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# Standing Committee on Finance

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Chair: The Honourable Wayne Easter





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• (1630)

[English]

**The Chair (Hon. Wayne Easter (Malpeque, Lib.)):** I will call the meeting to order.

Welcome to meeting number 42 of the House of Commons Standing Committee on Finance. Pursuant to Standing Order 108(2) and the committee's motion adopted on Tuesday, April 27, 2021, the committee is meeting to study the subject matter of Bill C-30, an act to implement certain provisions of the budget tabled in Parliament on April 19 of this year and other measures.

I will forgo the other formalities, because everybody who's on this line has been through this enough times that we don't need to do that.

First of all, let me apologize to all the witnesses who came on time. We were dealing with a subcommittee meeting. I'll now go into the motion that came from it to see where the full committee stands, and then we'll go to witnesses.

As I said to members at the subcommittee, if I have part of this wrong don't be afraid to correct me. The motion that we passed at subcommittee, which we'll look for a vote on at full committee, is this:

That the committee continue its study of Bill C-30, the Budget Implementation Act, by:

1. Inviting witnesses to appear on the contents of Bill C-30 during meetings scheduled the week of May 17, 2021, and that;
  - a. Members of the Committee submit their prioritized witness lists for the study of Bill C-30 to the Clerk of the Committee by no later than Friday, May 14, 2021, at 6 p.m.—

That's a little bit of a change from the motion that's before you.

—and that these lists be distributed to members of the committee as soon as possible;

2. Moving to clause by clause review of Bill C-30 no later than Thursday, May 27, 2021, at 3:30 p.m., and that;
  - a. amendments be submitted to the Clerk of the Committee in both official languages no later than 12:00 p.m. (noon) on Tuesday, May 25, 2021;
  - b. the Clerk of the Committee write immediately to each Member...

That's the same. Part (b) is the same on the motion that's before you, and part 3 is the same on the motion before you. We've agreed that the finance committee will do three meetings on tax evasion, following the conclusion of the study on Bill C-30, and following that, the steering committee would meet as soon as possible to plan future business.

That's the motion. Is someone willing to move it? It's moved by Peter Julian.

Is there any discussion?

Mr. Clerk, what did I miss?

**The Clerk of the Committee (Mr. Alexandre Roger):** Wednesday next week....

**The Chair:** Thank you.

Compared with our previous schedule, which had several meetings next week for three hours, we will not meet on Wednesday, May 19. We will meet on Monday for six hours, and then on the 17th, 18th, 20th and 21st.

Is there any discussion?

(Motion agreed to [*See Minutes of Proceedings*])

**The Chair:** Then we will go to witnesses.

We're dealing with Bill C-30, parts 1, 2 and 3.

I'll go through the list of witnesses so that they're on the record, and we'll go from there.

We have Trevor McGowan, director general, tax legislation division, tax policy branch; Dave Beaulne, senior director, tax legislation division; Maude Lavoie, director general, business income tax division; Pierre Leblanc, director general, personal income tax division; Pierre Mercille, director general, sales tax legislation; Phil King, director general, sales tax division; François Beaulieu, expert adviser, sales tax division; Dominic DiFruscio, senior adviser, sales tax division; and Warren Light, expert adviser, sales tax division.

Just to committee members, I know members sent me a list for a regular lineup on questions. What we typically do on the budget implementation act—and if you have a concern about it, raise it—is that, rather than going through the five or six minute rounds, we just take, in order, whoever has questions on whatever division we're dealing with.

In part 1(a), if you have a question, I'll recognize you, and we'll take one supplementary. Then we'll go to the next questioner, and then we'll go to part 1(b).

If there are no problems with that, we will start.

On part 1, I believe it is Mr. Trevor McGowan.

Welcome.

**Mr. Trevor McGowan (Director General, Tax Legislation Division, Tax Policy Branch, Department of Finance):** Thank you, Chair.

Owing to the time, and my understanding that a package of summary materials has been provided to the committee, I'll provide a brief overview instead of going through each of the measures in the bill, unless you would like me to do so.

Part 1 of Bill C-30 deals with the Income Tax Act and amendments related to it. It contains measures that were either announced or confirmed in the 2021 federal budget. The confirmed or previously announced measures include some from budget 2019 and some others that had already been announced but were referenced in the budget.

These would include, for example, an increase to the basic personal amount that essentially provides a tax-free amount for Canadians, gradually reduced for higher-income earners; extensions to various COVID-related subsidies, such as the Canada emergency wage subsidy and the rent subsidy; the introduction of a new hiring program; and the enhancement of the Canada workers benefit, a program that provides assistance to lower-income workers.

With that, we would be happy to take any questions you might have on part 1, or provide a more thorough overview, as I said at the opening.

• (1635)

**The Chair:** What I will do, because I have to look at the part 1 divisions on my screen.... If people would just put up their hand using the “raise hand” function as we go along, I will go through part 1, and then (a), (b) and (c), if that's okay.

There are enough people here to answer those questions, I'm sure.

The summary for part 1(a) says it is “providing relieving measures in connection with COVID-19 in respect of the use by an employee of an employer-provided automobile for the 2020 and 2021 taxation years”.

Does anybody have any questions on that?

Seeing none, the summary for part 1(b) says it is “limiting the benefit of the employee stock option deduction for employees of certain employers”.

Mr. Ste-Marie, go ahead.

[*Translation*]

**Mr. Gabriel Ste-Marie (Joliette, BQ):** Good afternoon, everyone.

I would like a quick explanation regarding the purpose of this measure and what it entails.

[*English*]

**The Chair:** Trevor, we'll turn it to you. You can direct it to whomever and we'll go from there.

**Mr. Trevor McGowan:** Thank you for the question.

I see that my colleague Pierre Leblanc has taken himself off mute, so I'll turn it over to Pierre.

**Mr. Pierre Leblanc (Director General, Personal Income Tax Division, Tax Policy Branch, Department of Finance):** Thanks, Trevor.

[*Translation*]

Thank you for your question.

The purpose of this measure is to further limit the stock option deduction for employees of certain employers.

We propose to apply an annual limit of \$200,000 with option cash-out rights eligible for the deduction. This limit would be based on the fair market value of the underlying shares when the options are granted and would be designed to protect start-ups and emerging businesses.

Employees of private companies governed by Canadian regulations wouldn't be subject to the limit, nor would employees of companies with gross annual revenues of \$500 million or less. That's the gist of the measure.

**Mr. Gabriel Ste-Marie:** Thank you.

[*English*]

**The Chair:** Do you have a supplementary there, Gabriel, or are you okay? Okay.

Go ahead, Tamara.

**Mrs. Tamara Jansen (Cloverdale—Langley City, CPC):** Thank you.

I have a general question. I think it would apply to this section, but somebody will have to correct me if it doesn't.

In 2018, CPA Canada put out a report that stated the following:

Canada needs to ensure we continue to create jobs, attract investment and remain competitive. But, on these vital measures, our current tax system is falling short, and Canadians and their businesses risk falling ever more behind their global peers.

