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## Standing Committee on Finance

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EVIDENCE

**Thursday, June 20, 2019**

—  
**Chair**

**The Honourable Wayne Easter**



## Standing Committee on Finance

Thursday, June 20, 2019

• (1100)

[English]

**The Chair (Hon. Wayne Easter (Malpeque, Lib.)):** Pursuant to a motion at committee and Standing Order 108(2), the committee will study the report of the Parliamentary Budget Officer on the tax gap.

We have with us the Parliamentary Budget Officer, Mr. Giroux; Mr. Mahabir, Director of Policy; and Mr. Bernier, Financial Adviser and Analyst.

Just for your information, we only have until about 10 minutes to 12:00. A member of Parliament, Mr. Warawa, has passed away. There's going to be a tribute in the House at 12:00, so we'll have to be there for that. My apologies for cutting it short.

I believe, Mr. Giroux, you have an opening statement.

**Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer):** Yes. Good morning, Mr. Chair, vice-chairs and members of the committee. I don't know if I should say "Good morning" or "Good afternoon", but I'll stick with "Good morning".

Thank you for the invitation to appear before you today to discuss our latest report, "Preliminary Findings on International Taxation", which was published earlier today.

Today I'm joined by Mark Mahabir and Govindadeva Bernier, who will help in responding to your questions.

[Translation]

Our report presents PBO findings on international taxation. This report stems from the initial request of one of your colleagues in the other House, Senator Downe, in 2012. Following this request, PBO pursued its efforts to estimate the tax gap.

As you may know, the tax gap is the difference between the amount of tax that would be paid if all tax obligations were fully met in all instances and the amount of tax that's actually collected by the tax administration authority.

[English]

Part of the tax gap can be attributed to unintentional actions, such as errors, ignorance of relevant tax rules, or inability to comply. It can also arise from intentional actions, such as tax evasion or failure to pay taxes. One part of the tax gap that is not often measured, because of the difficulty of estimating it properly, is that attributed to

tax avoidance, which is legal but contravenes the objective and spirit of the law.

Our report examines financial flows between corporations in other countries and those in Canada. These flows and transactions can reduce taxable income in Canada by shifting income and profits to certain jurisdictions, thus reducing the amount of taxes paid by corporations in Canada.

The report provides the magnitude of financial flows and transactions involving jurisdictions that are offshore financial centres, but does not quantify the amount of taxes that could be collected if such practices of profit-shifting were no longer permitted. For example, in 2016 there was a net outflow of funds from Canada of \$200 billion to offshore financial centres. Similarly, the total value of all revenue from and expenses to those same jurisdictions by Canadian corporations was \$996 billion. If just a small proportion of such transfers and transactions were used to reduce taxable income in Canada, the amount of tax revenue that could be collected would be in the billions of dollars.

Finally, we also examined financial metrics for large multinational corporations with operations in Canada. For example, when total earnings before taxes and revenues were attributed to Canada, based on Canada's GDP relative to the GDPs of the countries in which those multinational companies operate, the attributed revenues and earnings were higher than those reported on Canadian tax returns by those corporations. This suggests that earnings reported in Canada are not commensurate with the economic activity of those corporations in Canada.

Mark, Govindadeva and I would be pleased to respond to any questions you may have regarding our preliminary findings on the international taxation report or other PBO analyses. Thank you.

• (1105)

**The Chair:** Thank you very much, Mr. Giroux.

We will go to seven-minute rounds. If we stick to our time frame, we can do rounds of seven and five minutes, and one three-minute round after that.

Ms. Rudd.

**Ms. Kim Rudd (Northumberland—Peterborough South, Lib.):** Thank you for coming. I know time is tight these days. We really appreciate your coming. I have two questions.

Certainly I and many of us have had the pleasure of reading a number of your reports, and your predictions are pretty accurate. The details in those reports help us make wise decisions. In your report, you talk about 2014 and the tax gap and the underground economy. The numbers tell one story.

I have two questions. I wonder if you could quickly just tell us how you see the underground economy now compared with where it was 20 years ago and in 2014, and where you see the challenges that lie ahead. I'll ask that first one, and then I'll quickly come back to the second one. Thank you.

**Mr. Yves Giroux:** Okay. I'll answer that first question quickly.

The scope of the report today was to look at international taxation of corporations. We did not look at the underground economy now or 20 years ago. That said, based on my previous experience when I was in the public service, the underground economy is inherently very difficult to measure—people don't want to be found, obviously—but with the advent of new technologies and the shift to more electronic payments as opposed to cash transactions, one can reasonably assume that the underground economy is not necessarily more prevalent than it was 20 years ago, for that very reason. You now see more and more businesses accepting electronic transactions only, and not cash anymore. You see that among individuals as well. It's not uncommon for acquaintances and friends of ours to have only plastic in their wallets.

