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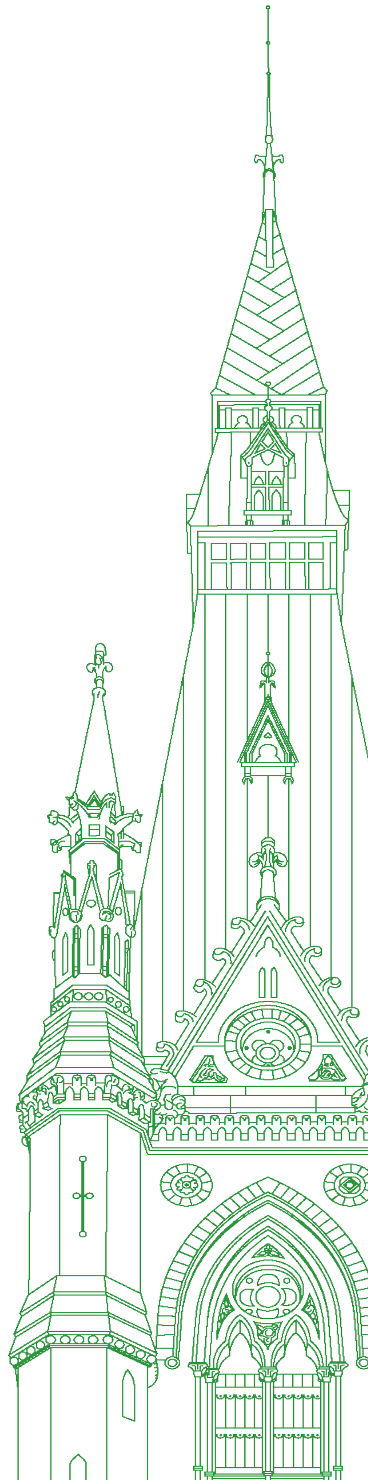

Chair: Mr. Peter Fonseca

Standing Committee on Finance

Tuesday, September 17, 2024

● (1535)

[*English*]

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

Welcome to meeting number 151 of the Standing Committee on Finance.

Welcome, everybody, to this session.

It's great to be back. I see that everybody is here in person today. I believe that everybody is a veteran of this committee, although we do have one new member. Pat Kelly has joined our committee.

Welcome, Pat. It's great to have you here.

Our witnesses, though, are all virtual today.

Before I begin, I'd ask that all in-person participants read the guidelines written on the updated cards on the table. The witnesses don't need them. These measures are in place to help prevent audio feedback incidents and to protect the health and safety of all participants, including the interpreters. You'll also notice a QR code on a card that links to a short awareness video.

Today's meeting is taking place in a hybrid format. All witnesses have completed the required connection tests in advance of the meeting, although, members, we are having some technical difficulties with some of the witnesses. We are trying to work those out before we get into opening statements and then into questions.

I would like to remind participants of the following points. Please wait until I recognize you by name before speaking. All comments should be addressed through the chair. Members, please raise your hand if you wish to speak, whether participating in person or via Zoom. The clerk and I will manage the speaking order as best we can.

Pursuant to Standing Order 108(2) and the motion adopted by the committee, the committee today is resuming its study on the changes to capital gains and corresponding measures announced in budget 2024.

Now I'd like to welcome our witnesses. As I said, they are appearing virtually, so you'll find them on the screen.

From the Canadian Centre for Policy Alternatives, we have the senior economist Marc Lee joining us. From the Confédération des syndicats nationaux, we have François Bélanger, adviser and economist, as well as Yvan Duceppe, treasurer. From the Fédération des chambres de commerce du Québec, we have Philippe Noël, vice-president, public and economic affairs. Joining Philippe is Hubert Rioux, economic adviser. Our witness from NOW Housing is Matt Lubberts, president. He is now connected, which is great.

Witnesses, you'll have up to five minutes for opening remarks. Then we will proceed to the rounds of questions.

At this time, I'll welcome our first witness to make those opening remarks. We are starting with the Canadian Centre for Policy Alternatives, and that is Mr. Marc Lee, please.

Mr. Marc Lee (Senior Economist, Canadian Centre for Policy Alternatives): Hi. Thank you, Mr. Chair.

Thank you to the committee for the invitation to speak before you.

I'd like to speak in support of the budget's move to increase the inclusion rate for capital gains to 66.7% for gains larger than $250,000.

I'd like to make five points.

