue, etc.? So there is no—

• (1040)

**Mr. Pat Kelly:** Let me just be clear. There are many reasons that taxes don't get collected.

They may be uncollectible. The money is not there. It may well be that the taxes found and assessed do not stand up to appeal, do not stand up to a court challenge. The connection between actually assessing a taxpayer and finding taxes, and actually collecting from them is subject to many factors that create a discrepancy between those two sides.

But let's assume that it gets to collection, and an assessment has not been appealed or struck down at appeal. What steps are collectors expected to take rather than to assess whether taxes are collectible or not? There are many Canadians who are concerned about people who are assessed and aren't paying, and the agency is.... Finding the tax is one thing, but collecting is another.

I'll let you comment on that.

**The Chair:** The last word is for you, Mr. Gallivan, and that will end this round.

**Mr. Ted Gallivan:** The last tax year the agency collected \$52 billion and 96% of the new debt that arose was collected. The collectors assess things like ability to pay. They assess the liquidity of the taxpayer. They try to work through payment arrangements, a kind of softer collaborative approach. They have a range of options, including seizing, garnishment. In fact, we can get a jeopardy assessment before we even audit. So with ultra high-risk taxpayers, people involved in the criminal realm, we'll go to court and seize their assets before we even post the audit. I would say our collectors drive their behaviour based on the taxpayer risk, the taxpayer's ability to pay, and how the taxpayer collaborates with the agency vis-à-vis clearing the debt.

**The Chair:** Thank you both.

Ms. O'Connell's will be the final series of questions.

**Ms. Jennifer O'Connell:** Thank you, Mr. Chair.

And thank you for coming.

I still have some of my original questions on the supplementary estimates. I've had some concerns about some of the testimony I've heard here today, including some of the inconsistencies in the answers to some of my colleagues' questions. Around the disability tax credit, there is a lot of frustration at this committee with the information that has come forward in testimony, and the discrepancies between the information supplied to committee and the information that has come out afterwards.

When Mr. Kelly started discussing the disability tax credit, he referenced the potential thousands—if I'm paraphrasing correctly—of reviews. Then when Mr. Julian asked how many reviews there were, you couldn't provide an answer. However, when Mr. Kelly asked about the thousands of reviews, heads were nodding, but there was no confirmation of whether that was accurate or not. I'm not questioning their line of questioning, but how can this committee feel reassured about the numbers you're allocating if, from your responses to two questioners, I don't know if the agency understands how big a problem this is. When we previously heard testimony on the disability tax credit, we were told by CRA officials that there was not an increase, but that we wouldn't know until the files were manually looked at. Then here today, again, there's a difference in the numbers. So which is it?

The other thing is it was stated that if more resources are needed if it turns out that thousands of disability tax credit applications were rejected.... We were told that that wasn't the case, but if it turns out that it is the case, you said today that resources would be allocated, and then also that, no, there are reserves. So which is it? If there are reserves that's one thing, but if it's a reallocation.... The CRA is arm's length in terms of the minister's ability to oversee some of these things. If funds are being reallocated and it's not at the discretion of the minister but at the discretion of the agency, don't you think Canadians deserve to know where those reallocations would come from. I wouldn't want to see a reallocation of funds from another program, and it's not something that the minister has discretion over. Unless you understand the scope of the problem, how can you properly prepare to fix the problem and provide testimony to this committee saying it's reallocation or reserves, because those or two extremely different things?

•(1045)

**The Chair:** I will let you answer, but we did get the response yesterday on a series of questions we raised with the Commissioner of Revenue Canada Mr. Hamilton at the meeting on November 23. I think where Ms. O'Connell is going is that really in looking back at that meeting we as a committee are not happy with the answers we were given at the time, in fact we question some of them. That's a question for Mr. Hamilton. Not necessarily are you here to answer those questions, but I'll let you go where you want to go in terms of Ms. O'Connell's question.

**Ms. Jennifer O'Connell:** Mr. Chair, then if I can just specify, if you can at least clarify the contrary kind of message on reallocation versus reserve because at the very least, I'd like to get that answer because if it is a reallocation and the Minister doesn't have .... The CRA is a different agency in the sense of ministerial ability to provide directive. If it's within the CRA to determine a reallocation, then I want to know about that in advance.

**The Chair:** Okay, on that one we're fine.

Ms. Ramcharan.

**Ms. Kami Ramcharan:** Thank you, Mr. Chair, for the question and the point of clarification. Sometimes we use words interchangeably. In order to create a reserve, you take resources from other areas of the organization and you put it into a reserve. When you have a pressure in any organization that you're working with and it's immediate and it's urgent, you will look at where you have potential flexibility within existing resources to address that pressure.

The agency has reserve amounts of money that can help support those pressures, and it also has the ability to potentially take resources from other areas of the organization, to put towards pressure. That's all within the purview when the money is provided to the agency. It's not doing anything illegally. It isn't not delivering on the commitment that has been made.

It's looking at, for example, if you get money to staff a position for an entire year, but that person doesn't start until three quarters into the year, you have savings that you're able to reallocate to other pressures in the organization. This is something that we do on a regular basis. It's just part of how we make sure we use our resources the best way possible.

There are the two aspects that we do have, and we're doing it all within the rules and the guidelines that we have to manage the resources within the agency.

**The Chair:** Thank you.

Thank you for your testimony, folks.

We'll have to go to voting on the supplementary estimates.

DEPARTMENT OF FINANCE

Vote 1c—Program expenditures.....\$3,892,641

(Vote 1c agreed to on division)

CANADA REVENUE AGENCY

Vote 1c—Operating expenditures.....\$19,241,916

(Vote 1c agreed to on division)

**The Chair:** Shall I report the votes on supplementary estimates (C) 2017-18 to the House?

**Some hon. members:** Agreed.

**The Chair:** Thank you very much, folks. The meeting is

**Some hon. members:** On division.

adjourned.

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