For that reason, one would lean towards believing that the underground economy is not necessarily more prevalent, but we have not done any study on that. It's more of an intuition than based necessarily on hard evidence.

**Ms. Kim Rudd:** Thank you. I think airlines, as an example, have certainly gone to plastic and no cash.

**Mr. Yves Giroux:** Yes.

**Ms. Kim Rudd:** Your office also made some projections tied to climate plans. You did confirm in your report that eight out of 10 Canadians are better off under our plan. I have two questions for you. Have you considered evaluating the Conservative pamphlet that came out yesterday? Have they asked, or are you thinking about putting some numbers to that for comparison's sake for Canadians?

**Mr. Yves Giroux:** We did indeed confirm in a report tabled in late April, if I'm not mistaken, that the government's plan to return the proceeds from the price on carbon would indeed benefit the vast majority of households. So 80% of households will be better off in the four provinces that are currently subject to the backstop.

With respect to the climate change plan unveiled yesterday by the Conservative leader, the Leader of the Opposition, we have obviously not had time to look at it closely. If the Conservative Party asks us to cost any of the components of that plan under our new mandate to cost electoral platform commitments, we would be happy to do so.

**Ms. Kim Rudd:** Thank you very much. I appreciate that.

**The Chair:** Mr. Kmiec.

**Mr. Tom Kmiec (Calgary Shepard, CPC):** Thank you, Mr. Chair, and also for shortening the meeting so that we can give our final statements at the passing of Mark Warawa.

Mr. Giroux, thank you very much for coming in. I know we've met many times before. You and your staff do great work, and I really appreciate all the effort that goes into it. In a fit of cross-party co-operation, though, I will pass my time to my NDP colleagues so they can ask questions.

**The Chair:** Okay.

Mr. Julian or Mr. Dusseault.

[*Translation*]

**Mr. Pierre-Luc Dusseault (Sherbrooke, NDP):** Mr. Chair, I first want to thank Mr. Giroux and his colleagues for their work.

I know that you've been working on this issue for several years and that, even though you had other data sources, it wasn't very easy to enlist the co-operation of the Canada Revenue Agency to access the data that you used to prepare this report.

My first question concerns electronic funds transfers. You addressed international electronic funds transfers and transactions between affiliates or related companies. However, from what I can see, for the European Union's black and grey list countries alone, electronic funds transfers total \$628 billion.

Can you give us an idea of the countries on these lists and the value of the \$628 billion in electronic funds transfers between Canada and these countries and between these countries and Canada in relation to the size of the countries' GDP?

• (1110)

**Mr. Yves Giroux:** For these detailed questions, I'll turn to Mr. Mahabir and Mr. Bernier, who can provide a list of these countries. I'd say that the scale of the electronic funds transfers to these countries is disproportionate to the economic activity in these countries or to Canada's economic ties with them. This suggests that the transactions are more than simply economic transactions for tangible property. These transfers are probably justified by tax matters.

With regard to the countries on the list, Mr. Bernier can give you some examples.

**Mr. Govindadeva Bernier (Financial Advisor-Analyst, Office of the Parliamentary Budget Officer):** Yes.

Thank you for your question, Mr. Dusseault.

We referred to the list established by the European Union in December 2017. The list is often updated. Countries are added, removed or moved from the black list to the grey list. Since most of our data predates the first list, we included all countries that were on the black list at some point. Although these countries have since improved some transparency practices, this wasn't necessarily the case at the time of the electronic funds transfers. At one point, up to 70 countries were on the list. I won't name them all here.

In May 2019, countries such as Belize, Fiji, Marshall Islands, Samoa, Trinidad and Tobago, Vanuatu and the United States Virgin Islands were on the black list. Bermuda, Barbados and Aruba have been on the list before. We often hear these names when we talk about tax havens.

**Mr. Pierre-Luc Dusseault:** As Mr. Giroux said, the \$628 billion in electronic funds transfers to these countries or from these countries to Canada are disproportionate to the real economic activity of these countries.

The same is true for offshore financial centres, which are covered in the other part of your study on electronic funds transfers. There are sink and conduit financial centres. Perhaps it isn't necessary to go into detail. Three trillion dollars pass through these offshore financial centres. We rarely say "trillion dollars" in French, but the amount is more than a few billion dollars.

