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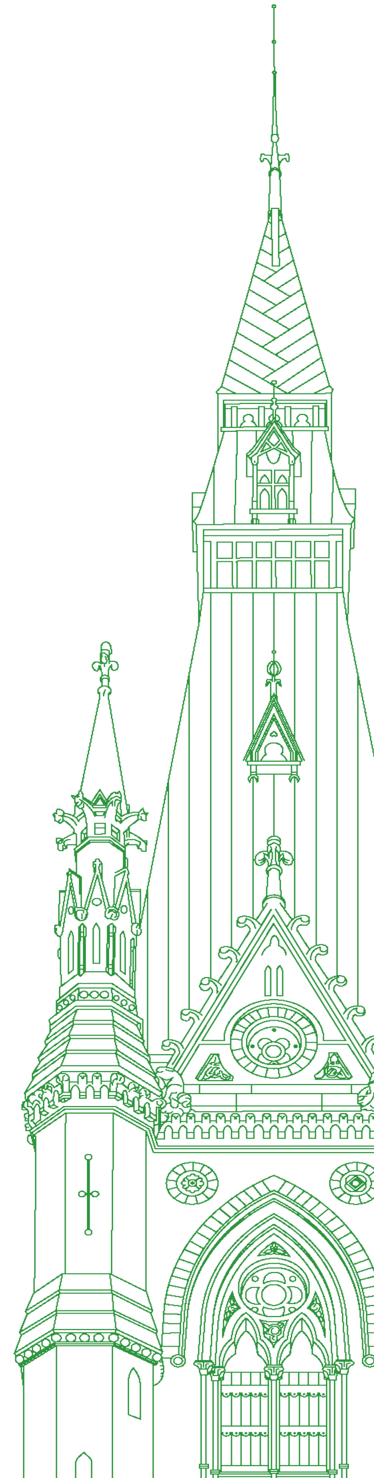

Chair: Mr. Peter Fonseca

Standing Committee on Finance

Tuesday, June 18, 2024

• (1100)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): I call this meeting to order.

Welcome to meeting number 150 of the House of Commons Standing Committee on Finance.

Pursuant to Standing Order 108(2) and the motion adopted on Thursday, June 13, 2024, the committee is meeting to discuss the changes to capital gains and corresponding measures announced in budget 2024.

Before we begin, I'd like to ask all members and other participants in the room to consult the cards on the table for guidelines to prevent audio feedback incidents.

Please take note of the following preventative measures that are in place to protect the health and safety of all participants, including the interpreters. Only use a black, approved earpiece. The former gray earpieces must no longer be used. Keep your earpiece away from all microphones at all times. When you're not using your earpiece, place it face down on the sticker placed on the table for this purpose. Thank you for your co-operation.

Today's meeting is taking place in a hybrid format pursuant to Standing Order 15.1.

In accordance with the committee's routine motion concerning connection tests for witnesses, I'm informing the committee that all witnesses have completed the required connection tests in advance of the meeting and are ready to go.

I would like to make a few comments for the benefit of the members and witnesses.

Please wait until I recognize you by name before speaking. For members in the room, please raise your hand if you wish to speak. For members on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking orders best we can. We appreciate your understanding in this regard.

As a reminder, all comments should be addressed through the chair.

I'd like to now welcome our witnesses. We do have a full house. We have six witnesses before us.

[*Translation*]

We are hearing from Professor Luc Godbout, chair in taxation and public finance at the Université de Sherbrooke, who is appearing as an individual.

[*English*]

As an individual, we have Larry Stefanec, plumber and business owner.

From the Canadian Labour Congress, we have Bea Bruske, president. Joining President Bruske, we have senior economist D.T. Cochrane.

From Canadians for Tax Fairness, we have researcher and policy analyst Silas Xuereb.

From Centre for Future Work, we have economist, director and no stranger to this committee, Jim Stanford, joining us.

From the Wheat Growers Association, we have its president, Gunter Jochum.

Now we are going to hear from the individuals. We're going to start with Professor Godbout, please, for five minutes.

[*Translation*]

Prof. Luc Godbout (Professor, Chaire en fiscalité et en finances publiques, Université de Sherbrooke, As an Individual): Good morning, everyone. I'll be quick.

The increase in the capital gains inclusion rate announced in budget 2024 will take effect next week. For individuals, there is a $250,000 threshold before the change applies. For corporations and trusts, the increase in the inclusion rate to 66.67% will apply on the first dollar of realized capital gains.

The question for me is not so much whether capital gains taxation reform is relevant. I believe that, in the long run, the advantages outweigh the disadvantages and that the implementation of the reform must be encouraged. That said, I would like to take a step back with you to better assess the situation.

This is not the first time changes have been made to the capital gains inclusion rate, nor is it the first time such changes have taken place during the year. How have these changes been made in the past? Without going too far back, I would remind you that, in 1971, we still had six months between the introduction of the bill that led to the taxation of capital gains and its implementation on January 1, 1972. When the inclusion rate changed in 1988, it was announced six months in advance when a white paper on tax reform was tabled, but it took two weeks for the tax change to come into effect so that a notice of a ways and means motion could be tabled. In addition, the bill was introduced after the change came into effect.

That is somewhat similar to the current situation. Obviously, from a good practice perspective, it would have been desirable for the legislation relating to the changes to be made available to practitioners as early as the April 2024 budget. It would have made their jobs a lot easier and, above all, it would have helped taxpayers better plan their affairs. Even today, some taxpayers are struggling to understand the changes and get advice, as tax practitioners are currently overwhelmed.

That said, I have identified four areas of concern that I would like to discuss with you. Obviously, since the notice of a ways and means motion was tabled only last week, other issues will surely come up later.

The first concern is flexibility. It would be possible to give taxpayers the choice of realizing capital gains on paper before June 25, with no real disposition—that is, through a deemed disposition. I made that proposal, which was also made by the Joint Canadian Bar Association/Canadian Professional Accountants of Canada Taxation Committee.

Some will say that today, June 18, is too late to give such a choice to taxpayers. I disagree because it's never too late to do the right thing. Providing such a choice would give taxpayers time to see if it would be in their interest to trigger a capital gain before the change comes into effect. This choice would be transmitted at the same time as the tax return—in other words, in early 2025. So people would have more time to incorporate the change and it wouldn't fundamentally change the new rules, which would still come into effect after June 25. Therefore, providing such a choice would have the advantage of avoiding hasty actions. It would also give taxpayers a fairer chance. Some assets may be more difficult to dispose of than others before June 25. Selling shares on the stock market is easy to do, but selling a building is not as easy. So I think providing that choice would be advantageous.

The second issue of concern is the unintended retroactive effect that emerges from the analysis of the notice of a ways and means motion. I have consulted tax experts who are members of the Association de planification fiscale et financière and work in Quebec. Because of the way the motion is written, transactions in capital dividend accounts, such as a dividend paid, done in January, before June 25, or even before the budget was presented, could be impacted. The way the year of that June 25 is taken into account could apply to a capital dividend account. I think it is undesirable and I think it is even unwanted. I hope that the next version of the bill will eliminate that element.

My third concern stems from the fact that this is the first time that a $250,000 protection has been granted to individuals. There will no longer be a perfect symmetry between the taxation of capital gains for individuals and for corporations. This creates a problem of overtaxation, when an attempt is being made to be neutral with regard to corporate and personal revenues. I am not saying that companies should be offered $250,000 in protection as well, but I would point out that this leads to a bigger over-integration problem after June 25.

● (1105)

In closing, since time is running out, I will address one last point. The $250,000 in protection provided to individuals should be indexed. If the tax schedule is indexed and the lifetime capital gains exemption is indexed, the $250,000 amount should be indexed for subsequent years.

With that, I thank you for your attention, and I remain at your disposal for questions and discussions.

The Chair: Thank you, Professor Godbout.

[*English*]

As an individual, we have Mr. Stefanec, please.

Mr. Larry Stefanec (Plumber/Business Owner, As an Individual): Thank you.

Hello, my name is Larry Stefanec. I'm 50 years of age and work as a plumber and a business owner in Winnipeg, Manitoba. Thanks for allowing me to be a witness at this committee.

I do not reside in a Liberal riding currently. However, I did reach out to the elected Liberals in Manitoba and my elected MP, Marty Morantz. Marty returned my call and although he did not promise I would be a witness, he directed me to this forum to share my thoughts.

Thanks very much. It was nice meeting you, Marty.

I see that Terry Duguid is online, which is great because he's a Manitoba Liberal. Hopefully, I can talk to him sometime after this meeting.

I'm having a hard time understanding why the current capital gains tax is being increased. I started my career in 1992 at the age of 19 as an apprentice plumber working in B.C. I was a journeyperson by 1996. I continued to work and evolved into a supervisor and a manager of a large company until relocating to Manitoba in 2003. Once in Winnipeg, I found employment at a small, six-person service company that I ended up purchasing in 2010.

Since then, we have slowly grown and currently employ and support 20 people and their families.

Being a worker in the private sector all my life, I soon realized two main things. The harder I work, the better future I would have. Nobody is helping me and my family, so I'd better figure out things for myself, including savings and investments.

Part of this future pension investment, by design, was to look at the current tax implications in order for me to be financially safe into my retirement. This was not without risk. I had to purchase a business, hire employees, manage my finances and balance a family.

I have been lucky enough to align myself with professionals smarter than me to design a structure of investment so I can create my own pension plan. I understand that we all have to pay our share. I could live with a 50% capital gain structure, but now I hear it's going up to 66%, for no reason other than the government needs more money. I'm just a regular, everyday person who happens to be a plumber running a business and trying to live a good life. Why am I being penalized for hard work?

I just do not understand how the current Liberal government got so out of touch with the people. I sit as a board member on the Mechanical Contractors Association of Manitoba. I also belong to a local entrepreneurs group. There's chat around the table. Why can't the government realize that we're not rich people? I'm a small, hard-working business owner just living next door.

I have to ask the question to myself, why did I work so hard? Why did I risk it all to buy a business? Why didn't I stay a worker, sole proprietor? That way I would be somehow treated differently. What would be the incentive going forward to the younger generation?

If I was a coach or a mentor to a younger, up-and-coming generation, I would have to say to them to work harder and you can pay more taxes because the government isn't smart enough to make things more efficient, trim waste and self-innovate. You should look elsewhere to make sure you're living in a place that respects your hard work and a government that realizes an honest day's pay for an honest day's work.

At the end of the day, I really think the people we elected should rethink this decision and roll it back. I am frustrated. I feel that this is a quick shot from the hip, with no thought for regular, everyday people like myself.