Especially after the pandemic, more than ever we see a need to be an attractive place for investors and job creators. Do we see any serious attempts in this budget to tackle the problem of creating a competitive taxation environment that would attract businesses to Canada? I was also wondering how this would impact that.

• (1640)

**The Chair:** Does anybody want to take that one on?

**Mr. Pierre Leblanc:** Thank you very much for the question. Maybe I can speak in the context of this clause for the stock option deduction.

As I was saying to Monsieur Ste-Marie, the government's really trying to balance two objectives here. One is noting that historically the stock option deduction has been disproportionately claimed by individuals with very high incomes—I mean, the government's overall concern about tax fairness. The other is recognizing that an important concern here is that stock options are used as an important recruitment tool for start-ups, scale-ups and emerging employers to maintain that ability, that competitiveness, as you say.

The idea here is that with this new limit of \$200,000 annually, based on the value of the options, that grant would apply to only certain employers. It wouldn't apply if you're what we call a Canadian-controlled private corporation—a CCPC. It wouldn't apply if the annual revenues of the company for whom you work are \$500 million or less. The idea is that these are the companies for which the stock option deduction remains quite a vital tool. I think the government's proposal you see here is designed with the balancing of those objectives in mind.

**The Chair:** Thank you, Pierre.

Do you have a supplementary there, Tamara?

I'll go to Gabriel.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Thank you.

Did the department assess the amount of additional tax that it could collect with the implementation of this measure?

**Mr. Pierre Leblanc:** Thank you for your question.

We published our estimates in the 2020 fall economic statement.

According to our estimates, the additional tax revenue would be approximately \$55 million for the 2025-26 fiscal year. It should be noted that this revenue would stem only from stock options granted after January 1, 2021. It takes some time for employees to qualify for these options. The results won't be apparent until 2025-26.

For the longer term, we estimate revenues of about \$200 million. This constitutes a positive impact on federal revenues.

**Mr. Gabriel Ste-Marie:** Thank you.

[*English*]

**The Chair:** Thank you all.

We'll turn to part 1(c). I might remind members that a document came out earlier in the week that has this information and some explanations there, if you want to refer to that as we go along.

For part 1(c), it says “providing an adjustment for payments or repayments of government assistance in determining capital cost allowance for certain zero-emission vehicles”.

Are there any questions on that one?

Peter Julian, did you have a question? I know, you're having trouble with your computer today.

[*Translation*]

**Mr. Peter Julian (New Westminster—Burnaby, NDP):** Yes, I'm sorry.

Thank you, Mr. Chair.

My question doesn't concern the bill, but the impact of zero-emission vehicles. Are there any estimates of how many people would benefit from the bill in this area and the related costs?

• (1645)

**Ms. Maude Lavoie (Director General, Business Income Tax Division, Tax Policy Branch, Department of Finance):** I imagine that you're talking about the cost of the measure and not the amendment in this part of the bill.

The department estimates that government revenues will decline by \$62 million in 2020-21 and 2024-25.

I don't know the exact number of companies that could take advantage of this measure. These are estimates, of course. There's always some uncertainty.

I can tell you that the mining sector, in particular, has expressed strong interest in this measure.

[*English*]

**The Chair:** Does that satisfy your question there, Peter? Okay.

Is there nothing more on (c)? No.

The summary for part 1(d) says it is “expanding the scope of the foreign affiliate dumping rules to further their objectives”.

Are there any questions, anyone?

Ted Falk.

**Mr. Ted Falk (Provencher, CPC):** Thank you, Mr. Chair.

I am just wondering what kinds of situations this would apply to.

**The Chair:** Who wants to take it there, folks?

Go ahead, Trevor.

**Mr. Trevor McGowan:** The foreign affiliate dumping rules currently apply where a non-resident corporation, a multinational, owns a corporation resident in Canada or controls them. The corporation resident in Canada wants to avoid Canadian tax, so they engage in what is called a foreign affiliate dumping transaction. Those are generally used to extract earnings from Canada while reducing Canadian tax.

One example might be instead of paying \$1 million dividend from the Canadian corporation up to the foreign parent, which could attract a 5% withholding tax, representing a tax cost of \$50,000, they might instead purchase shares of another company within the group bringing them under Canada for \$1 million, which does not attract a withholding tax. In that sense, the money is dumped in the foreign affiliate or in respect of the foreign affiliate.

That's how the rules currently work.

As I said before, the rules currently apply where a non-resident corporation controls a corporation resident in Canada but the same sorts of planning opportunities and risks arise where a non-resident individual or a trust owns the Canadian corporation. What this measure would do is that it would extend the existing anti-avoidance rules that are intended to address these types of foreign affiliate dumping transactions.

I just gave one example. There are numerous iterations. It expands them to apply also where the parent on top is an individual or a trust instead of just a foreign corporation.

**The Chair:** Do you have a supplementary, Ted?

**Mr. Ted Falk:** Yes. I'm wondering if this is quite a prevalent problem that you're addressing.

**Mr. Trevor McGowan:** It can be prevalent in terms of the size of the investments, but not in respect of the number of affected taxpayers. There aren't tens of thousands of them using this type of structure, but it is something that has been seen.

**Mr. Ted Falk:** I imagine this would be something that more sophisticated corporations would be trying to achieve and more international-based corporations?

**Mr. Trevor McGowan:** That's correct. It applies only in the multinational context.

**Mr. Ted Falk:** Okay.

Thank you, Mr. Chair.

**The Chair:** Gabriel.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Thank you.

I want to ask for a clarification again.

Could you tell me how many companies will be affected by this amendment and how much revenue the government expects to generate through this amendment?

Also, I gather that Canada was the only G7 country that didn't implement this measure. Is that right?

• (1650)

[*English*]

**Mr. Trevor McGowan:** I would ask my colleague, Maude, if she knows. This was a measure that was announced in the 2019 budget, so it would have an expected revenue impact associated with it.

In terms of the specific number of affected taxpayers, we don't have that number at our fingertips. We can endeavour to ask the Canada Revenue Agency precisely how many they've seen, although my understanding is that the number is not significant, although the dollars involved with each transaction can be significant.

[*Translation*]

**Mr. Gabriel Ste-Marie:** I would like you to provide that figure once you have checked with the CRA.

[*English*]

**The Chair:** Thank you on that one.

Did anybody else want in from the Department of Finance? I don't have everybody on my screen. I'm split between two. Just yell if you want in.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Excuse me, Mr. Chair, but I would just like confirmation that the six other G7 countries have already implemented this measure.

Mr. McGowan is confirming that this is the case.

**Mr. Dave Beaulne (Senior Director, Legislation, Tax Legislation Division, Tax Policy Branch, Department of Finance):** I would say that it's an atypical measure. It wasn't implemented by other countries. It's really a unique measure. I think that France has a similar measure, but I don't think that other countries have adopted a measure of this nature. There are certainly other measures.

Does that answer your question?