Can you provide a typical example of an offshore financial centre? How much money goes through these financial centres and what does this mean in terms of the country's economic activity?

**Mr. Yves Giroux:** I can put the amount in perspective: \$3 trillion, or \$3,000 billion, is more than Canada's GDP. These transaction or cash flows—some transactions occur more than once a year in various inflows and outflows of funds—are completely disproportionate to the economic activity of the country in question.

We looked at countries such as Tonga, small islands in the Pacific with a tiny GDP. However, the value of transaction flows between Canada and Tonga is several times higher than Tonga's GDP. No economic reason or transaction in property or services can justify flows of this magnitude from Canada to Tonga or from Tonga to Canada. It's completely disproportionate, given Tonga's GDP and the transactions in tangible property or services that occur there.

Clearly, this is purely for financial or tax reasons. There may be legitimate financial reasons, such as better interest rates or a more secure banking system, but I highly doubt this. I think that, aside from these legitimate reasons, few reasons justify transferring so much money to such a small country, other than tax reasons.

• (1115)

**Mr. Pierre-Luc Dusseault:** Exactly. This is the result of the globalization of our economy and the fact that, with the emergence of the Internet, transactions to these financial centres take milliseconds to complete. The funds then move on to other countries, which become hubs of financial flows. The funds only pass through these countries for tax or financial reasons, as you just said.

The other finding—

[English]

**The Chair:** Pierre, because Tom gave you their time, there were 14 minutes between the two of you. When you want to switch off and go to Mr. Julian, do so. You're at seven minutes now.

[Translation]

**Mr. Pierre-Luc Dusseault:** The other part of this study concerns transactions between companies. These tables basically show that several countries considered tax havens are among the top 10 in terms of offshore transactions with Canadian companies that have

affiliates or related companies that don't deal at arm's length. The United States is in first place. This won't surprise anyone, since the United States is our closest neighbour. Canada's trade with the United States is substantial and often valid and proper.

Luxembourg, a European country, is in second place. What is Luxembourg's economy or GDP? How can we justify the fact that this country ranks second in terms of the number of transactions conducted by Canadian companies abroad? Is it because Luxembourg's economy is growing? Is it because many oil wells are drilled in the country and there's an extraordinary amount of economic activity?

**Mr. Yves Giroux:** I'm not familiar with Luxembourg's oil activity, but I highly doubt it. I know that the country has had coal mines. To give you an idea of the scale, let's say that Luxembourg's population roughly aligns with the city of Gatineau's population, or with the slightly larger populations of Laval or Longueuil. The territory is quite small. While the economy is in fact booming, the population is small. Luxembourg is probably one of the richest countries in the world, per capita. However, this isn't necessarily the result of booming tangible economic activity.

I suspect that many transactions to and from this country are taking place because of a well-known fact. Luxembourg is often referred to as a "country of post office boxes." Companies have addresses that consist of an office shared by several companies or that are limited to a single post office box. This situation is very common because Luxembourg is a tax-friendly country. That's the justification.

Mr. Mahabir can elaborate on this topic.

[English]

**Mr. Mark Mahabir (Director of Policy, Costing, Office of the Parliamentary Budget Officer):** As Yves said, there are a lot of holding companies in Luxembourg. There are also no withholding taxes on royalty payments and dividend payments. That's one of the reasons why we're having a lot of transactions with that jurisdiction.

[Translation]

**Mr. Pierre-Luc Dusseault:** The first on the list of the top 10 countries is Luxembourg, whose population is the size of the city of Gatineau, but whose reportable transactions amount to \$236.7 billion. There's also Switzerland, whose reportable transactions amount to \$198.4 billion, and Ireland, which some people also consider a tax haven and whose reportable transactions amount to \$172.4 billion. In Barbados, the reportable transactions amount to \$48.2 billion, and in Bermuda they amount to \$29.7 billion. The offshore transactions of these five countries on the top 10 list amount to about \$685 billion. For the most part, the economies of these countries don't necessarily justify such a large flow of transactions.

Can you give us an idea of the situation in these five countries and the influence of double taxation agreements?

I don't know whether you focused on this issue in your study. I want to know whether the size of the transactions between Canada and these countries can be linked to the fact that we have double taxation agreements. These agreements may encourage the off-shoring of profits, which can then be repatriated to Canada at a lower tax rate.

• (1120)

**Mr. Yves Giroux:** As part of the study, we didn't establish a causal link or correlation between the double taxation agreements with certain countries and the value of transactions reported on T106 slips in the case of transactions of related companies.