First, in my view, the inequality of income and wealth in Canada is too high. A fair and decent society should have neither extreme of obscene wealth nor desperate poverty. Progressive income taxation—in particular, taxation of the wealthiest—is a central means by which we can reduce inequality, provide adequate shared public infrastructure and services, and create opportunities for all to live a decent life. This is reflected in the tax principle of vertical equity: that those with greater ability to pay should pay a greater share of their income in taxes. This fairness, by design, is best implemented at the federal level.

Second, the unequal tax treatment of capital and labour income exacerbates inequality and is part of the problem. My recent tax incidence study with D.T. Cochrane, “Canada's shift to a more regressive tax system, 2004 to 2022”, found that “the mix of federal taxes is progressive up to [the middle of the distribution], then it flattens out and becomes regressive at the top.” That is, effective tax rates fall as income rises. Someone in the ninth income decile paid an average of 21.8% in federal taxes in 2022, and this fell to 14.2% for the top 1% of earners.

Our study points to the role of non-taxed and lightly taxed sources of income, capital gains in particular, for regressive tax incidence at the top of the income distribution. A fair tax system should reflect an individual's actual command over resources. The tax principle of horizontal equity is that two people with the same amount of income pay the same rate of tax regardless of the source of that income. In the words of the Carter Royal Commission on Taxation in the late 1960s, a “buck is a buck”.

Third, preferential treatment of capital gains is costly to government. Federal tax expenditures for the partial inclusion of capital gains are estimated at $23 billion in 2024 by the Department of Finance Canada, plus another $2 billion for the lifetime capital gains exemption. A range of other provisions already addressed particular circumstances for farms, fishing properties and small business shares, such as the increased lifetime capital gains exemption of $1.25 million and the reserve provision for spreading gains over multiple years when transferring to a child, broadly defined. While modest, the capital gains change in the budget is expected to raise $18 billion over the next five years.

Fourth, the capital gains change is very narrowly targeted. Capital gains in excess of $250,000 in a tax year are highly concentrated at the very top of the income distribution. The higher marginal rate will be paid by only the 40,000 or so highest-income individuals. Even with the 2024 change, the income from buying and selling assets will be taxed less than income from working.

Fifth, the benefits assumed from privileging capital gains are vastly overstated. Preferential treatment of capital income has been justified as providing a stronger incentive for investment. Economists like to think of investment in terms of increases in the capital stock of machinery, equipment or buildings, whereas much of the capital gains we're talking about are largely on speculative holdings of real estate and financial assets. If you want a better way of incentivizing real investment, you'd be better off going for investment tax credits than trying to do so through capital gains exemptions.

If anything, Canada's stronger periods of economic and productivity growth were during periods when the inclusion rate was higher than the current 50%. To the extent that additional taxation of capital income provides revenues that are spent on public services, investments and jobs, as is the current case, this will be pro-growth.

In conclusion, a fair tax system should be progressive and broad in its consideration of taxable income. Raising the inclusion rate for capital gains above $250,000 is a small step towards a fairer tax system. It increases the progressivity and fairness of the federal income tax system while affecting only a small handful of wealthy individuals. If anything, the Government of Canada could go further.

● (1540)

Thank you very much.

The Chair: Thank you, Mr. Lee.

Now, we'll hear some remarks from the Confédération des syndicats nationaux.

Mr. Duceppe, please.

[*Translation*]

Mr. Yvan Duceppe (Treasurer, Confédération des syndicats nationaux): Good afternoon, Mr. Chair. Thank you for inviting us.

I would like to inform you that the CSN represents 330,000 members across Canada, in all sectors of activity.

Let me start by saying that we support the government's proposal to increase the capital gains tax. First, we acknowledge that government must not only raise additional revenue, but also provide public services and social programs. It must meet the needs of all Canadians, while respecting provincial jurisdictions. I believe that the purpose of government is to meet the needs of the public.

However, there are many needs. This has been pointed out before, and it hasn't changed. We hear talk of housing investments; improvements to the employment insurance system in order to fill in the gaps; the establishment of a comprehensive public pharmacare program; investments in green economy projects; improvements to public transit; and better support for print and other media. Of course, all this requires revenue. So revenue is needed. The Confédération des syndicats nationaux welcomes the decision to raise the capital gains inclusion rate from 50% to 66.66%. Perhaps it could have been raised higher. That said, we think that it's a step in the right direction and that it can be taken further to meet the needs of Canadians. All the same, it's a good thing.