**Mr. Gabriel Ste-Marie:** Yes. Thank you.

[*English*]

**The Chair:** Ms. Jansen is next.

**Mrs. Tamara Jansen:** I think this might be in the same vein, but you'll have to forgive me if it's not.

Foreign-owned companies employ two million Canadians and are responsible for about half of Canada's exports. Attracting foreign investors is a high priority, yet our tax system makes it difficult for multinationals to transfer funds among its subsidiaries, making our country less attractive for investment.

In 2016, the Conference Board of Canada estimated that the withholding tax costs Canada up to \$2.6 billion in foreign investments per year. Shouldn't we be tackling that issue head-on when we're desperately trying to grow our economy?

**The Chair:** Who wants to take that one, if it's not too political?

Trevor.

**Mr. Trevor McGowan:** I don't know whether my colleague Maude Lavoie could speak to the economic side of it. I can speak to the legal and technical impacts of this measure.

What it does is it affects an existing rule in subsection 212(3) of the Income Tax Act that is aimed at addressing these foreign affiliate dumping transactions.

As I said earlier, it extends the application of these rules to situations where a non-resident individual or trust is investing into Canada. It does not in and of itself introduce a new obligation for corporations resident in Canada that are controlled by foreign corporations; rather it extends the application of an existing set of rules. It's not imposing it; it's extending it.

Also, it ensures more of a level playing field. We have a withholding tax, as was mentioned, on dividends coming out of Canada, and it ensures that, where withholding tax is intended to apply, that it actually does apply.

**The Chair:** Thank you, Trevor.

We might have lost Maude. I see her name up there, but I don't see her.

**Ms. Maude Lavoie:** I'm here.

**The Chair:** Did you want to add anything, Maude?

**Ms. Maude Lavoie:** No. I think Trevor's answer is complete. Thank you.

**The Chair:** Is there anything else there, Tamara?

**Mrs. Tamara Jansen:** Yes. I'm just wondering if they feel that this makes Canada more attractive to investors.

**The Chair:** Trevor or Maude, does it make Canada more attractive to investment?

**Mr. Dave Beaulne:** I don't think it's about real investment. This is purely an integrity measure. This is about multinationals that are dumping foreign affiliates into Canada for really no economic benefit. It's just a tax play, as far as this particular measure goes.

As Trevor said, we're expanding the scope of it so that it goes beyond the more classic situation where there are foreign corporations that are controlling the Canadian subsidiaries, and extending it to individuals and trusts that are controlling the Canadian corporations.

• (1655)

**The Chair:** Okay.

Next we have Annie Koutrakis.

**Ms. Annie Koutrakis (Vimy, Lib.):** Thank you, Mr. Chair.

Does the government foresee any difficulty in the adoption of these amendments? Is it going to be difficult to adopt them?

**Mr. Trevor McGowan:** If the question is whether the amendments could be easily administered by the Canada Revenue Agency, as was noted, what they do is extend an existing set of rules that have been around for a number of years. Tax advisers and their clients are well accustomed to them, in addition to our Canada Revenue Agency.

Our rules, as I said, have been around for a number of years. They have been revised a few times since their initial announcement in response to stakeholder feedback. They're fairly well understood by both the tax community and the Canada Revenue Agency.

**Ms. Annie Koutrakis:** Therefore, we don't foresee any difficulties.

**Mr. Trevor McGowan:** No. It's largely an extension of an existing set of rules that has been administered and functioning for some years.

**Ms. Annie Koutrakis:** Thank you.

**The Chair:** Thank you, then.

There are no further questions on that section.

Turning to the summary of part 1(e), it says, "providing change in use rules for multi-unit residential properties". Are there any questions on that one from members?

**Mr. Peter Julian:** I would just like you to run through those provisions, those changes, so that we can completely understand the impacts.

**Mr. Trevor McGowan:** Thanks. I'd be happy to give an overview of the amendments in the bill.

**The Chair:** Okay.

**Mr. Trevor McGowan:** They relate to the change in use of properties. Currently, for example, if you own a rental property and you make it your principal residence, there is a deemed disposition of the rental property. The value that it increased while it was a rental property is taxable, and the value that it increased while it was your principal residence is eligible for the principal residence exemption.

Currently there is a deferral available when stand-alone property is changed from, say, rental to personal use, possibly qualifying for the principal residence exemption. However, that election is not currently available in respect of changes of use of multi-unit residential properties. If you have a duplex, for example, and you're renting out both units but decide to change one into your principal residence, that election to defer the accrued gain is currently not available. It's sort of a technical hole in the rules. There's no reason it should be available for a stand-alone property and not for a semi-detached or a duplex.

This would help align the rules for multi-unit properties with those that currently exist for single-unit properties, and it would provide for a more coherent set of tax rules.

**The Chair:** We'll move on. I see no one else.

There is no one up on part 1(f), "establishing rules for advanced life deferred annuities".

Are there any members on part 1(g), "providing for an option to deduct repaid emergency benefit amounts in the year of benefit receipt and clarifying the tax treatment of non-resident beneficiaries"?

All right, Gabriel.

[*Translation*]

**Mr. Gabriel Ste-Marie:** I would like an explanation regarding the part that concerns non-residents.

• (1700)

[*English*]

**Mr. Trevor McGowan:** Thank you. I'd be happy to do so.

Again, this is a highly technical change to the rules and a clarification. A lot of the programs listed have restrictions relating to whether non-residents can take part in them. However, they don't all use the same concept of non-residency as the income tax system does. This rule addresses incongruities or differences like these, where the tax rules treat somebody as a non-resident and the relevant rules that provide the benefit treat them as a resident. That can happen, for example—where residency-based tie-breakers apply—under one of Canada's tax treaties that say, for our tax purposes, somebody is treated as a non-resident of Canada.

What it does is ensure that the amounts received under these benefit programs are taxable in Canada, just as they would be if they were received as income by the individual.

[Translation]

**Mr. Gabriel Ste-Marie:** Thank you.

[English]

**The Chair:** Julie Dzerowicz.

**Ms. Julie Dzerowicz (Davenport, Lib.):** Thank you, Mr. Chair.

Mr. Ste-Marie stole my question, but I have a follow-up one. How is it that we're defining “non-resident”?

**Mr. Trevor McGowan:** I can speak to the tax definition of “residency”. The other programs might have different definitions of residency, perhaps based on citizenship rules or what have you. Under our domestic rules, tax residency—the concept of where you are resident, fundamentally—looks to where your ties are. That could be where your house is, where your family is, where your bank accounts are and things like that. It's a bit of a factual determination.

There are also rules in the Income Tax Act that can deem you resident in Canada, for example, if you sojourn in Canada for more than 183 days. Layered on that, there are rules in our tax treaties whereby you could be resident in Canada under Canada's law and resident in another country under its law. Our treaties often provide rules for tie-breakers to determine where somebody actually is resident. In the international context in particular, it can be a difficult determination. However, for tax purposes fundamentally, it looks to where your domestic ties are located.