At first glance, it seems surprising that the value of transactions between related companies is higher in Barbados—given the size of its economy—than in Australia, which has a developed economy and fairly close ties with Canada. There are more transactions between Barbados and Canada than between Australia and Canada. The same is true for Bermuda, where the number of transactions is similar to the number in Australia. Bermuda is probably a very beautiful place to live and buy a second home. However, its economic activity doesn't even come close to Australia's economic activity.

Mr. Mahabir and Mr. Bernier may have more or, conversely, less information than I do on the relationship between tax treaties and transactions between related companies.

[English]

**Mr. Mark Mahabir:** If we look at the list in table 3-5, we can see that it basically shows the revenues going into Canada from countries. On this list, there are a few jurisdictions where there is no corporate income tax, so there are revenues being earned by Canadians in jurisdictions where there is no income tax.

[Translation]

**Mr. Pierre-Luc Dusseault:** Table 3-5 shows that Luxembourg, of all the countries in the world, has the highest revenues from non-residents. These revenues amount to \$47.6 billion.

Can you tell us what “revenues from non-residents” means? Are these payments made by affiliates of a Canadian company? What transactions are normally involved? Are they intellectual property payments, interest or dividends, for example?

**Mr. Govindadeva Bernier:** In Table 3-5, we measured the revenues from transactions reported in Part III of the T106 slip. We've included the appended form in the report. Part III details transactions, either in property or services. The revenues may also include interest or royalty payments in particular, or payments for management services, research and development, and so on.

The first column, the revenue from non-residents column, concerns money that affiliates in Luxembourg have paid to companies in Canada. The expenditures are funds that Canadian companies have sent to companies in Luxembourg. The net revenue is the difference between the two.

[English]

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

Mr. Fragiskatos.

**Mr. Peter Fragiskatos (London North Centre, Lib.):** Thank you, Mr. Chair. If I have time left, I will be splitting it with my colleague Ms. Rudd.

Thank you to everyone, particularly Mr. Giroux, for being here and for the report, which I want to reference.

On page 4, it states the following about the tax gap: “Part of the tax gap can be attributed to unintentional actions, such as errors, ignorance of relevant tax rules or inability to comply.” I want to ask you about errors and also the inability to comply. When you say “errors”, what sorts of examples are we talking about? When it comes to “inability to comply”, what are some of the factors that lead to that outcome?

**Mr. Yves Giroux:** When it comes to errors, if you've tried to understand the Income Tax Act, then you can probably quickly get what types of errors could be made. For example, if you're moving, you have moving expenses, and you may believe that some types of expenses are eligible. Conversely, you may not know that you can benefit from some types of deductions for moving expenses. I'm talking here about personal income taxes.

When it comes to corporations, it's very complex what companies can deduct and the types of deductions they're allowed. When it comes to tax planning, there could be errors made in good faith, such as forgetting to report some income—

**Mr. Peter Fragiskatos:** I don't mean to interrupt you, but in the interest of time, what you're talking about here in terms of errors indicates to me that, really, you're talking about the complexity of the tax code—

• (1125)

**Mr. Yves Giroux:** Yes, it could be.

**Mr. Peter Fragiskatos:** —and perhaps its need for simplification.

**Mr. Yves Giroux:** There would certainly be tremendous benefits to taxpayers from simplifying the tax code, the Income Tax Act, and —

**Mr. Peter Fragiskatos:** What specific areas would you identify as needing simplification?

**Mr. Yves Giroux:** I haven't looked at specific areas, but taxpayers frequently mention deductions for medical expenses, for example, when talking about personal income tax, moving expenses deductions, and the sheer number of credits and deductions. Those are confusing to people. That's why a significant portion of individuals need the assistance of tax professionals to file their income tax.

**Mr. Peter Fragiskatos:** Okay.

What explains “inability to comply”? What are some of the factors? Why “inability”?

**Mr. Yves Giroux:** It would be the loss of receipts or supporting documents when, for example, people's homes are flooded or burned to the ground. It happens; it's not a regular occurrence, but it happens, unfortunately. That would be one example.

**Mr. Peter Fragiskatos:** Right. Okay.

As far as the tax gap is concerned, where does Canada rank vis-à-vis other democracies?

**Mr. Yves Giroux:** It's difficult to answer that question, because relatively few countries do a comprehensive analysis of their tax gap. I don't imagine we rank worse than most countries, because of the relative strength of our institutions. It's all relative. It depends on how you measure the tax gap. Based on my experience, I would say we probably rank in the middle of the pack.

That's a good question to address to the Department of Finance and the Canada Revenue Agency.