Moreover, it affects the wealthiest people as well as corporations. I heard the previous witness say that it affects few taxpayers, but that it does affect corporations. We find that it represents a progressive aspect of taxation. This matters, because it helps to address inequalities. Let's face it. Inequalities have been increasing for years. The wealthiest 1% and 0.1% of the population have continued to get richer and richer. How has this happened? Basically, financial assets are taxed less than earned income. In our opinion, this obviously encourages speculation, in a number of cases, unfortunately. This approach doesn't always produce the desired results when we consider investments based on historical data. My colleague, François Bélanger, can address this issue even better than I can. This approach has failed to deliver on its promises.

Of course, we know that other sources of funding would be useful to the government, such as a minimum tax on multinational corporations. That said, again, we welcome the inclusion rate increase to 66.66%.

● (1545)

The Chair: Thank you, Mr. Duceppe.

[*English*]

Now, we'll go to the Fédération des chambres de commerce du Québec, and I believe it's M. Noël who will be delivering some opening remarks.

[*Translation*]

Mr. Philippe Noël (Vice-President, Public and Economic Affairs, Fédération des chambres de commerce du Québec): Thank you, Mr. Chair.

Good afternoon. Let me introduce myself. My name is Philippe Noël. I'm the vice-president of public and economic affairs for the Fédération des chambres de commerce du Québec, or FCCQ.

I'm pleased to be joined by my colleague, Hubert Rioux, an economic advisor at the FCCQ and head of our entrepreneurship as well as financial services, capital and savings committees.

Through our extensive network of 120 chambers of commerce and over 1,000 member companies, we represent more than 45,000 businesses operating in all economic sectors throughout Quebec's 17 regions. As the largest network of business people and companies in Quebec, we're both an association of chambers of commerce and the Quebec chamber of commerce.

We're pleased to be here. We want to thank you for the invitation.

On behalf of the Fédération des chambres de commerce du Québec and its members, we're here today to share our concerns about the financial and economic impact of the increased capital gains inclusion rate. I say "concerns", but I could also talk about the discontent, astonishment and incomprehension felt by entrepreneurs and business people. This government measure sends the message that you shouldn't invest in your business, because you'll face penalties down the road on the tax front.

Like a number of experts, we find that this measure lacks any rationale other than the need to generate additional tax revenue to cover the budget deficit and additional spending planned by the current government.

The financial sector—and the venture capital industry in particular—will be the first to feel the impact. This industry is vital to maintaining a strong entrepreneurial ecosystem. A highly profitable exit can help offset the substantial losses generated by the inherent risks of investing in start-ups. Higher taxation of these gains not only discourages risk-taking, but also jeopardizes or delays the reinvestment of capital gains in new projects. In our view, this will hamper what is known as "entrepreneurial recycling". Entrepreneurs are usually able to reinvest in venture capital or create new businesses through the sale of shares.

The increased taxation of capital gains will also have a negative impact on the transfer of businesses and on entrepreneurial succession. This primarily affects SMEs, as we enter a historic phase of business succession. Approximately 64,000 companies with employees across Canada plan to sell or transfer their business in the next 12 months alone.

For many career entrepreneurs, the sale of shares plays a key role in planning a well-deserved retirement. Yet the proposed measure will particularly penalize the people who achieved the greatest success in growing their businesses.

The incentive for entrepreneurs introduced at the same time won't offset the increase's impact on investors, entrepreneurs and transferors. This is primarily due to the number of excluded sectors, the ineligibility of businesses and the five-year phasing-in period. Moreover, this decision comes at a time when the government wants to boost investment and productivity in Canadian businesses. We share the view of many experts that these plans are at odds with each other.

We were quite surprised to hear the government claim that the proposed increase won't make any difference in this area. Yet in its own 2024 report on tax expenditures, the Department of Finance explicitly states that the partial inclusion of capital gains seeks to encourage investment and support competitiveness.

The capital gains tax may be higher in many countries in the Organisation for Economic Co-operation and Development, or OECD. However, undermining this competitive advantage is actually likely to exacerbate our significant lag behind many of these countries in terms of business investment; tangible and intangible assets; research and development; and productivity.

Lastly, a number of the businesses that we represent felt that there was no need to rush things and set an effective date as early as June 25. This forced many entrepreneurs to hastily review their succession and retirement plans.