**Ms. Julie Dzerowicz:** Thank you.

**The Chair:** Do you have further questions, Ted? Ted must have had the same question as Gabriel. His hand's down now.

We'll turn to part (h), “removing the time limitation for a registered disability savings plan to remain registered after the cessation of a beneficiary's eligibility for the disability tax credit and modifying grant and bond repayment obligations”.

Peter Julian.

**Mr. Peter Julian:** On an average basis each year, how many people who have a registered disability savings plan actually become ineligible over the course of a year? What are the impacts of removing the time limitation specifically, in terms of accrued benefits but also the government contributions to the registered disability savings plan?

**Mr. Trevor McGowan:** Pierre, do you have that?

**Mr. Pierre Leblanc:** Sure. Thank you for the question.

I don't have statistics handy on how many individuals in a given year who were eligible for the disability tax credit no longer become eligible. What I'm looking for here is our estimate.... Trevor mentioned that some of these measures come from budget 2019, and this is one of them. In budget 2019, we estimated that the impact of the measure—the additional cost—would be about \$110 million over five years, starting in 2019-20 and going until 2023-24. That was our estimate at the time.

● (1705)

**Mr. Peter Julian:** For quick follow-up, lead us through.... Currently, with the registered disability savings plan, if you cease to be eligible you have to pay back 10 years of grants and bond payments. How would the changes affect that same individual?

That includes estates, of course, as well.

**Mr. Pierre Leblanc:** The main change of the measure would basically do two things. It would allow people to keep their RDSP open. Right now under the current rules, you essentially have a couple of years if you become DTC ineligible. It will allow those people to keep their plan open. It would also allow people to retain entitlement to the bonds and grants that they've already received.

Under the existing rules—the previous rules—you would have been required to pay those back in fairly short order, whereas this basically puts you roughly on par with those who retain DTC eligibility. Generally, the rule there is that, because of the 10-year rule, once someone turns 50, they can stop getting grants and bonds. Basically, when someone turns 60, they'd have to start receiving the amount. It provides that extension as well.

**The Chair:** Is there no one else?

All right, we'll go to part 1(i), which is “increasing the basic personal amount for certain taxpayers”.

There are no questions on that one.

The next one is part 1(j), “providing a temporary special reading of certain rules relating to the child care expense deduction and the disability supports deduction for the 2020 and 2021 taxation years”.

There are no further questions. I know there were questions the other night during the briefing, so some may already be answered.



We'll go on to part 1(k), "providing flow-through share issuers with temporary additional time to incur eligible expenses to be re-nounced to investors under their flow-through share agreements".

Mr. Ste-Marie.

[*Translation*]

**Mr. Gabriel Ste-Marie:** I would like an explanation regarding one part of the note.

It reads as follows:

...is entitled to claim deductions on account of Canadian Exploration Expenses (100% immediate deduction...

What does "100% immediate deduction" mean?

**Ms. Maude Lavoie:** It means that Canadian exploration expenses can be deducted, up to 100%, from revenue when calculating taxes.

**Mr. Gabriel Ste-Marie:** Okay. Thank you.

[*English*]

**The Chair:** Are there any other questions? Okay.

We'll move to part 1(l), "applying the short taxation year rule to the accelerated investment incentive for resource expenditures".

Are there any further questions there? No.

If anybody from finance has something they want to raise, just interrupt.

We'll move to part 1(m), "introducing the Canada Recovery Hiring Program refundable tax credit to support the post-pandemic recovery".

Pat Kelly, go ahead.

• (1710)

**Mr. Pat Kelly (Calgary Rocky Ridge, CPC):** On the pandemic recovery benefit, could officials comment on the eligibility criteria? This came up in our meeting last week. The eligibility criteria here, if I understand correctly, is very similar to the criteria for the wage subsidy and the rent subsidy, which new enterprises don't qualify for. In her response, the minister said, if I remember correctly, that there were new enterprises that would qualify for this benefit.

How does the qualification here differentiate from that of the other programs? Which enterprises are eligible to receive it?

**Ms. Maude Lavoie:** For the Canada recovery hiring program, the types of businesses or employers that can apply are Canadian-controlled private corporations, non-profit organizations, charities and partnerships. This resembles the list of organizations that are eligible for the wage subsidy, for instance, but for a corporation to qualify, it needs to be a Canadian-controlled private corporation. In that sense, the eligibility is similar.

In terms of new businesses, they will not be able to qualify if they cannot demonstrate that there was a reduction in revenue compared with a pre-pandemic period. However, I understand there are other programs announced in the budget that new businesses may be eligible for. When I say "new" I mean those created after the start of the pandemic.

**Mr. Pat Kelly:** You still need the year-over-year reduction to qualify.

**Ms. Maude Lavoie:** That's correct.

**Mr. Pat Kelly:** It's exactly like the rent subsidy and the wage subsidy.

**Ms. Maude Lavoie:** That's correct.

**Mr. Pat Kelly:** I just wanted to clarify that. Thank you.

**The Chair:** Thank you, Pat.

Ms. Jansen.

**Mrs. Tamara Jansen:** Thank you.

I was talking to TIAC earlier today, and they were saying they don't believe this is going to be of any help to them because lockdowns are still in effect.

They're wondering if this program can help them in any way. They don't see how, with lockdowns in effect and no timeline on the horizon for anything to get started again, they could even begin hiring.

**Ms. Maude Lavoie:** Perhaps I would note that this program is scheduled to be in place until the end of November. I believe, with the speed of the vaccination campaign, it is everyone's hope that we will be starting the recovery in the coming months and that businesses will be able to benefit from the incentive as time goes by.

**The Chair:** Thank you, Tamara.

**Mrs. Tamara Jansen:** Can I follow up on that?

**The Chair:** Go ahead.

**Mrs. Tamara Jansen:** Most of those tourism industries.... Obviously if you're a ski place or somewhere like that, maybe this would help, but most of these industries are seasonal, and they're losing their summer. This basically doesn't take effect until they're closed down again.

Is there something on the horizon that's going to help them?

**Ms. Maude Lavoie:** The program will start in June and end by the end of November. To the extent that they're able to open during the summer, if the sanitary restrictions are lifted, they would be expected to be able to benefit from this program.

**The Chair:** Are there any further questions on (m)?

Go ahead, Mr. Fast.

**Hon. Ed Fast (Abbotsford, CPC):** Ms. Lavoie, I don't think you answered Ms. Jansen's question, and it's a fair one to ask.

The Tourism Industry Association and tourism stakeholders want to see the economy open, but quite frankly, if we're making the assumption that this summer the economy is going to be open with everybody being vaccinated twice, that's just not in the cards. Even the Prime Minister has as much as admitted that.

How do we get support to the tourism industry and all the different companies across the country that have seen very little, if any, targeted support from the government? I know there's a little bit of money, about a half a billion dollars, to support the tourism industry, but again, it's not targeted for emergency relief. It's targeted for adaptation and a whole bunch of other things that don't address the immediate needs of these companies and businesses.