● (1110)

Thank you for listening. I really hope this makes a difference.

The Chair: Thank you, Mr. Stefanec.

Now we will hear from the Canadian Labour Congress and President Bruske, please.

Ms. Bea Bruske (President, Canadian Labour Congress): Thank you so much, Chair and committee members.

My name is Bea Bruske. I'm the president of the Canadian Labour Congress. The CLC represents national and international unions, with more than three million members from coast to coast to coast in virtually every sector and industry in this country. I appreciate the opportunity to speak on behalf of them and to let you know that the CLC strongly supports the government's decision to more fairly tax capital gains.

Most Canadians assume that a dollar of income is a dollar of income, whether you earned it at a job or through a productive investment, but that's not the case when it comes to taxes. When you earn your income by flipping burgers 100% of that income is taxable, but when you earn your income by flipping stocks only 50% of that income is taxable. We don't think, quite frankly, that's fair. How can anyone justify that a dollar earned through your hard work should be taxed at a higher rate than a dollar reaped through ownership and investments?

Let's look at a real-life example. My first job was at a grocery store. In 2020, in the toughest days of the pandemic, before workers even knew what they were dealing with, they had to go to work at grocery stores so that we could keep on eating, while many of us had the opportunity to work from home. Those grocery store workers, whom we are grateful for, bravely working on those front lines, for a few months in 2020 got an extra $2 per hour in “hero pay”. Every single cent of that dollar of hero pay was taxed. That same year, a Canadian billionaire bought and sold shares in one of our country's largest forestry companies, netting capital gains of more than $9 million. Only half of that windfall was taxable. That billionaire pocketed $4.5 million tax-free. That's $4.5 million in tax-free capital gains. That's more money than the average worker will see in their lifetime.

When we put ourselves in the shoes of the average working person for a minute, we have to understand that is not fair. Canadians work hard and they pay taxes on their earnings. Those taxes that come off our paycheques support the schools for our kids, health care for ourselves and our loved ones, roads and public transit, parks, libraries and every other vital public service that we rely upon. Working people want and need strong, good-quality public services. We deserve safe, healthy and vibrant communities, and we are very much prepared to do our part to support that. What we insist on, however, is that everyone pay their fair share, that income is treated as income whether you're taxing a worker flipping burgers for a living or a CEO flipping stocks to make millions more.

Over the past few years, working people in Canada have struggled to keep up with the rising cost of living, and they know perfectly well that not everybody else is struggling as well. Canadians can see corporate CEOs and wealthy investors profiting from price gouging, and it's extremely frustrating to know that CEOs are ripping off ordinary people while getting preferential tax treatment on top of it. To know that our tax system taxes capital gains more lightly than workers' wages is infuriating. For many workers, the unfairness in the tax system adds insult to injury.

Opponents of this important but modest tax change are trying to distract with stories about family farms and family doctors. Make no mistake that the vast majority of untaxed capital gains are collected by people like the billionaire I mentioned earlier. Canadians know that the rich do not pay their fair share of taxes, and the data proves that. A recent study by the Canadian Centre for Policy Alternatives shows that, once all forms of income and taxes are accounted for, those receiving the top 1% of income in this country pay a lower tax rate than those in the bottom 99%. The treatment of capital gains is an important reason for that unfair outcome. For working people it's very obvious that we need fair tax rules. Those who have the means need to pay their fair share. Fair taxes for the ultrawealthy are essential for making life more affordable for everyone else, and that's why we support the changes to the capital gains inclusion rate.

I urge all parliamentarians to ask themselves a simple question: Do you think it's fair that a worker flipping burgers is taxed on 100% of his or her income while a CEO, making millions from flipping stocks, is taxed on only 50% of that income? If you don't think it's fair, then you need to support the small measure of tax fairness. If you do think it's fair, then please do not tell me that you are on the side of working Canadians.

Thank you, and we're pleased to answer questions.

● (1115)

The Chair: Thank you. Ms. Bruske.

Now we hear from Canadians for Tax Fairness, Silas Xuereb.

Mr. Silas Xuereb (Researcher and Policy Analyst, Canadians for Tax Fairness): Thank you, Mr. Chair.

Canadians for Tax Fairness welcomes this important step to make our tax system more fair. These changes to capital gains taxation will lessen inequality and raise revenue that can be used to fund important public services, new affordable housing and a just transition.

As you're all aware, currently only 50% of capital gains is subject to income tax, while in contrast, 100% of income from employment is taxable. As the Carter commission noted, this differential taxation leads to, “an enormous incentive for the taxpayer to try to transform 'income' gains into 'capital' gains.”

This creates uncertainty for taxpayers and inequities in the tax system. This measure would be a step towards closing this loophole.

Who currently benefits from the exclusion of 50% of capital gains from taxation? According to data from the Longitudinal Administrative Databank, over half of personal capital gains accrue to the top 1% of market income earners each year and over one quarter of capital gains accrue to the top 0.1%. This means that the top 1% of income earners benefit over 250 times more from the current reduced inclusion rate on capital gains than the average Canadian.

As Ms. Bruske mentioned, a recent report we co-authored with the CCPA showed that when all taxes are taken into account, including sales taxes, these top earners have the lowest tax burden of all Canadians, in part due to this capital gains exemption.

This measure also affects the inclusion rate on corporate capital gains, which will be increased to two-thirds, and this measure will largely affect the largest corporations. Among non-financial industries, real estate corporations earn the most capital gains. This was over $23 billion in 2022, so this measure will reduce the incentive for large firms, such as real estate firms, to use their income for passive investments, incentivizing instead investments in new jobs, buildings, machinery and equipment.

Of course, this measure is not new in Canadian history. From 1988 through 2000, the capital gains inclusion rate was at least two-thirds, and for most of this period, it was actually 75%. In contrast to concerns being raised that raising the rate could decrease productivity, there was no drop-off in productivity or business investment during this previous period with a higher capital gains inclusion rate. In fact, relative to the early 1980s, business investment actually increased during the period with a higher capital gains inclusion rate. Moreover, a recent report showed that rates of labour productivity growth, which are the subject of much discussion today, were higher during the 1990s than they are today, under the lower capital gains inclusion rate. That is not to say that this change is going to increase investment or productivity, just that there is little relation between capital gains rates, tax rates, business investment and labour productivity.

On the other hand, we know that the revenue raised through this measure can be used to fund much-needed public investments in housing and a just transition. Award-winning economist Mariana Mazzucato has convincingly shown over the past decade that targeted, mission-driven public investment in sectors like renewable energy actually incentivizes private investment in the same sectors. This measure will allow us to democratically decide how and where to direct these much-needed investments.

We also know that this measure will, at least to a limited extent, work to combat income inequality, given its targeted nature at top earners. Combatting inequality is an important end in and of itself. There is even evidence that income inequality is linked to lower productivity since low wages can make workers unmotivated. Moreover, decades of research have shown that across countries, higher inequality is correlated with lower life expectancy, higher homicide rates and more school bullying, among other negative outcomes. We need to remember that the economy is just one part of the larger society we live in.

More new work needs to be done to address income inequality in Canada and ensure that resources are more equitably distributed, not only through the tax system, but through measures that affect the pre-tax income distribution. However, this change to capital gains taxation is one small step towards improving tax fairness and reducing inequality without a discernible effect on investment.

Thank you.

● (1120)

The Chair: Thank you, Mr. Xuereb.

Now we'll go to Centre for Future Work and Mr. Jim Stanford, please.

Dr. Jim Stanford (Economist and Director, Centre for Future Work): Thank you, Mr. Chair and other members.

The 2024 federal budget had three noteworthy features, in my view. First, it allocated modest new resources to several important initiatives, including the school lunch program, affordable housing measures, the rollout of the dental care program and the new disability benefit.

Second, the budget reaffirmed its commitment to previously stated fiscal targets expressed in terms of a falling ratio of debt to GDP.

Third, in order to make those first two add up, the budget also contains some revenue measures, the most important being the capital gains reforms we're discussing today. I mention this because it's as important, in my view, to consider what the new fiscal resources are being used for as to consider how they are raised. Those new programs will make Canada a bit fairer and healthier. The fact that they will be funded with new revenues collected primarily from high-income Canadians—by narrowing a lucrative and unfair tax loophole—makes this combination of tax reform and the new programs the revenue will be used for a double-barrelled boost for fairness in Canada.

From my perspective as an economist, let me briefly highlight two important aspects of the capital gains reform. The first is the very unequal distribution of the gains and associated tax savings, and the second is the lack of connection between capital gains taxation and business capital spending.

First, there is no other tax loophole more closely targeted at high-income Canadians than the partial inclusion of capital gains. In 2021, the latest year of Revenue Canada data, 61% of taxable capital gains were claimed by Canadians with total income over $250,000 that year. That group makes up only 1.5% of tax filers, yet it claimed 61% of all the taxable capital gains and an even larger share of the tax benefits from partial inclusion, since they receive higher marginal tax savings than other Canadians. Of that group of high-income tax filers, 56% reported capital gains, on average, of $180,000 each. That was just the taxable part.

In contrast, seven-eighths of tax filers reported income below $100,000 that year. Fewer than 10% of them reported any taxable capital gains at all, most of them very small, and combined, they received just 15% of all capital gains and an even smaller share of the tax benefits. Capital gains are concentrated precariously among the highest-income households, as are the favourable tax benefits offered by the current tax system.

The vast majority of Canadians will not be affected directly by this change. Most do not receive capital gains at all, and most of those who do receive gains well under the threshold for the higher inclusion rate. However, those Canadians will benefit from the new programs I mentioned that these revenues will help fund.

Second, some argue that reducing capital gains exemptions will discourage business capital investment, but the economic evidence shows no connection between capital gains exemptions and rates of business investment in new capital, research or productivity. Canada's business investment, especially in machinery and equipment, has been declining since the 1990s. Business and capital taxes have been significantly reduced in that same time. In the 1990s, when the capital gains inclusion rate was 75% and the federal corporate tax rate was 28%, Canadian business invested 5.6% of national GDP in new machinery and equipment. In the last 10 years, with the inclusion rate at 50% and a 15% corporate tax rate, investment averaged 3.5% of GDP, two full percentage points of GDP lower. Research and development spending has also declined in the same period, as has productivity growth. Many complex factors determine business investment, and reversing this decline is an urgent economic priority. I have published my own research on the causes and consequences of slow investment.

It is clear that tax factors are, at most, a second-order determinant of business investment, and it is not credible to blame taxes for the poor performance of Canadian business investment in recent years. Indeed, in some ways, excessively favourable capital gains taxation can undermine corporate investment spending by distorting the choice between different capital structures and encouraging cash flow stripping from corporations.