We're asking the federal government to reverse this decision, retroactive to June 25, 2024. Otherwise, we propose that a lower limit of $500,000, indexed to inflation, be applied to the increase in the capital gains inclusion rate for SMEs and that the incentive for Quebec and Canadian entrepreneurs be extended to all sectors.

Thank you again for your interest in our organization and the Quebec business community and for your attention. We look forward to answering your questions.

Thank you.

● (1550)

The Chair: Thank you, Mr. Noël.

[*English*]

Next, before we move to members' questions, we'll hear from Mr. Matt Lubberts from NOW Housing.

Mr. Matt Lubberts (President, NOW Housing): Thank you.

Hello, ladies and gentlemen, boys and girls, ministers and people experiencing homelessness in our communities.

I'd like to introduce myself. I'm Matthew Lubberts. I am the President and CEO of NOW Housing, which is a modular home builder in Ontario. We specialize in affordable housing solutions for all. We build transitional cabin communities for our homeless, as well as apartment buildings and homes for our housing rental market, which are very much needed. Our goal is to help alleviate the homelessness epidemic we are facing in this country.

First, let's list some of the facts. Canada is the second country in the world for living and quality of life, and I would like to thank our government for keeping that standard up in our country. Of the G7 countries, Canada is the second wealthiest and is heavily investing in infrastructure as well as tapping into our resources up north to provide us with a fantastic future.

Canada is the second-largest country in the world, and we can fit all of the countries from the European Union twice over in our land mass. Our population is about 10% of all the European countries at about 40 million; they are at about 440 million.

In other words, here in Canada we have the resources and the money to do a good or even better job than a lot of the European countries that have eliminated their housing issues or homelessness problems.

What are some of the problems we are facing? There are two that I'm going to touch on today: housing and taxes.

On housing, we have all heard of someone facing issues either finding a home or being able to keep their home. These are currently huge problems in our country. Down payments for housing in our country are anywhere from $100,000 to $200,000 for the average home. The cost of rent has soared to over $2,000 for any rental unit in most metropolitan areas. This is putting a lot of citizens of our country out of their homes and onto the streets, causing a lot of mental health and addiction issues and overwhelming many of the communities in every corner of our country.

With tax hikes such as the capital gains tax, we are pushing away investors and investment that are desperately needed for housing projects of all sizes, causing delays and cancelling them altogether, creating a much greater housing problem.

The CMHC reports that we are in need of 3.5 million homes by 2031, so what do we do? Here is a possible solution.

Let me ask you a question. What car do you drive, and how much do you pay for it? It's approximately $40,000 to $50,000. What would happen if you built that car in your driveway, with all of the specs and the quality control we see in a factory? It would cost you millions to produce it the same way, but this is exactly what we do with our homes. We take the materials, the tools and the labour, and we bring them—

● (1555)

Ms. Julie Dzerowicz (Davenport, Lib.): On a point of order, Mr. Chair, the bells are ringing.

The Chair: I see the lights. Yes, the bells are ringing, members. Would we like to give UC for the witness to finish his statement?

Okay. Thank you.

You may continue, Mr. Lubberts.

Mr. Matt Lubberts: Building housing and apartments the way we do now—taking our materials, tools and labour out to a construction site—is inefficient and wasteful. One of the ways to possibly solve this is to build our housing like cars. This would greatly increase the speed and reduce the wastefulness and cost of building homes.

I would like to thank Ontario for making a huge investment of over $30 billion in our EV market to bring in the EV companies to build more electric vehicles. It's this same type of investment that we need in our housing markets to provide the workers and labour force needed for these EV plants.

This capital gains tax will drive away investors and investment in our housing market. This will provide far fewer financial incentives to our entrepreneurs, who have the skills to help us with our housing dilemma. To build the 3.5 million homes by 2031 that CMHC announced in its report, we need investment, investors, entrepreneurs and home builders of all sizes to work with all levels of government to help solve these problems. We need everyone, from mom and pop all the way up to big, industrial factories. We need the government to get on board with investment and incentives, not more tax hikes. This is a step in the wrong direction.

I'd like to thank you guys and all the ministers here for the invitation to speak today. I would like to thank the government for its continued investment in our future through the billions of dollars it's put into the EV plants and into our northern communities to help us tap into our many, vast resources.

Thank you.

The Chair: Thank you, Mr. Lubberts, and thank you to all our witnesses for your opening statements.