• (1715)

**Ms. Maude Lavoie:** I cannot speak to any standing programs that may have been put in place. I'm really just familiar with what we have in terms of the hiring subsidy, the wage subsidy and the rent subsidy. These programs they could benefit from are available to all industries if they have demonstrated a decline in revenues, but in terms of whether there is additional support, I cannot speak to that, unfortunately.

**The Chair:** I think that's a question for the minister, Ed.

Is there anything further, Mr. Fast, before I go to Ms. Jansen again?

**Hon. Ed Fast:** It is a matter for the minister—you are right, Mr. Chair—but we're asking questions about the specifics of the program design. Does the program design incorporate the flexibility that will help these companies within the tourism industry? My guess is that they won't be helped by this program, like so many other programs where they have fallen through the cracks, and they're likely going to come to committee and tell you that.

**The Chair:** I'll go to Ms. Jansen. I don't think Ms. Lavoie can answer that one.

Next is Ms. Jansen and then Mr. Fragiskatos.

Go ahead, Ms. Jansen.

**Mrs. Tamara Jansen:** I know in my discussion with them, they were pretty sure that it wouldn't work for them because of the fact that they will not be opening, because a one-vaccination summer will not open their industry.

What they said was that the winding down of the wage subsidy is also disturbing to them because of the fact that they have kept a few people on, but they need to be able to keep those people on for a longer time than what the program is now looking like it's going to be going for.

Have you had any discussion of how you can help those industries that will not be able to open because we're not getting vaccinated fully fast enough? Have you looked at all at how you can help them with a wage subsidy that would continue for them?

**Ms. Maude Lavoie:** It's hard for me to discuss all the conversations that have happened between the government and an industry in particular. What I could say is that the wage subsidy.... Yes, it's true. There is a decline in the rate that's being contemplated until September when the subsidy would end.

I think one thing to note is that, if the situation doesn't unfold as is currently expected, and if the pandemic situation is still at play, the government has kept the flexibility to add periods to the wage subsidy program until the end of November. Adding two additional periods is a possibility, and that could be done by regulation as per

the bill that we're looking at. They also have the flexibility to play with the top rate if the situation warrants it.

**The Chair:** Thank you.

Peter Fragiskatos.

**Mr. Peter Fragiskatos (London North Centre, Lib.):** Thank you, Chair.

It's interesting to hear this feedback on the budget and this specific provision of it. I was also quite intrigued to hear in the previous meeting that our Conservative colleagues would have been very anxious to pull away emergency COVID-19 supports. I thought that was a stunning moment in the previous meeting, but I won't dwell on that, Mr. Chair.

Just to put my Conservative colleagues at ease, the information is available online. Media has covered extensively the number of businesses, the number of individuals, the number of families that have received and benefited from COVID-19 support. If they want further support, the government will be there.

Members and people can ask questions, but I just raise that last point to assure my colleagues.

**The Chair:** Okay. I don't think there's a question there.

Julie Dzerowicz.

**Ms. Julie Dzerowicz:** Thank you so much, Mr. Chair.

I think Ms. Lavoie actually answered my question. I was going to ask whether it could be extended past November, but if I heard you correctly, Ms. Lavoie, it can be by regulation.... Oh, it cannot.

• (1720)

**Ms. Maude Lavoie:** No. I was talking about the wage subsidy. The hiring program is scheduled to end by the end of November, unless I'm mistaken. Perhaps Trevor can correct me if I'm wrong, but I don't think this one can be extended.

**Mr. Trevor McGowan:** You're absolutely correct. It cannot extend past the end of November without a legislative change, based upon this bill.

**The Chair:** To be absolutely sure we're all on the same wavelength, the level of subsidy or level of support can be changed by regulation by executive council. Is that right?

**Mr. Trevor McGowan:** That is correct, for the period up to the end of November.

**The Chair:** Thank you.

Ms. Jansen, are you back on?

**Ms. Julie Dzerowicz:** Hold on, Mr. Chair. I do have a follow-up question.

**The Chair:** I'm sorry, Ms. Dzerowicz.

**Ms. Julie Dzerowicz:** Ms. Lavoie, I know there's been a little bit of a focus by my opposition colleagues on the tourism industry. If I understood you correctly, this is for all companies including non-profits that meet certain criteria. I think those criteria would include having fallen below a certain revenue income. I wanted to make sure that was clear. If you could respond to that, it would be great.

**Ms. Maude Lavoie:** That's correct. To qualify for the hiring program in the first period, they need to demonstrate that they have had some revenue decline compared with that for the same period last year. Starting with the second period, they have to demonstrate that they have had an at least 10% revenue decline. Otherwise, all industries are eligible.

**Ms. Julie Dzerowicz:** Thank you so much.

Mr. Chair, for the record, we should clarify. I think I need to send an article to Ms. Jansen, who indicated that we are not vaccinating fast enough. The Star has said that we're surpassing the U.S. today in terms of vaccinating more people than usual—

**The Chair:** We are on part 1 of the BIA.

**Mr. Pat Kelly:** How many doses is that, Julie?

**Ms. Julie Dzerowicz:** I'm hoping we'll finish it.

**Hon. Ed Fast:** The Star...?

**The Chair:** We're on part 1 of the BIA, folks.

For a point of clarity, Ms. Lavoie, you can use revenue over revenue of 2021 over 2020 or 2019. Is that correct?

**Ms. Maude Lavoie:** No, you have to compare it with the pre-pandemic period. You have to compare it to 2019, depending on which months we're talking about. That's the first approach, or you can also compare it to the average of January and February of 2020. You can use either approach.

**The Chair:** Okay. That clears my mind.

Ms. Jansen.

**Mrs. Tamara Jansen:** That was one question I had too.

**The Chair:** Just in case you don't know, we're on the budget implementation act.

**Mrs. Tamara Jansen:** That was my same question, whether you could compare it to 2019. Now I have another question.

You're saying that you could extend the wage subsidy, but would that be to everybody or could it be targeted to just those industries that are heavily affected, such as the tourism industry, which clearly is in a completely different boat and isn't able to utilize this one?

**Ms. Maude Lavoie:** I believe the regulations could only be extended to all employers who are currently eligible. I don't think a target to an industry could be done unless there was a legislative change.

Again, Trevor, please correct me if I'm wrong.

**Mr. Trevor McGowan:** No, you're absolutely correct. There are a certain number of things that can be changed by regulation. For the wage subsidy, it can be extended by two periods and the rates can be changed and the phase-outs. More granular changes or more fundamental changes to the program would need to be done legislatively.

**Mrs. Tamara Jansen:** I wonder if you can see how that might make it very difficult for the tourism industry to be able to continue if there can't be a targeted way of helping them, because I imagine we can't continue supporting all businesses as things open, but tourism lags. Can you see that this might cause a problem for the tourism industry, which is already one of the most highly affected?

**Ms. Maude Lavoie:** I believe how to support the tourism industry going forward is a question for the government at this point.

**The Chair:** Okay. We are going to move on to part 1(n).

Before I do that, is everyone comfortable going to six o'clock Ottawa time? We can get the extra time, but we can't go that far. I know we're imposing on finance officials in doing that. Is there any opposition to that?