In sum, this reform is important for improving the fairness of Canada's tax system, reducing distortions that encourage tax avoidance and underinvestment and, just as importantly, helping fund new programs from the federal government that will make a positive difference in the lives of millions of Canadians. I recommend the passage of this legislation.

Thank you again for the opportunity to appear.

● (1125)

The Chair: Thank you, Mr. Stanford.

Now we'll hear from the Wheat Growers Association and Mr. Jochum, please.

Mr. Günter Jochum (President, Wheat Growers Association): Thank you, Chair and committee members. I'm grateful for the opportunity to appear before this committee.

My name is Günter Jochum. I farm about 20 minutes west of Winnipeg with my wife and daughter.

I'm also president of the Wheat Growers Association. We are a volunteer-based farm advocacy organization dedicated to developing ag policy solutions that strengthen the profitability and sustainability of farming and the agricultural industry.

The average age of a Canadian producer is over 55 years old and over 98% of those farms are owned and operated by Canadian farm families. We are very concerned about the changes to the capital gains inclusion rate that was announced through budget 2024. While we acknowledge that the proposed increase to the lifetime capital gains exemption to $1.25 million recognizes the accelerating appreciation of farmland values, we are concerned that the introduction of a two-thirds inclusion rate on capital gains makes it more expensive for young farmers, like my daughter Fiona, to take over the family farm.

As farmers retire over the next decade, many of these farms will be transferred to the next generation. While this will secure retirement for thousands of farmers, the transfer will also incur capital gains. Under the proposed changes, nearly every grain farm across Canada will be impacted by a two-thirds capital gains inclusion rate. This is because the $1.25 million lifetime capital gains exemption is too low to account for rapidly appreciating farm values. Many will have already expended their exemption by the time they sell their farm, meaning that most farms will have gains subject to the two-thirds inclusion rate.

Furthermore, most Canadian grain farms are structured as corporations and do not benefit from the 50% inclusion rate for the first $250,000 of capital gains. When I consulted my tax accountant, he estimated that I will pay 30% more taxes. These numbers are staggering. If the capital gains inclusion rate is increased for family farms, it will impose a substantial tax burden on new farmers, such as my daughter Fiona, at the beginning of their careers.

Budget 2024 emphasized fairness for every generation, yet the proposed changes to capital gains exacerbate farm transfer challenges and make these transfers more expensive for the next generation of young farmers.

Furthermore, budget 2024 described that differences in taxation rates between income earned from wages, capital gains and dividends currently favour the wealthiest among us. This policy inadvertently targets farmers who produce food to meet domestic and global demand. As small businesses that are family run, they do not represent the wealthiest among us.

General succession planning is a cornerstone in the agri-food sector, particularly in farming. Currently, fewer than 1% of Canadians are involved in farming—a percentage that is likely to decrease over time. By making farming financially less attractive, the number of farms will continue to dwindle, leading to greater consolidation and fewer family-owned farms.

Farmers are known for their ingenuity and entrepreneurial spirit, and many have accumulated significant assets. However, farmers are often asset-rich and cash-poor, meaning they possess valuable assets such as farmland, quota, equipment and livestock, but lack liquid cash. This becomes especially challenging with changes to the capital gains taxes. Often, farmers sell a portion of their land or assets to facilitate intergenerational farm transfer. They might realize a substantial capital gain, forcing them into difficult financial positions and requiring them to find ways to generate the necessary funds to meet fiscal obligations.

Increased capital gains taxes could complicate estate planning and succession as the tax burden on asset transfers may be higher, which could lead to more family farms being sold off or broken up to pay taxes. All this flies in the face of what budget 2024 calls “fairness for every generation”.

Thank you for your consideration.

● (1130)

The Chair: Thank you, Mr. Jochum.

Now, members and witnesses, we're moving into members' question time. In the first round of questions, each party will have up to six minutes to ask questions.

We're starting with MP Morantz for the first six minutes.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair.

First, I want to thank all the witnesses for being here.

Mr. Stefanec, I particularly want to thank you for being here. It's always nice to have a fellow Winnipegger at committee.

I remember very well when you phoned me. You and I had never spoken before or even met. You phoned me just a couple of days after the budget was tabled.

Is that correct?

Mr. Larry Stefanec: Yes.

Mr. Marty Morantz: Your concern was over the increase in the capital gains inclusion rate.

When you bought your business, you were basically looking for a way to work hard, save for your retirement and make sure you had a secure retirement and life for your family.

Is that correct?

Mr. Larry Stefanec: Absolutely.

Mr. Marty Morantz: You don't have a public sector pension like members of Parliament or high-paid civil servants get.

Is that right?

Mr. Larry Stefanec: No.

Mr. Marty Morantz: Your only source of retirement income is the money you've accumulated in your company. That's right?

Mr. Larry Stefanec: That's correct, yes.

Mr. Marty Morantz: The company owns a building, I think.

Is that right as well?

Mr. Larry Stefanec: Yes. It was part of the purchase.

Mr. Marty Morantz: One thing that I think is inherently unfair.... We heard one of the other witnesses talk about this. It's ironic that the budget was called “Fairness for every generation”, but it's not so fair for your generation.

When you bought your business, you decided to incorporate. The policy the government's putting forward actually excludes corporations from the $250,000 exemption at 50%.

Do you think that's fair?

Mr. Larry Stefanec: Absolutely not. I should have stayed a sole proprietor.

The whole thing is that you plan for the future based on what is current.

I have a problem with people talking about this tax being something.... The one lady talked about billionaires. I'm not a billionaire. I am boots on the ground...a hard-working Canadian. I feel that when politicians talk, they're talking about myself, but when someone's trying to use a narrative to state their case with regard to studies, surveys and reports...I can tell you there are a lot of people in my situation who are your next-door neighbour.

It's frustrating to all heck because when you when you start talking surveys and reports, that tells me you haven't lived my life. I'm sitting here listening to it and it's very frustrating.

● (1135)

Mr. Marty Morantz: I hear you. I'm hoping my colleagues on the Liberal, NDP and Bloc side of this committee are hearing you as well.

One thing that's interesting is that the finance minister made it sound like it wasn't that big a deal. Only 0.13% of Canadians are going to be hurt by the increase in this inclusion rate for the capital gains.

Do you consider yourself to be among the wealthiest 0.13% of Canadians?

Mr. Larry Stefanec: No, definitely not. I'm sitting here working.

Mr. Marty Morantz: Yes.

When it comes time for you to sell your business and your building, on the investments you've saved up for your retirement, you will wind up paying tax at the two-thirds inclusion rate and your plan was based on the 50% inclusion rate.

Do you kind of feel like the rug has been pulled out from under you?

Mr. Larry Stefanec: Well, I feel like everybody in my age category who did an alternate pathway, who didn't work hard to buy a business and gainfully employ people to get ahead, is going to retire before me and I'm going to have to work longer.

You talk about fairness. It's just not fair. To me, it doesn't make sense. I think people have lost touch there. I don't think they really understand how many people like me there are.

Mr. Marty Morantz: Do you feel unfairly targeted by this change?

Mr. Larry Stefanec: I'm not sure I'm targeted; however, I do believe it's unfair. I just think that if they actually knew.... If they wanted to call and talk to me about it, I can explain to them my thoughts and my journey. It just doesn't make sense.

Mr. Marty Morantz: Yes. You're doing a very good job of that right now, by the way, and it really matters.

Now, just out of curiosity, one thing about business people is they're risk takers. You may want to grow your business or have plans to grow your business.

Do you think increasing the price you're going to have to pay to the federal government on your gains is going to make you more or less inclined to make further investments in your business?

Mr. Larry Stefanec: No, it's stifling. It doesn't make sense for me. Why should I put more effort in and take more risk only to pay more taxes? It makes no sense. I don't have an economic background. I don't read reports on a regular basis. I just understand being the person here working hard. I started out sweeping the floors and went all the way up, and it just seems like now.... What did I do that for? I have no words, really.

Thanks very much for listening, everybody. I am open to talking to anybody off-line who is actually making this change if they want to just realize the effect they're having on people and families.

● (1140)

The Chair: Thank you, Mr. Stefanec. We appreciate it, and I'm sure there'll be more questions.

That's the time, MP Morantz.

We have MP Sorbara next, please.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Chair, and thank you to all the witnesses for being here this morning on a very important discussion that we're having.

I'd like to start off with Mr. Stanford.

Jim, welcome to you. In your comments, you spoke of a “fairer” Canada and a “healthier” Canada.

From my understanding, a fairer Canada would mean a tax system that is more neutral and efficient, and a healthier Canada would speak to the choices we've made as a government to invest in dental care, pharmacare, early learning, national $10-a-day child care, the Canada child benefit and other programs. That, to me, means a healthier Canada.

I want you to comment on those two themes that you brought up in your remarks.

Dr. Jim Stanford: I'm glad you picked up on those two words. I chose them carefully for that exact reason.

We aren't just discussing a tax measure in isolation. The purpose of our tax system is to fund the government's ability to sustainably support the programs that the government delivers. The additional revenues that will come from this reform and how we treat capital gains are clearly intended to support the additional program initiatives that were also announced in the budget. I think several of those are very important, both for a stronger economy and a healthier one, as you note.

School lunches is an example. Canada is one of the only industrial countries in the world that provides no assistance for school lunches, particularly for families with low incomes. That would clearly improve both physical and mental health.

The dental care program, which is rolling out, obviously with the leadership of your NDP colleagues, is clearly going to improve health among older Canadians and lower-income Canadians. The reports that we're receiving from millions of people signing up for that program indicate clearly that it's meeting an unmet need. We could say the same thing about the disability benefit and some of the affordable housing measures, etc.

Those programs are associated with revenue flows and expenses that are, I think, modest in the grand scheme of the federal budget and the overall economy, but they are important. In order to meet the government's fiscal targets at the same time, they have to be funded. In that regard, the connection between the two is important.

Mr. Francesco Sorbara: I want to put on the record, as an economist and as someone who spent over 20 years working both on Wall Street and on Bay Street, that I look at the change in the capital gains inclusion rate as the right thing to do. The IMF has stated, just to put this on the record, "The...inclusion rate improves the tax system's neutrality with respect to different forms of capital income and is likely to have no significant impact on investment or productivity growth." Following that, you can read the remarks from the University of Toronto's Michael Smart, a professor of taxation economics.