**Mr. Peter Fragiskatos:** Thank you very much.

Mr. Chair, I'll pass my remaining time to my colleague.

**Ms. Kim Rudd:** Thank you.

**The Chair:** [*Inaudible—Editor*] minutes back.

**Ms. Kim Rudd:** Oh, I got my three minutes back. Thank you, Mr. Chair.

I want to continue in the vein of pricing pollution. I read your report, and you state that putting a price on pollution is one of the most effective and efficient ways to reduce greenhouse gas emissions. What's curious to me is that the Leader of the Opposition yesterday said that in fact your report said the exact opposite—that it doesn't work.

I don't want to suggest that the Leader of the Opposition is misleading people, but I wonder if you could clarify what your report said.

**Mr. Yves Giroux:** The report alluded to the fact that putting a price on pollution, a price that is widespread and that's paid by most if not the totality of economic actors, has a cost, but it allows sectors to make the necessary trade-offs among themselves so that for those actors for whom it is the easiest to reduce emissions, they will do so. The report also says that there are other instruments available to economic actors—individuals, corporations, governments—to reduce emissions, regulations and subsidies being the two other broad categories of instruments, but these also have a cost, albeit the cost is often not as transparent as a carbon tax or a price on carbon.

That's what the report says. It also says that technological improvements can be a significant contributor to reducing greenhouse gases, but technological improvements are inherently hard to predict. If they were easy to predict, then some people would be very, very rich by investing in advance in these companies; some of them are indeed very rich and have that insight.

In a nutshell, that's essentially what the report says.

**Ms. Kim Rudd:** As I read your report, I think that putting a price on pollution is, as I said, the most efficient and cost-effective way. Transparency is another word you used in your report, as you just said.

The other thing your report does is to recognize that there is a transition that we go through with those technologies. It could be 20 years away. It could be 10 years away. We don't know, but the majority of Canadians are certainly better off, as you've said in your report, with the price on pollution than they were without it.

Thank you very much.

**The Chair:** Is there any further response?

You still have half a minute.

Mr. Poilievre, you're on.

• (1130)

**Hon. Pierre Poilievre (Carleton, CPC):** Do you mind taking a question on your report with regard to the CPPIB?

**Mr. Yves Giroux:** Not at all.

**Hon. Pierre Poilievre:** All right. Recently you released a report that showed a net advantage resulting from CPPIB's decision to go to active management. Andrew Coyne wrote an interesting piece wherein he said that your report did not take into consideration the savings in management and transaction costs that come from passive management.

I'll just read to you from his article:

The return that matters, as any mutual fund investor knows, is not the gross return but the return net of costs: one of the reasons actively managed funds tend to underperform passively managed is because their costs are so much higher. Bizarrely, while the PBO study deducts transaction costs and management fees—which are now, respectively, 17 times and 44 times what they were under passive management—from the CPPIB's returns, "operating expenses were assumed to be the same under either approach."

I don't know if that's the assumption you made, but that is what he reports and I do know that passively managed instruments are infinitely cheaper. You can buy a Barclays or a Vanguard ETF and pay a 0.01% fee for management, whereas if you hire a mutual fund it can be up to 2%, hundreds of times higher.

First, is Mr. Coyne is right that you did use that methodology, and second, if he is, why did you do so?

**The Chair:** We didn't bring you here for this subject, but are you fine with this subject, Mr. Giroux?

**Mr. Yves Giroux:** Yes, I'm fine.

We looked at operating expenses. Deciding to reduce the operating expenses under a passive strategy would have required us to make assumptions as to by how much the operating expenses would need to go down.

They would not be brought down to zero because of the magnitude of funds that are managed. There would certainly need to be continuous oversight of dozens of billions of dollars, and that's why we assumed there would still be a need for operating expenses.

That said, for sure one would hope that the operating expenses, under a passive strategy, would be significantly lower, but because it was not possible to determine what quantum would be appropriate, we decided to assume that operating expenses would remain roughly the same. That said, it doesn't significantly change the outcome or conclusions of the report, because the operating expenses are still a small fraction of the overall assets and of the returns.

**Hon. Pierre Poilievre:** It depends on how you define small. Over the lifetime of an investor, if you have a one-percentage-point increase in management costs for your investments, that does subtract significantly from the final asset that emerges from your investment at the end of life. If Mr. Coyne is correct that the CPPIB's transaction costs and management fees are up 17 times and 44 times, respectively, those are absolutely astronomical increases.