Okay, we'll take the extra half-hour and make up what we lost in the beginning.

Then we turn to part 1(n), "amending the employee life and health trust rules to allow for the conversion of health and welfare trusts to employee life and health trusts".

Are there any questions?

Ed Fast.

• (1725)

**Hon. Ed Fast:** Could we just have the officials explain the ramifications of the last sentence, which addresses a relaxation of the rules as it relates to employee life and health trusts. What are the ramifications of that relaxation?

**Mr. Trevor McGowan:** I can provide some information on that. Just for broad context, for many decades there has been a set of health and welfare trust rules that were largely based upon Canada Revenue Agency administrative policy and not a legislative set of rules. In 2010, the employee life and health trust rules were introduced into the act, which provided a specific regime set out in the legislation to provide these kinds of benefits to employees.

What this measure would do is it would provide rules to allow the older health and welfare trusts to transition into newer employee life and health trusts. However, in some cases there were more flexible or more generous sets of rules that were implemented by health and welfare trusts, so some of those are being picked up and incorporated into the new employee life and health trust regime.

The benefits that could be provided under the ELHT rule amendments could allow for death benefits of up to \$10,000, paid leaves like bereavement leave or jury duty, and additional counselling benefits for mental health purposes.

**Hon. Ed Fast:** Trevor, I do understand that, but this references an expansion of the types of benefits that such a trust may provide to employees and their family members. Can you explain what additional benefits might be provided that are covered? Is there an impact to the fiscal framework by changing that?

**Mr. Trevor McGowan:** I would defer to my colleague, Pierre, on the impacts to the fiscal framework.

As I mentioned, the specific types of benefits that could now be provided were the death benefit up to \$10,000, paid leave such as for bereavement or jury duty, and counselling benefits for mental health purposes.

**Hon. Ed Fast:** That's helpful.

**The Chair:** Does anybody else want to come in on that from finance?

Is that it, Ed?

**Hon. Ed Fast:** Yes.

**The Chair:** All right. There are no further questions on that one.

The summary of part 1(o) reads, "expanding access to the Canada Workers Benefit by revising the applicable eligibility thresholds for the 2021 and subsequent taxation years".

Are there thoughts on that one or any additional points by finance? All right.

The summary of part 1(p) reads, "amending the income tax measures providing support for Canadian journalism". We're all right on that one.

Next is part 1(q), "clarifying the definition of shared-custody parent for the purposes of the Canada Child Benefit". That's all fine.

The summary of part 1(r) reads:

revising the eligibility criteria, as well as the level of subsidization, under the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (CERS), extending the CEWS and the CERS until September 25, 2021, providing authority to enable the extension of these subsidies until November 30, 2021, and ensuring that the level of CEWS benefits for furloughed employees continues to align with the benefits provided through the Employment Insurance Act until August 28, 2021;

We had considerable discussion on this one earlier. Are there any questions?

Gabriel, did you have question? No. I think we've covered that one pretty well.

Peter Julian.

• (1730)

**Mr. Peter Julian:** I'd just like a full description of part 1(r), and of course, as we've raised before, the problems with the misuse of the emergency wage subsidy.

The current criteria change for those companies that use it for executive bonuses, I believe after June 5, so the question is what the

finance ministry has looked at in terms of making retroactive some of these misuses of the wage subsidy, including dividend payments and executive bonuses.

**Mr. Trevor McGowan:** As you noted, the change that can require repayment of the Canada emergency wage subsidy in respect of active employees applies prospectively, starting in June, for those periods of the subsidy, and it operates by looking at the increase in top executive compensation between 2019 and 2021 for certain public companies.

**The Chair:** Trevor, I'm just going to interrupt for a second.

Matthew with the Conservative whip's office, your mike is on. You might not want us to hear you.

Trevor, go ahead.

**Mr. Trevor McGowan:** Thank you, Chair.

It compares the remuneration paid to top executives, generally the top five executives, in a publicly listed company between 2019 and 2021, and to the extent there's any increase in that additional remuneration, it can require a repayment of the wage subsidy for active employees paid during those periods. As you noted, those are prospective in nature and there's no repayment of past wage subsidy claims when companies would not have known about these new restrictions.

Of course, the government looked at a number of options and received feedback from a number of stakeholders, but what is in the bill is the government's response, in particular in respect of excess pay to top executives by wage subsidy recipients.

**The Chair:** We'll go to Peter, and then we'll go to Ted.

**Mr. Peter Julian:** Thank you for that.

You said that the government consulted with stakeholders. Did the options that were laid out to stakeholders include the possibility of making these provisions retroactive, given that the government from the very beginning, including the former finance minister, was very clear that this wage subsidy should not apply to dividends and to executive bonuses?

Other countries, of course, put all those provisions in place, so the abuses we're seeing are strictly in Canada. Given that the government said repeatedly that it can't be used for these purposes, to what extent was the government consulting on making the actual components, the tools, to claw back that money retroactive?

**Mr. Trevor McGowan:** I don't know.

I apologize if I misspoke in saying there was a consultation in the sense of a formal consultation. Certainly, it is something that was reported in the media and that we heard about: that the wage subsidy had been going to companies that had paid dividends or had increased top executive compensation, or what have you.

**The Chair:** Mr. Falk.

**Mr. Ted Falk:** Thank you, Wayne.

With the Canada employment wage subsidy, are there any qualifications in there regarding foreign ownership of a company receiving these benefits? It is a “Canada” employment wage subsidy. If there are no restrictions on ownership, that it has to be a Canadian-owned company or a Canadian-controlled company, can you give us any data on how much of this money that has been invested in the CEWS has gone to foreign-owned companies?

• (1735)

**Ms. Maude Lavoie:** Perhaps I can start.

There are no restrictions on foreign ownership, but in order to access the wage subsidy, the employees need to be located in Canada. It would really just be for their Canadian employees and to support the people who work here.

In terms of data, that would be a question for the Canada Revenue Agency, which has all this data. To my knowledge, this is not on their website, but we can follow up.

**Mr. Ted Falk:** Okay. You don't have information on how much of the CEWS money went to companies that were foreign-owned or foreign-controlled.

**Ms. Maude Lavoie:** As I said, that would be more of a question for the Canada Revenue Agency, but we can follow up.

**Mr. Ted Falk:** Thanks, Wayne.

**The Chair:** There are no further questions on that one, but to clarify, Maude, the wage subsidy has to go to people employed within Canada. Is that correct?

**Ms. Maude Lavoie:** Yes, that's correct.

**The Chair:** Okay.

We'll go to part 1(s), “preventing the use by mutual fund trusts of a method of allocating capital gains or income to their redeeming unitholders where the use of that method inappropriately defers tax or converts ordinary income into capital gains”.

Does anyone from finance want to add anything to that, or are there any questions?

Ed Fast.

**Hon. Ed Fast:** I just wanted to know if this is an issue of evasion or simply avoidance. Is it a matter of tax planning or something beyond that?