I've often argued that we needed to change or do away with a thing called "surplus stripping". It's basically a tax avoidance strategy where folks take advantage of the differential tax rates in our system. A tax system needs to be neutral, efficient, fair and progressive. This change in the capital gains inclusion rate, not the effective tax rate, moves us in that step. For a government showing responsible leadership, this is the right thing to do from a tax system...to make it more neutral, efficient, fair and progressive and to help middle-class Canadians and seniors. Two million seniors have signed up and been approved for our dental care program, and more than 200,000 have gone to see the dentist. It provides for pharmacare, diabetes medication, contraceptives for women, child care, the national food benefit, things that Canadians need and use every day.

I would like to go to Mr. Stefanec next.

Thank you for opening your business. Thank you for being in the trades. My understanding is that you're in the plumbing business. In Canada, we have a small business tax with a very favourable rate of 9% that small businesses enjoy. That is something we reduced from 11% to 9% in the early part of our mandate.

In addition, with regard to a corporation, you'll have different forms of income in your corporation. You'll have interest if you invest in that, as well as dividends. You'll also have the opportunity to use the registered retirement savings plans and TFSAs for your retirement.

I just wanted to confirm whether you have used an RRSP program or a TFSA program to also fund your retirement.

● (1145)

Mr. Larry Stefanec: As a small business owner, I basically look at how things work out at the end of the year. If there is money left over, then it's usually reinvested. However, a small portion would be put towards retirement.

On the personal side, because it's a corporation and I'm an employee of my business, like everybody else, I pay my taxes under my bracket. Basically, I'm able to use that for RRSPs, provided that my family is taken care of and that all the bills are paid. It's probably no different than yourself or what have you. The only thing is that I'm not a public servant. It's all private. That's all.

Does that answer your question?

Mr. Francesco Sorbara: Yes. You've done a great job of answering the question.

I wish to thank you for being here. I appreciated your testimony, but we really need to understand that small business corporations in Canada have a tax rate of 9%. When you're running a corporation and you want to pull money out of the corporation at the end of the year, then you make your decisions about investing in your RRSP, investing in your TFSA or reinvesting in your business and growing it. Of course, I love to hear about that as well.

The Chair: Thank you.

We're going to go now to MP Ste-Marie for questions.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): Thank you, Mr. Chair.

I would like to welcome all the witnesses and thank them for being here.

The topic of today's meeting is a topic we want to study carefully. So we denounce the fact that the measure will come into force next week while the bill will not be studied until next fall. We don't even know when we'll be able to study it in committee. This is not the right way to do things, even though Mr. Godbout reminded us that it has been done in the past.

I also find it quite paradoxical that, in the past, the Conservative Party raised the inclusion rate to 75% and the Liberal Party lowered it to 50%. The roles seem to be reversed this time.

Mr. Godbout, thank you for being here.

It is often said that, for capital gains, an inclusion rate of less than 100% is chosen for more fairness, in order to fight inflation. What do you have to say to that kind of an argument? What rate would make that fairness possible, from that point of view?

Prof. Luc Godbout: It is said that preferential treatment should occasionally be given to capital gains, since a portion of inflation is part of the sale price. That's true. It is less true, however, if the sale is only made after one or two years. However, it will definitely occur if the holding time is significant.

The advantage is that the capital gain is taxed only on disposition. Wage earners are taxed on their pay every two weeks, whereas the person making a capital gain can wait, or even plan, for example, by spreading it out over two years. So the inflation portion can be offset by the fact that the gain is carried forward over time.

That said, measures such as those that apply to principal residences could have been included, meaning that, if they are sold within the first 12 months, the proceeds of the sale do not benefit from the capital gains exemption on the sale of a principal residence. That way, it could have been established that the inclusion rate remains full on dispositions made in the first 12 months. It's not in the bill, and I don't want to add confusion, but it could have been done. This is the kind of measure that may exist in other jurisdictions.

Mr. Gabriel Ste-Marie: Thank you very much.

A point was discussed around the table a few minutes ago. The government says that this measure will target the wealthiest people, 0.13% of Canadians, which represents 40,000 people. We are concerned that middle-class families selling their property would be among those 40,000 wealthiest people, but only for the year of sale, not the year before or the year after.

I understand that you've already done longitudinal studies on this issue. Do you know what percentage of the people affected in other years would not be part of the 0.13% or 1% of the richest people? Do you have any information on that?

● (1150)

Prof. Luc Godbout: I don't have any exact figures in front of me, but I can give a more general answer. A long-term analysis does indeed show that people are in that group just once, and it is because they sold their property.

In reference to the statistics earlier, Mr. Stanford said it was mostly concentrated among wealthier people. In the year that a farmer sells his farm, statistically speaking, he is actually considered to be one of those wealthier Canadians. That's why the study conducted a few years ago for the Canadian Tax Journal provided some nuance. I cannot tell you what percentage of people, statistically, are in the category of wealthier people just once. I can say however that it is often in the year of their death.

I don't know if this is less important, but this is nonetheless a way of redistributing wealth when properties are passed on to the next generation. Even if there are not many deceased people among taxpayers, they account for a significant share of the gains realized in a given year. Those were also the findings of the study we conducted a few years ago.

Mr. Gabriel Ste-Marie: Thank you very much. The committee will have to look at the information you provided.

Now I would like to talk about the exemptions for SMEs or businesses. The first $1.25 million is excluded from capital gains, and that is indexed. If I understand correctly, there is an additional amount of $2 million for which the inclusion rate is just 33%. From my understanding, that is an incentive for entrepreneurs. That incentive would be for the founding shareholder only, the person who helped found the business. So the other owners of a business that is sold would not qualify for that additional $2 million measure.

We do not have the bill before us, of course, and the government says we will not have the draft bill until the end of July. We can look at it then.

From my understanding, the $1.25 million in addition to the $2 million benefits businesses realizing gains of less than roughly $5 million. I don't know if you have had a chance to examine that and go through the ways and means motion, but I would like to hear your thoughts on that.

Prof. Luc Godbout: Thank you for the question.

This relates to the entrepreneur who is here, Mr. Stefanec. When he goes to sell his business, $1.25 million will already be tax exempt when he sells his shares. If he owns the business jointly with his spouse, $2.5 million would be tax exempt. Tax specialists often multiply the $1.25 million exemption by adding children to the business structure. The amount of that exemption has also just been increased with the announced change to the capital gains exemption rate. It was supposed to be $1 million this year, in 2024, but it will increase to $1.25 million on June 25, as you indicated.

The other incentive measure in Canada is in fact more restrictive because it will apply to business founders only. If people join the company later on, they will not qualify. According to the original wording—I don't know what the final wording of the bill will be—this also prevents adding people who are not really involved in the business, such as children. The rate offered will be half of the capital gains inclusion rate. So if the inclusion rate is 67%, the tax rate will be 33%. So that will be more advantageous than at present.

The Chair: Thank you, Professor Godbout.

[*English*]

We're well over time.

Thank you, MP Ste-Marie.

Now we go to MP Davies.

Go ahead, please.

Mr. Don Davies (Vancouver Kingsway, NDP): Thank you.

This is for Ms. Bruske and maybe Mr. Cochrane, the senior economist for the CLC.

Ms. Bruske touched on this. In April 2024, Mr. Cochrane, you co-authored a report entitled “Canada's shift to a more regressive tax system, 2004 to 2022”, which found that in 2022 the total tax rate for the lowest household income decile—that's the bottom 10%—was 35%, whereas the total tax rate for the top 1% was 24%. Moreover, the report found that the top 5% of Canadians paid a lower rate in 2022 than the bottom 95% of Canadians did, with the top 1% paying an even lower rate.

Can you explain why Canada's tax system imposes a higher total tax rate on the bottom 95% of households than on the top 5%?

● (1155)

Dr. D.T. Cochrane (Senior Economist, Canadian Labour Congress): No, because there's no justification. There is zero justification for that. It's completely contrary to how our tax system is supposed to work. So as to the why, no, I can't answer that.

Mr. Don Davies: How would you characterize that situation?

Dr. D.T. Cochrane: I would say it's incredibly unfair and, frankly, deleterious to every aspect of our society.

Mr. Don Davies: Thank you.

Mr. Jochum, thank you for farming. My grandfather farmed from 1926 to 1960. He was a grain farmer on the border of Alberta and Saskatchewan. Thank you for growing our country's food.

I want to talk to you a little bit about family farms. My understanding is that this budget would increase the lifetime capital gains exemption on the sale of family farms from $1 million to $1.25 million. Are you aware of that?

Mr. Günter Jochum: Yes, I am.

Mr. Don Davies: I also understand that when you sell a farm, you can also benefit from the principal residence deduction, meaning that you can eliminate entirely from capital gains your home plus 1.24 acres. That's completely tax-free. Are you aware of that, sir?

Mr. Günter Jochum: Yes, I am. However, it doesn't always work that way in a family farm transfer. That's what I'm really concerned about. Our daughter came back from working in the agriculture industry, and we're in the process of family farm transfer, and this new tax will add a lot of tax implications.

Mr. Don Davies: That's what I'm trying to explore. I know that when we put assets in joint ownership and then that property passes, it can simply avoid tax and disposition at all. Could you add your daughter's name as a joint owner to the farm and avoid that disposition entirely?

Mr. Günter Jochum: That I'm not sure of. I would have to check that out with my accountant.

Mr. Don Davies: Okay.

Mr. Günter Jochum: We're working on that. I am a farmer, not a tax lawyer.

Mr. Don Davies: Of course, and I appreciate that.

Mr. Günter Jochum: I did call him before this meeting here today, and he said absolutely it would increase my tax burden going forward.

Mr. Don Davies: I have just two other quick questions. I understand—and we'll get into this with another witness—that with stacking if you were passing your farm to three children, each of those children could add cumulatively their capital gains exemptions. Were you aware of that, sir? Maybe you have only the one daughter. Is that right?

Mr. Günter Jochum: No, we have four daughters, but it's only the one daughter who's interested in farming.

Mr. Don Davies: Right, but if you were to transfer your farm to your four children, are you aware that those four people can cumulatively stack their capital gains exemptions? In this case, it would be a total of $5 million of lifetime exemptions.

Mr. Günter Jochum: I was not aware of that. However, spreading it out to non-farming family members, the other kids, is a pretty surefire way of destroying the family farm because—

Mr. Don Davies: I'm not suggesting that. I'm not suggesting it for your personal situation. I'm talking about just the structure of it.