In fairness, the CPPIB will justify that, given the very high returns they've achieved, so I'm not making a judgment that it wasn't necessarily worth the increased management cost, but if you are going to compare the two options, there's no question that you are right to include the virtues of active investing in that they're able to get a higher return, but ought you not also include the vices of active management in achieving that return, namely, that it is much more expensive to do so?

It seems to me that you did not consider the last part, because you assumed that passive management would have been just as expensive as active management, which I think we agree is not the case.

•(1135)

**Mr. Yves Giroux:** You're right that passive management would be cheaper. The conundrum we faced was that for the funds that manage, in the case of the CPPIB, hundreds of billions of dollars, how much cheaper would it be?

Even if they were to go to a purely passive investment strategy, I don't think there are currently instruments that would fit the CPPIB's volume. There would be a need for some operational expenses—

**Hon. Pierre Poilievre:** Right.

**Mr. Yves Giroux:** —for the CPPIB to mimic what you were referring to, such as ETFs, for example. I don't think there are ETFs on the market that would be big enough to absorb such a high volume.

**Hon. Pierre Poilievre:** Right.

**Mr. Yves Giroux:** There would still be a need for people to actively be involved and to make transactions on an almost daily basis to ensure that they do properly track the indexes they would decide to follow under a passive strategy. There would be reductions in management fees, for sure, but to what extent? That remains unclear.

**Hon. Pierre Poilievre:** Could I ask just one last question?

**The Chair:** Okay. We're quite over time. We must—

**Hon. Pierre Poilievre:** Could I just have a parting request, then?

**The Chair:** What's your parting request?

**Hon. Pierre Poilievre:** Just that the next time, you look at this—

**The Chair:** From virtues and vices to parting requests....

**Voices:** Oh, oh!

**Hon. Pierre Poilievre:** Yes, that's right. My greatest vice today is that I'm too loquacious.

It's just that the next time you look at this, could PBO try to find a methodology to at least credit a passive approach for its lower management costs? For all of the complications you've just stated—and they are legitimate—notwithstanding, there must be some way,

if we're going to compare the two, to give passive management credit for its lower cost of administration—both transactions and management—that it brings.

My request as a parliamentarian is that the next time you do this calculation, you take that into account.

**The Chair:** All right. That's up for consideration by the PBO.

**Hon. Pierre Poilievre:** Thank you, Chair.

**The Chair:** Now we have Mr. Sorbara, and then we are coming back to Mr. Julian.

Mr. Sorbara.

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

I do want to start very quickly by acknowledging the passing of MP Mark Warawa. Mark and I were on the same floor in the Valour Building, and I had the chance to get to know him quite well from a number of conversations. I do wish to pass on my sincerest condolences to his family. I know that the Lord has inherited quite the angel in the last 24 hours. My condolences on Mark's passing.

Going to the topic at hand, the CRA has published a set of reports. The fifth one came out this week: "Tax Gap and Compliance Results for the Federal Corporate Income Tax System".

If I could just read out the preamble in the executive summary, I think it speaks to the measures our government undertook to ensure the integrity of our tax system. It states:

In April 2016, the Government of Canada committed to estimating the federal tax gap to encourage an open and transparent discussion on tax non-compliance. Understanding how and why taxpayers are non-compliant is critical to help preserve the integrity of the tax system and to protect Canada's revenue base, which supports programs and benefits delivered to Canadians.

I think that little preamble, that first sentence of this last report, is very important to folks back home in my riding and across Canada to assure them that the federal government is providing CRA with all the resources it needs to do its job for integrity.

I have a quick question. We heard some numbers: the before tax gap numbers, the broad ones, but then the audited ones. In your view, how important were the resources we invested in the CRA to pursue those proper audits and reduce that tax gap to be as minimal as possible?

**Mr. Yves Giroux:** I won't comment on the level or the appropriateness.... I'll let the CRA officials determine whether they have sufficient resources to pursue all the audits they should be pursuing.

It's certainly the case that audits are a very important way of addressing the tax gap and narrowing it to the extent possible, because audits, first of all, uncover tax evasion. Also, and I think equally important, they provide a disincentive to engage in the behaviour in the first place. If there's a relatively high likelihood of getting caught, it's a disincentive to engaging in the behaviour in the first place.



**Mr. Francesco Sorbara:** Exactly, and if I can interject, page 9 of the CRA report shows a tax gap before audit of \$9.4 to \$11.4 billion for SMEs and large corporations. The “Impact of Audit” brought it down by literally three-quarters. You're still at \$3.3 billion to \$5.3 billion, but it gives you an indication of the magnitude when audits are performed correctly.