**Mr. Trevor McGowan:** It's a question of tax avoidance. This isn't a case of tax evasion. It is the misuse of a system that had developed in order to help prevent double taxation, in order to achieve unintended tax benefits. These are legal tax avoidance techniques and not criminal tax evasion.

**Hon. Ed Fast:** We're plugging a loophole with this.

**Mr. Trevor McGowan:** That's correct.

**Hon. Ed Fast:** Thank you.

**The Chair:** Thank you all.

We'll move on to part 1(t), “extending the income tax deferral available for certain patronage dividends paid in shares by an agricultural cooperative corporation to payments made before 2026”.

On that one, I forget the explanation from the other night. Can somebody give me a little bit of an explanation? What's the intent here?

**Mr. Trevor McGowan:** Agricultural co-operatives can pay patronage dividends to their members. This would extend an income tax deferral on the amount of any patronage dividends received until the time that the shares are exercised.

The specific issue is that when these agricultural co-operatives pay patronage dividends to their members, that can carry with it certain immediate tax consequences, absent this deferral in the act. These co-operatives were having to pay amounts out to their members so that they could satisfy the tax liability that came along with the patronage dividends, which were causing cash-flow issues for these co-operatives.

What this measure would do is extend, in respect to eligible shares issued before 2026, an existing temporary deferral that allows those immediate tax consequences—taxation, basically—to be deferred until the disposition of the shares. It helps co-operatives with their cash flow.

**The Chair:** Thank you. Yes, I've heard of that as a concern. I hear from many egg co-ops.

The summary of part 1(u) reads, “limiting transfers of pensionable service into individual pension plans”. Are there any questions?

Seeing none, we'll move on to part 1(v), “establishing rules for variable payment life annuities”. Are there any questions?

Seeing none, we'll go to part 1(w), “preventing listed terrorist entities under the Criminal Code from qualifying as registered charities and providing for the suspension or revocation of a charity's registration where it makes false statements for the purpose of maintaining registration”.

I actually think that one came out of the money-laundering study we did a number of years ago.

Mrs. Jansen, I see your hand.

• (1740)

**Mrs. Tamara Jansen:** There's a great question in there. How many of these sorts of groups are actually registered as charities?

**Mr. Pierre Leblanc:** Thank you for the question.

We don't have a global count of such activities. The rules are meant to prevent this to the fullest extent possible. What I can say is that you've seen, in the past, where the Canada Revenue Agency has revoked charitable organizations for these sorts of reasons.

That's something that's always posted on its website, as well as in the Canada Gazette. This is basically improving the rules to make sure they are comprehensive and to streamline the revocation process for the CRA.

**Mrs. Tamara Jansen:** I'm not sure I quite understand. Do we not actually have any idea of how many of these groups are registered as charities in Canada?

**Mr. Pierre Leblanc:** The thing is that it's where illegal activity is found. If an organization is listed as a terrorist entity, it's revoked so it's no longer a.... We could talk to the CRA and then try to provide the committee with some historical statistics on such revocations, if that would be helpful.

**Mrs. Tamara Jansen:** That's great, yes.

**The Chair:** Ms. Koutrakis, please go ahead.

**Ms. Annie Koutrakis:** Thank you, Mr. Chair.

What is the current process for revoking the registered charity status of a listed terrorist entity under the Criminal Code, and how would the proposed changes modify the process?

**Mr. Pierre Leblanc:** Thank you for the question.

Basically, there are several steps within the CRA that need to be taken. As soon as an organization becomes a listed terrorist entity, the CRA would be able to immediately revoke, given the importance of addressing the issues as expeditiously as possible.

There would be other means of recourse, but in terms of moving to the revocation stage, the CRA would be able to do that more quickly.

**The Chair:** Thank you, Ms. Koutrakis.

We'll move on to part 1(x), "ensuring the appropriate interaction of transfer pricing rules and other rules in the Income Tax Act".

Mr. Ste-Marie, go ahead.

[Translation]

**Mr. Gabriel Ste-Marie:** Good afternoon.

I would like the figures for part 1(x) and part 1(y), meaning the estimates of the additional revenue that the government expects to obtain and the number of companies affected, based on previous years.

[English]

**The Chair:** Who wants to take that question, as it relates to part 1(x) and part 1(y)?

**Mr. Trevor McGowan:** Under the transfer pricing measure, I could speak to that first. Then, if there's a question on the fiscal impact of the cross-border securities lending arrangement rules, hopefully one of my colleagues could mention that. It's from budget 2019, and it would be in the table for that.

The transfer pricing measure here is really more of a clarifying measure. It's not intended to tighten the rules. Generally speaking,

it's not intended to tighten the rules or make sure that taxpayers can't avoid the transfer pricing rules. Rather, it affects the interaction of the transfer pricing rules with other provisions of the Income Tax Act.

It could be contrasted with a consultation that was announced as part of budget 2021, which the question may relate to. In that, the government announced an intention to consult on the transfer pricing rules more broadly so that they would apply appropriately, particularly respecting an adverse decision that went up to the Supreme Court in the context of transfer pricing. The idea behind that would be to improve the operation of the transfer pricing rules more generally, so that they apply to prevent tax avoidance and are applied appropriately in that respect. However, this measure here is much more targeted and is more of a clarifying measure.

There are two components. The first, as I said, deals with the interaction between the transfer pricing rules and the other rules in the act. Transfer pricing is essentially the price that is charged between entities across borders in a multinational group, and the rules attempt to ensure that those prices reflect prices that would have been charged at arm's length. When the transfer pricing rules apply, they can apply to recharacterize or change the amounts paid. For example, under the transfer pricing rules, a payment of interest could be changed from \$100 for one that is not arm's length, down to \$60 for arm's length.

Interaction questions were arising with other rules in the Income Tax Act that would have similar effects. For example, the thin capitalization rules could say that, if you pay \$100 of interest, only \$40 of that is going to be deductible. The question had arisen as to which comes first. These rules provide clarity to both taxpayers and tax administrators that the provisions in the transfer pricing rules are to be applied first to set the appropriate prices, and then the rest of the rules in the act apply as they should.

The other component of it just relates to the normal reassessment period definition and the fact that it talks about transfer pricing, but it uses the wrong definition of transaction. All the transfer pricing rules are based on transactions. It has a special definition, and this ensures that, when they're talking about transactions and transfer pricing, they're using the correct definition. It's more clarifying in that respect. The actual consultation regarding the effectiveness of Canada's transfer pricing rules was announced in budget 2021 and is still to come in the coming months.

You'd asked as well about the cross-border security lending arrangement rules. Those are integrity measures, for the most part, that are intended to ensure the appropriate application of the cross-border securities lending arrangement rules. They are to ensure that companies cannot enter into what are colloquially called broken securities lending arrangement transactions in order to avoid the application of a dividend withholding tax through cross-border derivative financial instruments.