Finally, I don't know if you're aware, but when capital gains were imposed or brought into this country in 1972, the rate was 50%. In 1988, the Mulroney Conservative government raised it to 66.6%, and in 1990 they raised it again to 75%. Today this proposal will actually bring it back to the 50% rate that still was in place in 1972, but raised to 66.6% only on that amount over $250,000.

Are you suggesting, sir, that we should go back to the 1972 rates in this country?

Mr. Günter Jochum: I'm suggesting that this budget is not fair to multi-generational farms. My farm is my retirement. Just like Mr. Stefanec said, I don't have a fancy RRSP because I invested everything into my farm, and now I get penalized for doing that, versus you or some of my other kids who have very good jobs. They pay into an RRSP and their employer pays into an RRSP, and they do not face this tax increase.

• (1200)

Mr. Don Davies: Sir, 33% of your capital gain is still tax-free, so you still retain that benefit.

Mr. Stanford, can you please explain the way that stacking might work under this new provision? To give you an example, many people are concerned how this might affect a second property, rental property or a second home. In the case of couples whose secondary residence is 50% owned by each spouse, each of them is entitled to a $250,000 exemption, making a $500,000 exemption. It's the same thing with the farm. Can you explain that to us?

Dr. Jim Stanford: Since the capital gains on the individual, personal tax return is defined according to each individual, not according to a family or a household—that's how our tax system works—then each individual claiming a capital gain will be able to access all of those exemptions and thresholds. That includes the $1.25-million lifetime exemption for farms and small business that can go to each member of a family. Then, the annual $250,000 threshold before you move into the 66% inclusion rate can also be claimed by each member of a family.

A good example is a cottage. We hear a lot about cottage owners and a cottage that's in the family: Well, if it is in the family and owned jointly, then that $250,000 threshold can apply each year for each individual in the family. On top of that, we, of course, have a bit of an income-averaging system in our capital gains system, the capital gains reserve, which generally allows you to average out one-time capital gains over five years or, in the case of passing property to your children, even longer. The stackability across members of the family and the potential for averaging over multiple years means that most people with a second home are going to be able, I think, to avoid the 66% inclusion rate entirely and to continue to pay capital gains at the existing 50% rate.

The Chair: Thank you, MP Davies. That's the time, members.

We move into our second round of questions. Times are a little different in this round, and we start with MP Lawrence for five minutes.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Thank you.

I start by just correcting a bit of incorrect tax advice that Mr. Davies offered from the floor here. Number one, simply by putting in a property—

Mr. Don Davies: On a point of order, I wasn't giving tax advice, just to be clear.

Mr. Philip Lawrence: Thank you, Mr. Davies.

Simply by putting something in joint tenancy or putting someone's name jointly actually triggers the tax at that point. In fact, stacking would work for the next generation, which means his kids could multiply the capital gains exemption, but he cannot unless his wife also owns the corporation.

I would strongly advise Mr. Davies to review tax law before he starts making commentary.

Now, I'm also struck by the fact that we have a series of individuals who either get their money from government or are tenured or otherwise who are making pronouncements about the lives of business owners, and we actually have business owners here who directly contradict what they've said.

I think anyone at home would be well aware of the facts here. We've heard from a tenured professor that, no, this won't discourage business investment. We've heard from business owners that in fact it will reduce investment in businesses. This is costing people jobs. This is costing people real lives. This is hurting people financially.

Mr. Jochum, my first questions will be for you, sir.

You talked a little bit about the effect of the tax changes. I want to go back a little bit. First of all, if you don't mind sharing with me, does your family farm pay carbon tax?

Mr. Günter Jochum: Yes, we do.

There are certain segments that are exempt, but there is a lot of hidden carbon tax that's paid. About 75% to 85% of what I produce is exported, and it is transported on the Canadian rail system, by either CP or CN. They pay carbon tax on the fuel they use and they do pass it on to the farmer.

It's the same with the grain elevators that receive our grain. Anything they use within their system that adds cost—which includes the carbon tax—again is passed on to the farmer.

There's lots of hidden carbon tax that we pay that is not a line item within our bookkeeping, but it is there.

APAS out of Saskatchewan did a great study on how much carbon tax we pay, and it's staggering.

• (1205)

Mr. Philip Lawrence: Thank you very much.

Now this Liberal government is adding insult to injury for farmers. In addition to the thousands of dollars—sometimes tens of thousands of dollars—of carbon tax, they're now increasing the capital gains inclusion. The capital gains inclusion, from the advice that you've received from your tax professionals, will increase your tax burden and make it more difficult to pass the family farm on to your daughter.

Is that your understanding?

Mr. Günter Jochum: That is correct.

My farm is my retirement, and transferring the family farm to satisfy everyone's needs within the family is a very difficult job to do.

My parents moved from Germany to Canada in 1980. We had a very small farm in Germany. We bought a smaller than average size farm here in Manitoba back in 1980. I came back from university to the farm in 1984. On the advice of my accountant, I did pay a little bit into RRSPs, but he said, “You're better off investing in your farm, because you want to grow it to the point where the farm is financially viable to support your family.”

We have grown it over the last 44 years into a larger than average sized farm, which supports three households at the moment. When I was married, we lived for 12 years in a house, had very little furniture and made lots of sacrifices to grow the farm. We grew the farm not in order to sell it at the end of my farming career and to live in luxury with the millions but rather so that we could pass it on—

Mr. Philip Lawrence: Thank you, sir. I'm running out of time.

I would like to seek unanimous consent for this committee to agree that farmers and plumbers should be exempted from capital gains legislation.

The Chair: I'm not seeing unanimous consent.

Mr. Philip Lawrence: No one said no.

I'm looking for unanimous consent that farmers, union members and plumbers be exempt from the capital gains inclusion increase and that this committee make such a motion.

Mr. Don Davies: I have a point of order, Mr. Chair.

Is that a motion we would need notice for?

Mr. Philip Lawrence: I'm asking for unanimous consent.

Mr. Don Davies: It's still a motion.

The Chair: I'll suspend for a second.

Yes, you can ask for unanimous consent.

Mr. Ryan Turnbull: No.

The Chair: Okay. We'll continue.

We go now to MP Thompson, please.

Ms. Joanne Thompson (St. John's East, Lib.): Thank you.

Thank you to all of the witnesses.

Mr. Stanford, are there any inaccuracies that you've heard in the previous couple of rounds that you'd like to speak to or correct?

Dr. Jim Stanford: I guess one thing I might try to elaborate on a little bit is the question of the impact of capital gains inclusion on capital investment by businesses. Machinery and equipment decisions by companies are based on their judgment that the business will be profitable going forward. The relevance of the capital gains inclusion rate to that decision is not at all clear. The capital gains will result at the end from perhaps selling the business or selling shares in the business, but growing a profitable business that you think can meet a need and generate a return on investment in itself isn't subject to capital gains, so when you buy a new piece of machinery, you're adding to the asset value of the company, and you're hopefully generating new revenue and profit from that. As long as that company continues, this change will have no impact on you.

In that regard, capital gains is not an incentive for starting and running a business. It's an issue related to selling the business.

● (1210)

Ms. Joanne Thompson: Thank you. I appreciate the clarification.

I'm just going to switch to the Canadian Labour Congress and Ms. Bruske. Before I ask the question, I do want to note that in my riding of St. John's East, the average salary is $50,000. In Carleton, Ontario, it's $58,000. In Calgary Forest Lawn, it's $32,000. In Northumberland—Peterborough, it's $41,000, and in Simcoe North, it's $38,000. How many of your workers see capital gains increases of $250,000?

Ms. Bea Bruske: Virtually none of those workers would be impacted by this, that we can tell.

We know that at least a quarter, almost a third, of Canadian workers do not have a private or a public pension, other than their CPP, that they might be eligible for. I understand, and I empathize with those individuals who have built a business and are using this as a retirement vehicle. There are ways to navigate that through the lifetime exemption that's going to be indexed, and all those kinds of things, but what I'm thinking about is the worker in a service sector industry for 65 years, who can't afford to retire, who has not had the opportunity to put any money aside whatsoever. We need a fair taxation system so that we can fund the very programs that workers are going to be relying on—the school nutrition program, dental care, pharmacare, workplace safety and health issues—things like making sure our health care system works so those workers actually have the ability to put some additional money in their pockets to maybe put towards an RRSP.

Ms. Joanne Thompson: Thank you.

Very quickly, how many of your unionized workers would have a secondary residence growing in value of about a quarter of a million dollars?

Ms. Bea Bruske: Unless they've inherited some wealth, I don't see any of them falling into that category.

Ms. Joanne Thompson: Both the employers and the C-suite executives hold a large part of the capital gains. Do you believe this will trickle down to your unionized members across the country—in other words, a top-down approach? If we make changes and alter what I believe is a fair program in terms of the capital gains, the changes that exist, does that trickle down to workers?

Ms. Bea Bruske: As we heard from some of the other witnesses, we don't anticipate seeing any change in the terms of investments or productivity based on a change to the capital gains exclusions, so I don't see any of this trickling down to the average worker going to work every single day of their life.

Ms. Joanne Thompson: Very quickly, Mr. Stanford, apart from what I think are very positive changes for Canadians in budget 2024, what income group do you feel will be disproportionately impacted by these changes to capital gains inclusion?

Dr. Jim Stanford: The evidence is clear, both from a snapshot in time of who pays taxes on capital gains in any given year and then from the limited longitudinal data that has been compiled, that the main impact of this change will be on the highest 1% to 2% of Canadian taxpayers. In any given year, only 0.13% of them individually will claim capital gains over $250,000 and therefore have any capital gains at all subject to the higher inclusion rate.

Even over time, given that there are irregularities in how capital gains are staged in someone's life, the vast majority of those gains are concentrated at the top. In fact, over time, they're more concentrated at the top than in a given year, for the fact that it's very well-off people who tend to claim capital gains year after year, rather than as a one-time event.

It's not only those people. There are obviously circumstances where an individual of generally modest means will face some additional taxation because of this, but the vast majority of the impact will be felt by the highest-income Canadians only.

The Chair: Thank you.

Now we go to MP Ste-Marie, please.

[*Translation*]

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

To begin, I have a point of order. I would like to remind my colleagues that it is customary when introducing a motion at committee to provide it in writing with an official translation. In fact, the interpreters have told us that they don't like having to translate motions and would rather read the official version that our vote is based on. So I would appreciate it if my colleagues would bear that in mind in the future.

Turning back to you, Mr. Godbout, our constituency offices are receiving a lot of letters from all kinds of professionals, including physicians. Those individuals are in partnerships, so they are businesses that do not make a profit and instead pay the revenues they generate directly to the individuals. Those individuals are apparently excluded from the initial $250,000 capital gains exemption, and apparently do not benefit from the cumulative $1.25 million capital gains exemption. Is that correct?