I'm going to pivot, because there is something in the PBO report at the end, on page 20, where you say:

CRA efforts to increase audits on the information reported on T106 forms could reduce the magnitude of aggressive tax planning. However, it may be time for a “fundamental rethink” on international corporate taxation to ensure income is taxed where the economic activity is taking place.

Now, we do know that we've entered into a base erosion and profit shifting agreement, another multilateral instrument. Our government, in the last three years, invested a billion dollars plus into CRA, with more audit teams, in responses to KPMG and other activities that have been taking place.

Could you comment on this last paragraph on page 20, before the appendix? This is your concluding statement.

• (1140)

**Mr. Mark Mahabir:** Basically what we're saying here is that the T106 forms are not a reliable source of information for data analysis. A lot of the forms are incomplete, and we had to get the CRA to clean the data for us before our analysis.

As well, there are certain outliers on the forms. There are certain corporations with a lot of transactions reported on the forms in comparison to other corporations.

The last sentence basically says that the level of transactions is not commensurate to the level of economic activity in Canada and in those jurisdictions where those transactions occur.

**The Chair:** You have time for a quick question.

**Mr. Francesco Sorbara:** Thank you for that explanation. When you say the level of transactions is not equivalent to the level of economic activity, are you measuring country A in comparison with country B in terms of the totality?

**Mr. Yves Giroux:** We're looking at the transactions between Canada and a certain country: the flows reported to CRA and the flows with respect to electronic fund transfers with the real economic activity as measured by the GDP. We didn't look at two-way trade, but we could have looked at that. There's no commensurate link or proportionality between.... The flows of money are often disproportionate to the economic activity of countries. That's what we're saying.

**Mr. Francesco Sorbara:** I take it transfer pricing would come into that and would play a big role there.

**Mr. Yves Giroux:** Yes.

**Mr. Francesco Sorbara:** Is there an avenue to improve the transparency on transfer pricing within the taxation system here in Canada?

**Mr. Yves Giroux:** Probably, but that's a question for tax specialists themselves. We looked at numbers, and our conclusion is that the numbers speak to a high proportion of transactions that are

done purely for financial planning and tax purposes. There's no tangible economic activity that supports all of these numbers.

**Mr. Francesco Sorbara:** If I can do a 10-second closing, Chair, I'm the biggest proponent of capitalism and making money and creating wealth in any jurisdiction that lifts as many boats as possible. I'm the biggest proponent of that and also someone who's against crony capitalism and new corporations using other jurisdictions to lower their tax “payables”, if I can use that word.

Thank you for this work, because it does provide us answers.

**The Chair:** Okay. Thank you.

Mr. Julian.

[*Translation*]

**Mr. Peter Julian (New Westminster—Burnaby, NDP):** First, I would like to express my condolences to Mr. Kmiec and Mr. Poilievre and to everyone who knew Mark Warawa well. I also want to express my condolences to his widow, Diane, and to his entire family. This is really a sad day.

[*English*]

I want to commend you, Mr. Giroux, because I think this is one of the most important reports you've ever produced.

Over the last four years, we haven't had a single charge from the Canada Revenue Agency on corporate tax avoidance. This is going to become a major issue, I believe, in the federal election campaign because of the fact there has simply not been any action taken against tax avoidance.

At the same time, Canadians are struggling for affordable housing, for medication and to get their kids through school. The answer they're always given is that they're going to have to wait because there are other priorities, but the reality is that there are astronomical sums that seem to be getting around a taxation system, with no action being taken by the federal government.

I want to start by asking you about this, just so I can understand the figures. They seem astronomical.

First, we're talking about nearly a trillion dollars—\$996 billion—in reportable transactions with offshore financial centres. Then there are the electronic funds transfers, where we're looking at \$1.6 trillion. How much overlap is there between the reportable transactions—that nearly trillion dollars—and the \$1.6 trillion? How much of that is actually an overlap? What would be the comprehensive final figure combining those two?

• (1145)

**Mr. Yves Giroux:** I don't think you can combine those two, because there is, as you mentioned, significant overlap. One would hope that all of the transactions between Canada and the OFC, as reported on the T106 forms, have been captured by Canadian financial institutions that have to report any transaction out of or into Canada of more than \$10,000. There should be quite a bit of overlap if the system works.

The amount reported on the T106, if we take it at face value that corporations have been honest and fully transparent in reporting their transactions with affiliates, is in my opinion probably the most reliable, because the EFT amounts probably include transactions from corporations and with corporations that may have little to do with affiliates. These could be pure economic transactions, but no one can be sure.