As you heard, bells are ringing here in the House of Commons. That means that we have a vote. We don't have a lot of time; they are just 15-minute bells. We're already down about 10 minutes.

Members, what I suggest is that we break, as has been agreed to with all the whips. We need 10 minutes to get there, and then we have to vote and then have the ability to get back. We will get back to our witnesses, but I do want to inform the witnesses about this interruption. We will get back to members' questions once we return.

Thank you, and we are now suspended.

● (1558)

_____________________(Pause)_____________________

● (1631)

● (1630)

The Chair: Members, we're back.

Thank you to our witnesses for waiting patiently for the members as we got the vote done.

We are starting on our first round of questions. Each party will have up to six minutes to ask questions.

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

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): Thank you.

I'll start with Mr. Lubberts with NOW Housing.

How will the increase in the inclusion rate affect investment with your business and the products that you wish to produce?

Mr. Matt Lubberts: One of the things we're trying to do is build a new factory and find investors to come into an agreement with us. With some of the tax hikes that have been presented with the capital gains tax, we are finding it much harder to find investors, even local investors, to invest in some of the things we are trying to do, not just from a factory point of view but also from a project point of view. Some of the large construction projects we've worked with developers on have margins of profits of 3% to 5%. When the capital gains tax is raised, even though it's only on the profit side, it brings their margins down and they end up shelving the projects.

Mr. Pat Kelly: You described the shortage of housing in Canada and the housing crisis this shortage creates. We actually need investment in housing; we can't be chasing investment out of housing. It's your testimony that this inclusion rate increase will decrease the investment in housing and, therefore, decrease or fail to increase the supply of housing. Is that what I hear from you?

Mr. Matt Lubberts: That's basically part of it, yes. That's correct.

Mr. Pat Kelly: How does that affect employment? What will that do to the workers?

Mr. Matt Lubberts: For instance, in our case, with trying to build a new factory and expand our operations, which would then create more jobs, it has now been limited or is backed off, and we are unable to build. As an entrepreneur in this country and in the province of Ontario, we rely on a lot of the investors or private lenders to get behind us and invest so they can make their profits. Whether it's selling their stocks or the actual investment in the property, with a raise of the capital gains tax this limits their margins when they're looking at their performance.

Mr. Pat Kelly: In other words, a prospective investor, when having to choose between maybe something they're invested in currently and shifting capital.... The triggers of this tax increase would make it that much harder for you to attract new investment to your enterprise.

Mr. Matt Lubberts: Yeah, 100%. That's correct.

Mr. Pat Kelly: All right, thanks.

I'd like to move to Monsieur Noël of the Fédération des chambres de commerce du Québec.

You talked about venture capital. I'll give you a moment if you want to expand on how the increase in the inclusion rate will affect investment in new start-ups and new technology in Canada.

[*Translation*]

Mr. Philippe Noël: I'll let my colleague, Hubert Rioux, answer your question.

Mr. Hubert Rioux (Economic Advisor, Fédération des chambres de commerce du Québec): Thank you for your question.

The impact is quite clear, given that venture capital often constitutes a recycling of capital gains generated by previous entrepreneurial ventures or prior investments in start-ups, particularly in the technology sectors, as you said. The higher capital gains tax means that capital investment in technology start-ups isn't encouraged to the same extent as before, in any case. When capital gains arise, this also creates what is known as a “lock-in” effect. Investors may choose to delay the sale of their assets, meaning their shares in these start-ups, to avoid the extra tax.

This distorts investment decisions and misallocates resources by discouraging the effective diversification of capital across the technology sectors. It also discourages entrepreneurial recycling.

● (1635)

[*English*]

Mr. Pat Kelly: Okay. I'll ask for maybe a comment on the timing.

Monsieur Noël, you mentioned the curious timing of this tax announcement. It was telegraphed in a budget, but not to take effect until June. It's unusual, in a budget, to give people who are able to a chance to beat an incoming tax. The only reason to do this that I could think of would be to create a temporary bump in the government's revenue. We still don't even have enabling legislation on this. It was announced in the budget; there was a ways and means motion in June, and there's this strange timing of its coming into force.

Can you comment on the timing of this proposal from the government?

[*Translation*]

Mr. Hubert Rioux: With Mr. Noël's permission, I'll answer your question.