If I have understood correctly, why are these kinds of businesses, partnerships, treated differently?

● (1215)

Prof. Luc Godbout: If I understand correctly, you are referring to partnerships that are not incorporated. In that case, what you said is correct. Technically, though, those individuals should qualify for the initial $250,000 capital gains exemption if those gains are realized by the individual.

As to the $1.25 million cumulative capital gains exemption, that applies to the shares of small businesses. If a business chooses not to incorporate, it would therefore not qualify for the exemption for the sale of shares in a small business. This is not something new resulting from the change in legislation; it goes back to when the exemption was created, which was initially $500,000, and is for shares in small businesses only. For farmers, the $1.25 million in cumulative capital gains exemption applies equally to the shares and to the farm assets. For a business that is not a farm, however, it applies to the shares only.

Mr. Gabriel Ste-Marie: Thank you very much for explaining that. Since I am not a tax specialist, I am sometimes confused by all the cases that come up. So if a partnership is not incorporated, the individuals would qualify for the $250,000 exemption. That is very clear. Thank you.

Prof. Luc Godbout: Thank you.

[*English*]

The Chair: Thank you.

Now we go to MP Davies, please.

Mr. Don Davies: Dr. Stanford, in an article recently, you wrote, “Most academic economists support a higher inclusion rate, partly because it levels the playing field between different types of capital income.”

Why do most academic economists support a higher inclusion rate?

Dr. Jim Stanford: Yes, that's on the basis of, for example, surveys of articles published by the Canadian Tax Foundation and commentary from several academic economists. Mr. Smart's work was already referenced earlier today, but there are many others.

There's a long-standing concern about the level playing field between different forms of capital income. Of course, there's a long discussion about making sure that capital income isn't taxed twice, once at the corporate level and then again at the individual level. That is the theoretical justification for the favourable treatment of all forms of capital income, but across the different types of capital income, there's been an emerging and growing inequality in how dividend income is treated versus capital gains income. Because of two things—an inclusion rate that is too low to reach that equality with dividends, and the decline in the corporate tax rate in Canada over the last couple of decades—it's clear that the treatment of capital gains is now more favourable than the treatment of dividends. That creates an enormous incentive for companies and for tax planners to try to transform any type of income into capital gains rather than interest or other forms of dividend income. There can be significant efficiency losses from that unequal level playing field.

I think that's the main reason that this idea of increasing the inclusion rate to two-thirds or even to 75%, maybe—many academic economists have suggested 75% —makes sense from that perspective.

Mr. Don Davies: Thank you.

Maybe you and Ms. Bruske together could comment on this.

We have heard some professionals, including doctors, claim that they will be hurt by this measure. Dr. Stanford, you wrote:

> Most professionals incorporate to obtain generous tax and liability benefits. Capital gains exemptions are just the icing on that very sweet cake—and most of that icing is still there. Doctors and other professionals can fund retirement like the rest of us (via CPP, RRSPs, TFSAs, and savings) despite a smaller capital gains loophole.

Do doctors and other professionals who choose to incorporate face more unique challenges or barriers to accessing retirement savings than other Canadians do? I would just note that Stats Canada says that today approximately two-thirds of Canadians have no form of workplace pension coverage. I think Ms. Bruske commented on that. I don't know if doctors are facing any particular challenge compared to most workers. I'd like to hear your comments.

● (1220)

Ms. Bea Bruske: I don't think that doctors are facing any particular challenges. They have the opportunity to avail themselves of RRSPs, TFSAs, etc. What I'm more concerned about is the average orderly, working in a hospital, being taxed on 100% of his or her salary, while a doctor is not.

The Chair: Thank you.

Now, we'll go to MP Chambers for five minutes.

Mr. Adam Chambers (Simcoe North, CPC): Thanks very much, Mr. Chair.

Dr. Stanford, thanks for appearing back at committee. I know you're no stranger here, so welcome back.

You cited a number of statistics, and frankly, I don't dispute any of them because I think we're looking at the same data. In particular, I think there are obviously very wealthy people who have a significant number of capital gains per year. However, the same data, the LAD, also shows that capital gains are very rare in a person's lifetime, and frankly, if there is a capital gain over $250,000, that it is a once- or twice-in-a-lifetime event for a large number of tax filers. In fact, those who have over $250,000 in capital gains on a perennial basis, i.e., say, 10 out of 10 years, is only about 160 tax filers out of the sample that they showed. Therefore, it is in fact a small number of taxpayers who may get a large break. Would you agree that there are some individuals who once or twice in a lifetime will get caught up in this capital gains hike?

Dr. Jim Stanford: Certainly that's true, and I think I said that in my previous intervention. There are a few things to keep in mind there. Number one, there are important opportunities for individuals who have a rare capital gains event to try to reduce and average out their exposure. That includes the $250,000 exemption, obviously, from the higher rate, which is stackable across a joint ownership situation. It also includes the capital gains reserve system, which allows people with an occasional capital gains to average that out over several years.

I'll also point out that the same argument could be applied to other features of our tax system. We have a system of increasing marginal tax rates on personal income, and there are people who end up in the top rate, just once or twice in their lifetime, but they still earn that income in that particular year. We do not have a generalized income averaging system in our tax system, so on some level, if you've made that much money in a year, you should indeed pay taxes on it.

Mr. Adam Chambers: I understand. Indeed, that's the way the progressive tax system works.

There was also a statistic that suggested, using the same database, that 50% of those who have gains over $250,000 have other taxable income of less than $120,000. Some individuals, 10% of these in this category, have incomes of less than $20,000.

Would you support, or do you think it would be wise to try, narrowing the impact of the capital gains measure to just those individuals who are truly in that top 1% to 2% of income earners and not apply it to 100% of the general public?

Dr. Jim Stanford: Again, the number of individuals who receive large capital gains year after year is small, but they account for an overwhelming share of the total capital gains that are claimed, and an even larger share of the tax benefits associated with that.

Clearly, the government was attempting to narrow the impact of this measure with the $250,000 threshold. Again, they were following advice from academic economists who've been publishing on this for years. At some point—

Mr. Adam Chambers: Mr. Stanford, I'm going to run out of time.

Quickly, would you be in favour of narrowing the application so that it's just for those who have high perennial capital gains incomes or total incomes?

● (1225)

Dr. Jim Stanford: I think there are provisions in the existing legislation that do that, with the $250,000 threshold, and other provisions in our tax system, including the capital gains—

Mr. Adam Chambers: Understood. I'll take that as a yes.

Ms. Bruske, you suggested that many of your members wouldn't be impacted by this. You have about three million members, right? I know of a number of your members who own rental properties—not a number of rental properties but even just one or two—who hold them in a corporation. They will be taxed. This will impact them immediately. Should we exclude them from this legislation?

Ms. Bea Bruske: The number of members who are in that profitable position is minimal at best, I would argue. The members I hear from and the workers I hear from are certainly not in that kind of a wealthy situation where they have to worry about these situations in terms of the capital gains being increased on their profits.

The Chair: Thank you.

Now it's PS Turnbull, please, for five minutes.

Mr. Ryan Turnbull (Whitby, Lib.): Well, this is a great conversation. Thanks to all of the witnesses for being here today.

Mr. Stanford, I'll start with you. Welcome back.

You mentioned in your opening remarks double-barrelled fairness. I thought that was an interesting way to put the fact that this new tax measure is increasing tax fairness while also increasing fairness in terms of the investments that are being made.

I wanted to ask you, though, about Kevin Milligan's comments on this. The reason I'm bringing this up is that I found both your article that was recently published, and also his remarks that were published online, really interesting. He said that a lot of the people who criticize these new tax fairness measures are not offering any alternatives to push back on inequality. I found that really interesting. He said, well, basically, you can infer from this that they often don't really care about inequality in our society.

Kevin Milligan put the question to himself online and asked whether this new inclusion rate change was really an effective and efficient measure among the others that could be considered. He said, “yes”.

Would you agree, Mr. Stanford, that this new capital gains change is really effective and efficient as a tax measure for addressing inequality?

Dr. Jim Stanford: Yes, I would, for the reason that capital gains income has become so unduly concentrated among the highest income categories of society, more so than other types of income. This actually reflects the proactive use of these loopholes by clever tax planners to arrange income so that it comes through a capital gains channel rather than through other channels.

This is where Professor Milligan and other academic economists want to see a more equal treatment between capital gains and dividends income. Because capital gains are so concentrated at the top end, anything that reduces incrementally the tax advantages of capital gains treatment will have a very powerful impact in reducing inequality through the tax system.

Mr. Ryan Turnbull: Thank you for that.

Mr. Xuereb from Canadians for Tax Fairness, I was interested in your report, which I found on your website, about productivity and capital gains inclusion rates, which I read with great interest. I note that you said in your opening remarks that there is no correlation between capital gains rates, or even, by the look of it, tax rates and productivity, as has been claimed numerous times, mostly by Conservatives, I think, who are trying to push back against this.

What I noticed in the report, though, and what I am inferring from this.... I think it's explicit on page 5 where it says, “researchers have begun to establish a causal relationship between inequality and productivity.” It's as if the opposite is the truth, which is that the more inequality we have in our society, the less productive we are. Isn't that the heart of the issue?

I think Conservatives are trying to say, well, we don't want to address inequality because it will hurt investment and productivity, but I'm actually inferring from this report and the data that you've published here that the exact opposite is the truth: if we don't increase tax fairness and if we don't address inequality, then we will continue to struggle with productivity and investment. Is that true from your perspective?

Mr. Silas Xuereb: Yes, I think that's generally right. I wouldn't want to go so far as to say that inequality is the single biggest driver of falling productivity growth, or something like that, but I certainly think that, yes, if workers are being paid very little, they have less incentive to work harder. We've seen, after decades of trickle-down economics at this point, that it has not increased productivity greatly. I do think that we should make addressing inequality a more explicit goal of our policies.

● (1230)

Mr. Ryan Turnbull: Thank you.

I have just a quick question.

I owned a corporation for 13 years, which I ran, and I know that there are significant tax benefits to incorporating. That's why most sole proprietors incorporate, when they get to a certain point of generating enough income, because you actually get some tax benefits to that.

I don't know who to direct this to, but, Mr. Cochrane, I know you're an economist. Do you know of the tax benefits from incorporating? I'm specifically interested in farms and other businesses, plumbers, etc. who own their own businesses and are incorporated. I think they pay significantly less income tax than other members of our society. Is that not true?