I say they're generally integrity measures, but there is an aspect of it that ensures that dividend withholding tax will not apply when the underlying shares are shares of a non-resident company that would not normally attract a Canadian dividend withholding tax. There is a relieving aspect to them, but they are entirely to make sure that the securities lending arrangement rules under the act work appropriately.

• (1745)

**The Chair:** Is that okay, Gabriel?

[*Translation*]

**Mr. Gabriel Ste-Marie:** Thank you for your responses, but I would like a clarification.

So in terms of transfer pricing, there aren't any figures on additional revenue or on the number of companies. In terms of what part 1(y) prevents, there aren't any figures other than the ones provided in the 2021 budget.

There aren't any more specific figures on transfer pricing measures and on impediments for non-resident taxpayers in part 1(y). That's my take-away from this.

[*English*]

**The Chair:** Mr. Fast is next and then Mr. Julian. We will take questions on both (x) and (y).

Mr. Fast.

• (1750)

**Hon. Ed Fast:** That was one of the best explanations of transfer pricing I've heard, so thank you, Trevor. It was very well done.

I have one question on that. It's a broader question that goes beyond transfer pricing.

For the anticircumvention measures that the budget contains, what revenues are they expected to raise collectively? Has a calculation been done on that? Transfer pricing is just one small element of that, presumably.

**Mr. Trevor McGowan:** For each of the measures announced in the budget.... This transfer pricing measure was in the 2019 federal budget. A number of other integrity measures were announced in the 2021 federal budget.

Each of the supplementary annexes that accompany the budget provides a table of the expected revenue increases or decreases associated with each measure. That's probably the best place to look.

**Hon. Ed Fast:** Can you give me a ballpark figure? You must have an idea of what this looks like. Are we talking about billions? Are we talking about hundreds of millions?

**Mr. Trevor McGowan:** For this transfer pricing measure, no revenue was booked because it was a clarifying amendment. However, in terms of the integrity measure, the international integrity measures announced as part of budget 2021.... I don't have that information at my fingertips as they're not included in this bill, but those amounts would be reflected in the budget's supplementary information tables.

**Hon. Ed Fast:** Okay. I will look at those tables. Thank you.

**The Chair:** Thank you, Ed. That completes your round.

Peter Julian.

**Mr. Peter Julian:** That was exactly my question regarding the increased revenue for tightening the definition and other integrity measures.

We have a lot of officials here, so I'll ask you to supply the figure in the budget, if you could, please.

**The Chair:** Do you mean in the schedule in the budget?

**Mr. Peter Julian:** Yes.

**The Chair:** If somebody could find that, come back and give it to us when you find it. I have the budget here, but I will not look for it. Somebody can think about that in the meantime, and if they have a budget document handy, they can come back to us with it.

We'll turn to (z), in part 1. We covered (y) in that round. Its summary says, it is "allowing for the electronic delivery of requirements for information to banks and credit unions".

Are there any questions or any extra points people want to raise on that? All right.

We'll move to (aa), in part 1. The summary says it is "improving existing rules meant to prevent taxpayers from using derivative transactions to convert ordinary income into capital gains".

Gabriel.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Thank you, Mr. Chair.

Again, do you know how many people are affected, and do you know the estimated additional revenue?

[*English*]

**Mr. Trevor McGowan:** When the character conversion transaction measure was announced in budget 2019, there were no specific numbers booked. It was largely a preventive measure based upon a new market development.

The character conversion transaction rules were introduced back in budget 2013 to prevent the conversion of ordinary income into capital gains. In 2019 and in the lead-up to 2019, a new second generation or third generation of this planning was first developed. This measure was introduced at the earliest opportunity in order to prevent the proliferation of that type of new planning.

I don't see any revenue booking associated with the character conversion transaction measures from budget 2019, but it would have prevented the proliferation of this type of tax planning strategy.

• (1755)

**The Chair:** We may have to go to Ed Fast on that one, Trevor, because he was sitting around the cabinet table then. Maybe he has the answer.

Pat Kelly, you're up.

**Mr. Pat Kelly:** I wonder if Mr. McGowan could give us, if it's possible, a simple example of the type of garden variety scheme that this measure and maybe its previous iterations that currently exist are designed to prevent.

**Mr. Trevor McGowan:** I would be happy to do so. I will try to make it as clear as possible.

As I said, it attempts to transform ordinary income into half-tax capital gains. Let's say I want to invest in a bond portfolio and I'm going to earn so much interest income. That interest income is fully taxable to me as ordinary income. Even if I own it through a mutual fund trust, it's coming to me and I'm paying the full amount of tax on it.

What the strategy would do is that a mutual fund trust would be set up. It would acquire a bundle of Canadian securities. These are shares of publicly listed Canadian companies, usually. It would agree to sell those shares in five years' time to a counterparty. The price for those shares was going to be determined by the return on the bond portfolio. In that way, the fund was able to get an economic exposure to the return on the bond portfolio, which, if held directly, would be fully taxable as ordinary income. However, when they sold those Canadian securities, they'd claim them as capital gains and pay tax at half the normal rate.

That's generally how this planning works.

**Mr. Pat Kelly:** Thank you for adding that to the record.

**Mr. Trevor McGowan:** I suppose I should add that this was a description of the first generation planning. This third generation planning exploited an exclusion in the character conversion rules that was intended to apply in the case of a mergers and acquisitions style of transaction, where you're buying shares at some point in the future because you're buying a company. This new planning attempted to use that exclusion in order to obtain the same results.

**The Chair:** Thank you to all.

Let's go to part 1(bb). The summary says it is "extending to a wider array of eligible automotive equipment and vehicles the 100% capital cost allowance write-off for business investments in certain zero-emission vehicles".

Are there any questions there?

Ms. Dzerowicz.

**Ms. Julie Dzerowicz:** I have a quick question.

Is this just to accommodate the updated CUSMA, the updated agreement with the United States, or is this as a result of something else?

**Ms. Maude Lavoie:** This is a measure that would extend an accelerated capital cost allowance that was announced in budget 2019. The one that was announced in budget 2019 was for those businesses that purchased electric cars, plug-in hybrid vehicles, vehicles using hydrogen or those types of vehicles. This measure would extend that to off-road type of equipment. For instance, if you're in the mining sector with electric excavators, you could benefit from this incentive. It would be Zambonis and golf carts and all types of fully electric equipment used by businesses to extend the environmental benefits of that measure.

It's not related. That's the quick answer.

**Ms. Julie Dzerowicz:** Thanks so much.

**The Chair:** It's a good explanation just the same, Maude.

**Ms. Julie Dzerowicz:** Yes.

**The Chair:** The summary of part 1(cc) says it is "ensuring that the accelerated investment incentive for depreciable property applies properly in particular circumstances", and I'll go to (dd), which is "providing rules for contributions to a specified multi-employer plan for older members." Are there any questions on those two?

With that, we are at our extended deadline, so we have completed part 1.

Thank you, everyone, for your co-operation in getting through this section. There were a lot of good questions and a lot of well-documented answers.

With that, thank you very much to our witnesses for coming and for your answers today. We shall adjourn until Monday.

The meeting is adjourned.









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