First, the capital gains inclusion rate hadn't been changed in Canada for over 20 years. When it comes to intergenerational equity, we're wondering the following. Why should capital gains accumulated over a significant portion of our entrepreneurs' working lives, or our companies' operating periods, suddenly be taxed more heavily? In our view, this poses a problem from an intergenerational equity standpoint.

Second, for example, when the capital gains tax was introduced in Canada in 1972, any gains accrued but not achieved prior to the introduction of the new tax were exempted in order to preserve intergenerational equity. This approach wasn't taken this time, which we find unfair.

Another issue concerns the timing of this inclusion rate increase. The current financial situation of Canadian companies, especially SMEs, isn't particularly rosy. Over the past year, the number of insolvency cases filed by Canadian companies has risen by over 50% compared to the previous 12-month period. According to the latest data from the Bank of Canada, investment intentions over the next 12 months are historically low compared to the average over the past 25 years. We find that the timing of the increase in the capital gains inclusion rate, in both the short and medium term, poses a problem. It comes at a bad time when the Canadian economy is slowing down.

The Chair: Thank you.

[*English*]

Thank you, MP Kelly.

We'll now go to MP Baker, please.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thanks very much, Chair, and thank you to all our witnesses. It's not often that I have another Yvan on the panel, so from one Yvan to another, that's where I'll focus my questions.

[*Translation*]

Mr. Duceppe, I would like to ask you a few questions about your earlier remarks.

You talked about the needs of your members and workers, the difficulty of finding housing and investments in the green economy. You also talked about the other priorities of your members.

Could you again outline your members' priorities for this tax revenue? How should this revenue be invested to address your members' priority issues?

Mr. Yvan Duceppe: In our view, intergenerational balance means meeting the needs of the public. Many needs of the public are partially met. I said this earlier.

Let me tell you what we think. Take the example of housing, which we heard about earlier. In our view, affordable housing should receive as much investment as possible. However, to make housing affordable, historically the best approach has been to invest in non-market projects, such as co-operatives or non-profit organizations, or NPOs, that own housing. This might prevent a situation where only units that cost $2,000 or $2,500 a month are on the market. This represents a significant example of a potential investment to support workers.

By raising the capital gains inclusion rate, the government is acting a bit like a Robin Hood. It's taking money from the richest 0.1% or 1%, as I said earlier, and using that money to provide Canadians with affordable housing. We know that this is a priority. This example shows how the new revenue can be used.

There are other examples, including the creation of programs such as dental care. These things help people in general, but they require revenue. This shows how the revenue can be used for public benefit. It's about meeting the needs of the public in general.

CSN members earn, on average, an annual income of around $50,000. For some, it's difficult or even impossible to pay $2,000 or $2,500 a month for housing.

● (1640)

Mr. Yvan Baker: Regarding what you just said, how many of your members have a second home?

Mr. Yvan Duceppe: I don't have any data on this topic. Certainly, some of them do, but it's definitely a small proportion. However, I know that a portion of capital gains is exempt. Moreover, even though some people have a second home, we believe in tax fairness and progressivity. We see taxation as a way to distribute wealth. This is significant, whether or not you own a cottage. That's our position.

Mr. Yvan Baker: You spoke about the need to invest in non-market housing. Why do you find this significant?

Mr. Yvan Duceppe: This plays a significant role in freezing the value of the building. The property can't be resold at a profit. As a result, the rents won't increase from $1,000 to $2,000 or $2,500 decade after decade. If a non-profit organization owns a building, the organization can't resell it. This keeps rent affordable.

Unfortunately, in Canada, this hasn't been done enough for many years. I'm saying this with all humility.

Mr. Yvan Baker: Thank you.

[*English*]

The Chair: Thank you, MP Baker.

We'll go now to MP Ste-Marie, please.

[*Translation*]

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

I would like to extend my greetings to all the witnesses. I want to thank them for being here and, above all, for their patience during the vote.

Before asking my questions, I would like to point out that I hear an echo. I don't know whether the interpreters find the sound quality acceptable.

● (1645)

[*English*]

The Chair: I hear a bit of an echo. Maybe you can keep speaking.

[*Translation*]

Mr. Gabriel Ste-Marie: I can still hear an echo. I don't know whether this is acceptable for the interpreters.

[*English*]

The Chair: We'll suspend for a few seconds and see if we can fix that.

[*Translation*]

Mr. Gabriel Ste-Marie: We will see if that is better.

I thank all the witnesses.