The Chair: I'm sorry, PS Turnbull.

Mr. Cochrane, I'll need a very short answer, like 15 seconds.

An hon. member: Are you saying that you evaded taxes when you incorporated?

Dr. D.T. Cochrane: I'm not a tax lawyer. I'm not a tax accountant, and we already saw that you get called out if you try to give tax advice, but Dr. Stanford has already mentioned that there are many ways that incorporating delivers certain tax benefits. As was said, the capital gains exclusion is just the icing on the cake, so those benefits all still exist.

The Chair: Thank you, PS Turnbull.

Members, we rarely have this, but we have enough time for a full third round.

We're starting with MP Hallan for five minutes, please.

Mr. Jasraj Singh Hallan (Calgary Forest Lawn, CPC): Thank you, Chair.

I'll try to make this quick, and I'm hoping we can get to a vote quickly. I hope you'll pause my time because I want to move a motion that we have tabled, and I believe it's been distributed to everyone.

> Given the large workload the committee has on the docket, the committee instructs the chair to book five meetings between July 8 and September 13, while the House is adjourned, to deal with unfinished business and pressing matters facing Canadians, including the cost of living crisis, housing crisis and the impact capital gains tax changes will have on Canadian small businesses.

Common-sense Conservatives are moving this motion because after nine years of Justin Trudeau and the Liberal-NDP government, they've created a cost of living crisis. Mortgages and rents have doubled. Housing costs are out of control. This is all while there is a housing crisis that the government caused.

Carbon tax one and carbon tax two have made gas, groceries and home heating more expensive. We found out today that one in four Canadians are not only food insecure, but also living in poverty, and there's record food bank usage across the country. OSFI is warning of a price shock for mortgage holders. Loan loss provisions at Canada's banks are at all-time highs. Organized crime and foreign actors are involved in money laundering in Canada. TD Bank is accused of money laundering the proceeds of fentanyl sales by Chinese drug lords. The job-killing capital gains tax hike punishes workers, small business owners, farmers, fishers, tradespeople and the family members who inherit property from loved ones.

Justin Trudeau has doubled the national debt, and now Canada spends more on servicing the debt than it does on health care transfers to the provinces. There are significant issues plaguing this country, yet the Liberal-NDP government is more focused on ramming through half-baked omnibus bills and tax hikes than it is on listening to real Canadians who are suffering from Justin Trudeau's policies and Chrystia Freeland's spending, all being propped up by the NDP to protect Jagmeet Singh's pension.

Common-sense Conservatives are ready to work for Canadians over the summer. I hope that my other colleagues around the table are too.

Thank you.

The Chair: I see MP Davies's hand up.

Mr. Don Davies: Thank you, Mr. Chair.

It's funny. If there were a definition of "hypocrisy" in the dictionary, it would probably include this motion.

I sat here in this meeting while the Conservatives wasted hour after hour. They read from a podcast in order to delay the work of this committee, as this committee—the Liberals, the NDP and the Bloc Québécois—tried to get at the very issues that Mr. Hallan just talked about. The Conservatives wasted meeting after meeting in a flight of fancy to do things like calling Mark Carney because they think he's going to be the next Liberal leader.

Instead of focusing on the cost of living increase, on hunger in communities in this country, on passing a budget and on bringing in tax credits for businesses across this country, the Conservatives delayed every one of those for their own partisan flights of fancy, when they could have been getting at those real issues.

Here they are now, on one of the last meetings of the year—a meeting that they insisted on to study the capital gains inclusion rate, which all parties supported because we do want to hear from witnesses—and they're wasting time, in the last hour, when we have witnesses here to give evidence. This is classic. "Common sense" isn't coming to conclusions without data or science. That's the opposite of common sense; that's ridiculousness.

To hear Mr. Hallan talk about the job-killing capital gains measure.... We just started the study; we're into it an hour and a half. The evidence I'm hearing is frankly to the contrary of that. We haven't heard any real evidence of any impact whatsoever. In fact, we have economists here telling us that there will be zero impact on job creation in this country from this capital gains measure. However, of course, the Conservatives don't let facts get in the way of conclusions. They've already made up their minds on this.

I'm sorry, Mr. Chair. I'm hearing catcalling from the side while I have the mike, and it's difficult. I didn't yell and talk when they were talking.

● (1235)

The Chair: Members, please, the member has the floor.

MP Davies, the floor is yours.

Members, could you keep the chatter down, please?

Mr. Don Davies: Thank you.

Instead of common sense, I'd like some common courtesy, perhaps a rare thing to expect from my Conservative colleagues. It's absolutely absurd to call the committee in the summer. It's a stunt. We can call a Standing Order 106 meeting at any time this summer if an emergency comes up.

The other thing is this. I don't know about the Conservatives, but spending time in our communities with our constituents to ask them what their needs are and to find out what's happening in their lives is more important than the Conservatives' partisan games of trying to look like they're working hard in the summer because they wasted days and days of meetings here, which is what they did. That's not a matter of opinion. Go back and look at the records of meetings. It's a mathematical fact.

Mr. Hallan talks about this as being a common-sense move. This isn't common sense at all. What I'd like to do is dispense with this motion right away so that I can go back to hearing from every one of these witnesses who has something important to say. They all have different perspectives, and I respect that, but I'm here to hear from them.

The Conservatives continue to move a motion in the middle of a meeting. They called this meeting and wanted witnesses to come in to hear from them, and then they interrupt the witnesses that we all have called here to get the feedback that we need from them on an important public policy matter and waste the last part of the meeting while we debate some motion that they have tabled for partisan purposes. I'm trying to search for a phrase that describes that, but I'll tell you what, common sense is not one of them.

Thank you, Mr. Speaker. I'm going to vote against this. I think that we should have a quick vote on this so that we can get back to hearing from the witnesses whose testimony I'm interested in hearing.

The Chair: Thank you, MP Davies.

Seeing no other speakers, clerk, please go ahead with the vote.

(Motion negatived: nays 7; yeas 4)

The Chair: MP Hallan.

Mr. Jasraj Singh Hallan: I'll turn my time over to Mr. Chambers.

● (1240)

Mr. Adam Chambers: Thank you, Mr. Chair.

Mr. Don Davies: Mr. Chair, as a point of clarification, I'm not sure what this committee's practice is, but when a member has their time, and they use it to move another motion, do they lose their time?

The Chair: No.

Time is suspended because it's committee business.

Mr. Don Davies: Okay. I've been on committees where they do lose it.

Mr. Adam Chambers: Thanks, Mr. Chair.

I'll turn back to you, Ms. Bruske, about some of your members.

Would you support narrowing the application of this such that we're not going to catch up people who otherwise have very modest incomes but have a one-time capital gain event in their life?

Ms. Bea Bruske: I don't support changes to a bill that has yet to be fully delivered in that way. I think that for a one-time event, there are ways to navigate those. We heard about the exemptions. We heard about various different opportunities to lessen the burden, so to speak. A one-time event is going to impact very few average workers across this country. The benefit of gaining additional tax revenue far outweighs that one-time event an average worker may have to increase that tax burden by 13% more of their income being taxed.

Mr. Adam Chambers: Okay.

Are you okay with the ways and means proposal, if that becomes the final bill?

Ms. Bea Bruske: I am.

Mr. Adam Chambers: Dr. Stanford, you mentioned that the revenues from this tax were paying for some laudable public policy objectives. When I look back at the projections from the finance department a year ago, the debt service costs, versus today, have gone up by $8 billion in this current fiscal year and by about $10 billion per year, for every year, by the time we get to five years out. It seems to me that a large share of the revenue from this capital gains tax is actually just paying debt service costs.

Dr. Jim Stanford: If you look at the budget forecasts, for some time they've been projecting an increase in debt service charges, both because of the increase in the overall size of the debt and, more importantly, because of the higher interest rates that we're currently grappling with.

I think there's a reasonable logic to linking the incremental spending that was announced in this budget with the incremental revenue measures that were also announced in this budget. Of course, money is fungible, so it all goes into the same pot.

Mr. Adam Chambers: I'm linking it to the incremental increase in the debt service costs over and above what was projected a year ago. It's the exact comparison you're making. You're saying that this money is going towards incremental spending objectives for dental care, etc., but there are also incremental expenses that were not projected a year ago.

Dr. Jim Stanford: The incremental expenses could have been covered from the other changes in revenue forecasts that were also part of this budget.

I think you're right, sir, that because of the fungibility of money, you can't link a dollar on the revenue side to a precise dollar on the expense side, but I think the fact that both of these were incremental policy announcements contained in the same budget makes for a fair connection between the two.

Mr. Adam Chambers: Thank you.

I'd be really appreciative if those on the call who have access to some of the data would like to show us the perennial capital gains earners. We could then narrow this application to those who abuse the tax system and who transfer or try to claim more capital gains taxes than income tax.

We've heard testimony today, from people who are living it, suggesting that this tax isn't just going to be on the 0.13% top income earners. It's actually going to be on a much broader group of individuals.

With no disrespect to those who are educated, I'm reminded of William F. Buckley, who said that he would rather be governed by the first 2,000 people in the phone book than by the entire faculty of Harvard.

I would paraphrase it to suggest that I would rather be governed by the first 2,000 of Ms. Bruske's members than by some individuals who have not spent time working in the trenches or building a business, who say that, in theory, there are these rich people who abuse the system, without actually listening to those who are living in the system saying, “Well, actually, I'm one of the people affected. I'm not that person you're speaking about.”

I appreciate the time today, and I'll yield the last remaining seconds to the floor, Mr. Chair.

● (1245)

The Chair: Thank you, MP Chambers.

Now we're going to go to MP Sorbara.

Mr. Francesco Sorbara: Thank you, Chair.

There is one important element in this discussion that we haven't touched upon today. With the capital gains inclusion rate change, there will obviously be revenues directed to the provinces and territories in a significant amount.

One of the comments that I've heard is that this would impact doctors and so forth. We have seen, for example, the Province of British Columbia increase the pay of doctors considerably to deal with such issues. The provinces, including the Province of Ontario, where I'm an MP, will have the opportunity to use the funds they'll receive from the inclusion rate change to increase the pay of doctors.

I fundamentally feel that doctors, specialists, any folks in those occupations who have gone to school and invested in their human capital for many years deserve to be rewarded for that. They have a special skill in our society, and we need them. However, they shouldn't have to depend on, strictly or solely, capital gains to fund their livelihoods or their retirements. They should be paid commensurately.