**Mr. Peter Julian:** You don't have a precise figure to give us, and it is still likely to be in the trillions of dollars.

**Mr. Yves Giroux:** I would say that the \$996 billion is probably as solid as it can be, but there for sure could be additional amounts because of the T106. Under the T106, corporations have to report only transactions over \$1 million.

**Mr. Peter Julian:** Those are astounding amounts.

Next, in your conclusion you say that if we assume that 10% of the trillion dollars in reportable transactions has avoided corporate income tax in Canada, it would represent an amount of \$100 billion in taxable income that should have been taxed. Then you make an estimate of the billions of dollars that is part of this massive tax chasm that exists.

The assumption of 10% comes from where? Is it possible that the assumption is actually low and that, potentially, the percentage of those transactions avoiding corporate income taxes in Canada is much higher than 10%?

**Mr. Yves Giroux:** The assumption is just for illustrative purposes because we don't know for sure what the real number is. It could be 10%, it could be 5% or it could be 15%. I don't think it's much higher than that, but it could be more or it could be less. We don't know for sure and that's why we said, for example, that if it were 10%, this is how much it would mean in lost revenues. However, we have no way of knowing for sure, aside from having to do very thorough audits of all of these transactions, which would require immense resources. I don't think there is enough capacity in this country to undertake that many audits involving these huge amounts.

**Mr. Peter Julian:** Okay, but—

**The Chair:** We are out of time, Mr. Julian.

**Mr. Peter Julian:** Could I have a final, quick question?

**The Chair:** Make it very quick.

**Mr. Peter Julian:** What resources would you need to really get to the bottom of this?

**Mr. Yves Giroux:** I'm not sure it's a question of resources as much as it is a question of reliable and accurate data, which I'm not sure exists anywhere. It involves offshore financial centres, which by definition are not very co-operative when it comes to revealing the dealings that their institutions have with Canadian corporations or Canadian residents. I think it's a matter of trying to get the appropriate data. A parallel that I sometimes make is trying to estimate the amounts that the Mafia makes. It's very difficult. You can try to estimate but you cannot get reliable estimates.

**The Chair:** Okay. We'll go over to Mr. Sorbara.

I do want to point this out, Mr. Julian. I know you're not regularly at this committee, but it might be useful for you to go back to the

minister's testimony to this committee. You stated that the government has not done anything on corporate tax avoidance. That is, quite bluntly, not true.

● (1150)

**Mr. Peter Julian:** There were no charges.

**The Chair:** Over \$1 million has been spent on tax avoidance, and tax recovery has increased.

We can't leave that on the record that way.

**Mr. Peter Julian:** No charges....

**The Chair:** Mr. Sorbara.

**Mr. Francesco Sorbara:** Mr. Giroux, I know you used the word "Mafia". I would like that term to be struck. I'd like to use the word "organized crime", please.

**Mr. Yves Giroux:** Sure. You have my apologies.

**Mr. Francesco Sorbara:** Thank you. Don't apologize. I just want to put that on the record to make sure, because there's one connotation with one and another connotation with another. As my brother is a first responder in the Vancouver Police Department who heads and battles that type of activity, it's personal—very much so.

To Mr. Julian's comment, on May 30, 2019, the CRA minister announced the updated results for CRA's audits in the real estate sector. Since 2015, CRA audits have identified over \$1 billion in additional gross taxes related to the real estate sector. During the same period, auditors reviewed nearly 42,000 files in Ontario and B. C., resulting in over \$100 million in assessed penalties.

Our government, over the last three and a half years, has invested wisely in the CRA after the prior government made a number of cuts to services across the board in the federal government. With that, we are producing results for the taxpayers of Canada.

Thank you.

**The Chair:** I said we'd adjourn at 10 minutes to 12, and we're going to. We have to be up in the House. We cannot be late.

I want to thank—

**Hon. Pierre Poilievre:** Mr. Chair, I have a point of order.

**The Chair:** I said we'd adjourn at 10 minutes to 12, Pierre. I have to.

**Hon. Pierre Poilievre:** Point of order.

**The Chair:** You may have to challenge the chair on this, because I'm not accepting the point of order.

**Hon. Pierre Poilievre:** Point of order, Mr. Chair.

**Some hon. members:** [*Inaudible—Editor*]

**The Chair:** We have to adjourn at 10 to 12.

**Some hon. members:** [*Inaudible—Editor*]

**The Chair:** I want to thank you for coming today, Mr. Giroux, and your people for doing the work they do.

**Hon. Pierre Poilievre:** You guys are really disgusting—

**The Chair:** The meeting is adjourned.







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