Before asking my first questions, I'd like to seize the opportunity presented by this first meeting to greet all my colleagues. I hope everyone had a good summer. I also greet all the staff who help with making this committee function. I thank them again for all the work they do.

I'd also like to seize the opportunity to welcome Pat Kelly back and to welcome Luc Berthold, who is with us today.

My first questions will be for the representatives of the FCCQ, the Fédération des chambres de commerce du Québec. I will then ask the representatives for the CSN, the Confédération des syndicats nationaux, for their thoughts.

We are talking here about changes made to the capital gains inclusion rate, based on the principle that we must make the system fairer and more progressive, regardless of the form of remuneration.

I am very much looking forward to seeing the bill's official text, because consultations were held until quite recently, particularly with businesses. What will change from what was announced over the summer? For example, I am concerned about small investors from the middle class who saved their entire lives to buy a multiplex. They could be penalized when they sell it. Will the bill's final wording take that into account?

When it comes to businesses, Mr. Noël clearly expressed FCCQ members' fears on the matter. What can we do to set up a fairer and more progressive system without penalizing the economy by, for instance, negatively impacting venture capital?

Incidentally, for small businesses, the capital gains exemption is going from $1 million to $1.25 million. After 2025, it will be indexed.

As Mr. Noël pointed out, there is also the Canadian Entrepreneurs' Incentive. It does not seem to be enough.

Mr. Noël, do you think this incentive will be enough for small and medium businesses, but not bigger ones? What about venture capital? What is your analysis of that?

You also suggested setting a threshold of half a million dollars. Could you elaborate on that?

I will then ask the CSN for its point of view.

Mr. Philippe Noël: If I may, Mr. Rioux, I will start. Then, I will let you round out my answer.

My colleague, Mr. Rioux, is in charge of our pre-budget brief. We presented it this summer as part of the federal government's consultations on the expectations we had for the next budget. He also looked into the venture capital issue.

When it comes to businesses and entrepreneurs in particular, you did well to mention from the outset that duplex and triplex owners put a lot of money into their properties. Then, on June 25, less than two months after the federal budget was tabled, they were penalized even more significantly on a tax level at the moment of sale. Some of them made those investments to fund their retirement. They had a short notice of just two months to react to the government's tax measure.

When it comes to venture capital, compared to OECD countries, Canada is lagging behind right now, even if it's only in terms of the funds businesses need to invest in research and development and capital expenditures, as well as to increase their productivity. We've seen a decline since the early 2000s. In 2022 alone, research and development spending fell from 60% to 55%. Meanwhile, in the United States, south of the border, they've progressively increased it, especially since 2010. The average is 78% for American businesses.

We think it is important to avoid sending mixed signals when it comes to business investments in research and development.

I will let Mr. Rioux answer your second question.

● (1650)

Mr. Hubert Rioux: First, the government currently maintains that as of 2029, an individual could, for example, get up to $6.5 million in capital gains and pay less tax than before June 25, 2024, due to the lifetime capital gains exemption, Canadian Entrepreneurs' Incentive and $250,000 threshold. The problem is that this calculation will only be valid in five years' time and, in the meantime, many businesses will be sold or transferred.

Second, since the entrepreneurs' incentive only applies to certain sectors, the break-even point will be much lower than for others, sitting at around $2.25 million, which is relatively low. A very large number of sales of businesses and SME transfers will generate over $2.25 million in capital gains in the next few years. There's no doubt about that.

Finally, in terms of companies' actual capital gains, tax payable will be 33% higher than it was before June 25, regardless of circumstance. Keep in mind that over 300,000 Canadian businesses declare capital gains every year. Therefore, it's an important aspect that will affect many people. That is why we think, specifically for reasons of fairness, that a $500,000 threshold should apply to businesses, just as it does to individuals.

Mr. Gabriel Ste-Marie: Could the CSN representatives respond?

[*English*]

The Chair: There's no more time.

[*Translation*]

Mr. Gabriel Ste-Marie: Since my time is up, I will ask them to respond when I have the floor again.

Thank you.

[*English*]

The Chair: In the next round.... No. It was just when the question and the answer came up.

Thank you, MP Ste-Marie.

Now I go to MP Davies, please.

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

Welcome to all the witnesses, and thank you for being here.

Mr. Lee, I direct my questions to you. The Centre for Future Work published an analysis of the capital gains measures this August, and I'll put some of its conclusions to you for your comment, if I might.