I push it down the provincial line now as well. They will receive significant funds from the inclusion rate change, which can be directed into their health care system. In fact, on top of that, I was proud to be at the announcement with the Prime Minister and the Premier of Ontario, Premier Ford, where we announced a $3.1-billion agreement with the Province of Ontario and, on top of that, the $200-billion, 10-year agreement with all the provinces and the bilaterals we've signed with the provinces. That's the real work I believe Canadians want to see.

On this debate, I obviously want to get rid of surplus stripping. I want to get rid of tax avoidance strategies that are out there at this current time.

We need a system where integration is there. We also need a tax system—and I sat on the finance committee from 2015 to 2019—where we broaden the base, lower the rates and make it more efficient, more fair and more neutral. This is, to me, is one step in the right direction.

Mr. Cochrane, are my comments on the mark, in terms of making the system more neutral and fair with the inclusion rate change?

Dr. D.T. Cochrane: I think this inclusion rate change is absolutely a vital first step. We've heard from Mr. Stefanec, and we've heard from the gentleman from the Wheat Growers Association. They have legitimate concerns.

However, capital gains exclusion is an extremely blunt policy tool if we want to ensure the preservation of family farms and if we want to ensure that small business owners have pensions. If we want to achieve those things, we need to implement policies aimed at achieving those things and not maintain the capital gains exclusion that sees the vast majority of the benefits go to people like the billionaire Ms. Bruske mentioned in her opening comments.

That billionaire made that $4.5 million tax-free buying shares on the secondary market and selling shares on the secondary market. There was zero productive investment that happened with that. The company whose shares he bought and sold repurchased $4.5 billion of their own shares over the next three years and made about $50 million in net capital investment.

Our financial system is not doing the things it's supposed to be doing. There are lots of changes that need to be made, and this modest change is an important step in the right direction.

Of course, there's a lot more hard work ahead of us, and I believe all of you around this table are prepared to do that hard work to achieve it. We hope that you will talk to the CLC about how we might make this entire financial system much fairer than it is.

Mr. Francesco Sorbara: Ms. Bruske, what would you like to add to this discussion? You represent three million hard-working Canadians.

● (1250)

Ms. Bea Bruske: What I said earlier stands. I'm worried about those folks who don't actually have a pension. When we're talking about utilizing fair taxation so that folks can actually save money for their retirement and retire with dignity, we have a lot of work to do. That means we need to be able to have the funds available to help those workers out, and it starts by making sure we have fair taxation in Canada. This is, again, a modest change that is going to have a significant impact.

The Chair: Thank you.

We will now go to MP Ste-Marie, please.

[*Translation*]

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

Mr. Godbout, I want to thank you again for being here. What stood out for me from your presentation are the four concerns you raised and the fact that, in the past, taxpayers were given at least six months to fully understand the proposed capital gains changes, which was not the case this time. We certainly lament that fact.

I want to go back to your first suggestion, which was to allow taxpayers some flexibility by offering them the option to realize capital gains "on paper". That suggestion was taken up by the Joint Taxation Committee of the Canadian Bar Association and Chartered Professional Accountants of Canada, if I understand correctly. Can you provide further details on what that involves?

Prof. Luc Godbout: It would simply mean telling people right away that whether they file their 2024 tax return in March or April of 2025, they can opt to declare before June 25, 2024 that they have decided to dispose of certain assets of their own accord. That would be particularly helpful for property owners who have a duplex or triplex. They could decide to dispose of some of their assets on paper, of their own accord, and claim that the capital gain had been realized before the actual sale of those assets. There is nothing mysterious about this proposal since the capital gains would be taxable in the tax return filed in March or April 2025, but at the rate of just 50%. That would give people a lot more flexibility. Not everyone could take advantage of it, but it would ease some of the stress and uncertainty among people who may not have been able to promptly consult professionals about these changes.

Mr. Gabriel Ste-Marie: Thank you. If I correctly understand the explanations on the finance department website about the proposed legislative changes, the department has specifically excluded that possibility from the bill. Do you know why? Do you have any idea?

Prof. Luc Godbout: I don't know why that possibility was excluded. I still believe in it though and can cite by way of argument that, for the 1994 tax year, the Canadian government did offer that choice at that time. Since it was eliminating another measure, it allowed people to dispose of certain assets on paper, up until February 22, 1994, with a view to their spring 1995 tax return.

Mr. Gabriel Ste-Marie: That's very clear. I would have liked to ask you about some other things, but my time is up. Thank you again for being here.

Prof. Luc Godbout: Thank you.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

MP Davies, please.

Mr. Don Davies: Thank you.

Dr. Stanford, I'd like to talk about an issue that I don't think has been raised in this meeting, and that's the Canadian entrepreneurs' incentive, which will reduce the inclusion rate to 33.3% on a lifetime maximum of $2 million in eligible capital gains.

Combined with the enhanced lifetime capital gains exemption when this incentive is fully rolled out, entrepreneurs will have a combined exemption of at least $3.2 million when selling all or part of a business. According to the government figures, entrepreneurs with eligible capital gains of up to $6.25 million will be better off under these changes.

Do you have any comment on that particular aspect of the change?

Dr. Jim Stanford: It is important to keep in mind that the existing exemptions under the capital gains tax that we already have, including the principal residence exemption and the lifetime exemption for farms and small businesses, are maintained and, in the farms and small business cases, expanded.

Now, this new entrepreneurship credit will provide a lower capital gains inclusion rate than we have at present for that lifetime $2 million. There's a significant share—probably a strong majority—of small businesses that will actually be better off under this reform than they are at present.

Mr. Don Davies: Thank you.

I have a final question for Canadians for Tax Fairness.

I just want to be clear on this. Mr. Poilievre argues that the reform will "drive billions of dollars of machines, technology, business, and paycheques out of our country." What's your comment on that?

Mr. Silas Xuereb: Yes, sure. I mean, if we're worried about capital flight, where I think we're normally worried about that is to the U.S.

I just note that President Biden's recent budget proposed an even larger increase in the top marginal tax rate on capital gains than this proposal here. I also think that Canada has a very skilled workforce and generous tax credits, so there are a lot of reasons that companies will want to be here. I don't think this is going to cause a significant exodus.

● (1255)

The Chair: Thank you.

Next I have MP Morantz. Then—I know we'll go a little bit over, members—MP Thompson will finish off this round.

MP Morantz.

Mr. Marty Morantz: Thank you, Mr. Chair.

Mr. Cochrane, you said a few minutes ago that the increase in the capital gains inclusion rate is a blunt instrument. I'm paraphrasing, but it's unfortunate that people like Mr. Stefanec and Mr. Jochum get caught up in it, because the real point of it is to get at the very wealthy high earners who are really in the 0.13%.

Would you agree, then, that it's worth trying, in this process we're studying—the proposed legislation—to come up with a mechanism to exempt folks like Mr. Stefanec and Mr. Jochum, who are legitimately not part of the 0.13%, from having to pay an inclusion rate over and above the 50%?

Dr. D.T. Cochrane: I don't think it's the appropriate means of making sure they're not paying it.

I think we need to take, as best as we can, the Carter commission's recommendation that you tax all forms of income and then provide other mechanisms to ensure that taxes are being levelled where you want them to be levelled. Provide credits as a means for people to reduce their tax burdens rather than leaving this area of certain forms of income that aren't going to get taxed, which then just entices all kinds of deformations of how people are going to operate to avoid having income that gets taxed at all.

Mr. Marty Morantz: Fair enough, but at the end of the day, I think we're getting to the same place in two different ways. You would agree that folks like Mr. Stefanec and Mr. Jochum, who are not legitimately part of the 0.13%, should be made whole and not penalized the way the high earners would be.

Dr. D.T. Cochrane: I don't know their exact financial situations. I'm assuming that they are looking at reasonable gains. It's worth mentioning with regard to the different changes that are going to be made that it's at $6.2 million in capital gains: that once all of the changes are implemented, at $6.2 million you're going to be paying higher capital gains than under the current rules. If those gentlemen are looking at more than $6.2 million in capital gains, good for them, but also, they have an obligation to pay into our tax system, as all people do.

Mr. Marty Morantz: There are people like them who are not part of the 0.13% who are caught up in this and who are not part of that group. All I'm asking you to confirm is that you would agree that they shouldn't be taxed at the higher inclusion rate.

Dr. D.T. Cochrane: I will agree that you have work ahead of you to make sure that our tax system is fairly applied to all Canadians.

Mr. Marty Morantz: All right.

The Chair: Thank you.

Now we'll go to MP Thompson, please, our final questioner.

Ms. Joanne Thompson: Thank you.

Dr. Stanford, I'm sorry, I referenced you before as Mr. Stanford. My apologies.

Some professionals incorporate to obtain generous tax and liability benefits. There has been criticism that essentially we're killing working-class jobs and even hindering entire sectors as a result of the tax change. Would you give your response to those criticisms, please?

Dr. Jim Stanford: I don't believe that this change in the inclusion rate will have any impact on actual real investment spending by Canadian businesses. Businesses don't buy machinery in order to try to sell it later at a profit. That's where the capital gains issue would be most relevant. For running and maintaining a profitable business, this change will have no impact.

In terms of professionals, there are huge advantages, and not just tax advantages but also issues about protecting liability for the professionals involved. If they decide those advantages are no longer relevant, then they can organize their businesses differently, but I doubt that very many will do that. They'll still continue to access those benefits of incorporation.

Ms. Joanne Thompson: Thank you.

I'm the final speaker, and I'm going to give you the final word. Are there any closing comments on what you heard today?

Dr. Jim Stanford: Thank you.

Well, again, this is obviously a very passionate debate, but I think it's an important one. It's a long-standing controversy in tax policy that Canada's partial inclusion system was so generous—not just unfair—in terms of delivering so much tax advantage to generally very high-income people, but also inefficient in terms of distorting decisions that companies make about corporate structure and stripping cash from businesses in order to take advantage of this loophole.

I think this measure is modest and timely and I support it.

Thank you.

● (1300)

The Chair: Thank you.

We thank our witnesses.

I need to hold the members' attention for a second, because I need your approval for something.

Would the clerk and the chair, I'm asking, be empowered to publish—we do this every year—a news release to launch the pre-budget consultations process and request submissions, with a provisional deadline for the submission of briefs of Friday, August 2, 2024?

Okay. Thank you, members.

MP Davies.

Mr. Don Davies: Mr. Chair, did we set any kind of deadline for further witnesses for the resumption of this study in the fall? Or will you send a note around in the summer for when we can get those names in?

The Chair: We have not set a deadline, but we can send something around.

Thank you very much, members.

To our witnesses, thank you very much for your testimony. We are adjourned.

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