I'm quoting from it. It reads:

> Very high-income Canadians receive a disproportionate share of total income. But they receive an even more lopsided share of total capital gains. In 2021, those with total income over $250,000 (the top 1.5% of tax-filers) received 61% of all capital gains. That is forty times bigger than their share of the population.

It goes on:

> In contrast, low- and middle-income Canadians receive hardly any capital gains. Those with total income under $25,000 (one-third of tax-filers) receive barely 1% of all capital gains. Those with incomes between $25,000 and $50,000 (another 27% of tax-filers) receive 3.8%. Together, all those with total income under $50,000 (60% of tax-filers) receive just 5% of all capital gains.

Further:

> Together, all those with total incomes over $100,000 (one-eighth of the population) received almost seven-eighths of capital gains. There is no other form of income more concentrated among the richest people in the country.

I'd like your comment on that.

Mr. Marc Lee: I believe that's correct. I've read Jim Stanford's report.

We're concerned about the unequal distribution of income in Canada, and within that, the distribution of capital income is even more unequal. As well, within capital income, capital gains are the most unequally distributed.

I think there are some legitimate comments being raised by my colleagues on the panel, particularly to the extent that we don't want changes in tax policy to affect real investment. By that, I mean investment in machinery, equipment and buildings as opposed to speculative investments in real estate or other financial assets. We should have an eye to those things.

However, generally speaking, we're talking about the very *crème de la crème*. It's not even the top 1%; it's the top 0.1% of earners who are benefiting from these gains. Again, for the privilege of having reduced taxation on those through both the inclusion rate and the lifetime capital gains exemption, and there are a bunch of other rules that allow.... If there are multiple owners to an enterprise, each of them gets to avail themselves of the full exemption. If it's passing on a family farm or a small business to a child, there are provisions for allowing that to be claimed over multiple years.

I think the finance department and the legislation, to date, has done a good job of anticipating some of the unintended consequences. The particular tax change now, by having the threshold at $250,000 for the higher inclusion rate, is very well designed. There's a great study in the Canadian Tax Journal by Rhys Kesselman, who unfortunately passed away earlier this year and didn't get to see, essentially, his proposal get adopted as federal government policy. He was recommending a second-tier inclusion rate of 75%, so that's higher than the current one.

● (1655)

Mr. Don Davies: If I might, I want to turn to the impact of this on business investment, because there's been some concern, and you anticipated where I was going. Again, quoting from the report, it says:

> However, capital gains taxes (and other business taxes, like the corporate income tax rate) have been reduced dramatically since the turn of the century. Yet business capital spending has declined substantially under these lower tax rates. Spending on tangible machinery and equipment by Canadian businesses averaged around 6% of Canadian GDP until 2000—when the capital gains inclusion rate was reduced from 75% to 50%.... Since then, machinery and equipment investment has declined steadily. Business spending on intangible innovation (such as R&D, computer software, etc.) has also stagnated: it nearly doubled as a share of GDP in the 1990s (when the inclusion rate was 75%), but has not grown since.

Have you seen any data, Mr. Lee, that suggests that increasing the capital gains inclusion rate will lead to a reduced business investment, or is the opposite the case?

Mr. Marc Lee: As I was noting in my remarks, I think that to the extent that you are taxing capital income and spending that on public services, jobs and infrastructure, you're going to have actually a progrowth orientation to that policy.

My sense is that a lot of the arguments that have been made during the neoliberal era of tax reforms, particularly in the 1990s and early 2000s, have largely been chasing microeconomic efficiency gains in the name of boosting productivity or economic growth. By and large, those misunderstand the overall process of investment and what drives that.

We should be mindful of some of the concerns that have been raised. However, I'm not seeing any evidence that this is actually the case, particularly in an area like housing, as has been raised.

There are a lot of different factors that drive investment in housing, and housing investment is down right now, primarily because interest rates are up. However, the cost of construction is up as well. The cost of land is up. There are municipal fees that need to be paid, and then there are developer profits that need to be made on top of all that. All of those things determine the hurdle rates for ownership for a rental property [*Technical difficulty*] going to be developed.

At the end of all of that, there may be some capital gains made, but those tend to be a residual. They're more like a windfall, so actually taxing them is a fair way of going about that. That's why a lot of economists favour increases in capital gains taxes.

The Chair: Thank you.

Thank you, MP Davies.

Members and witnesses, we're moving into our second round of questions. The times will be a little different.

We're starting with MP Morantz for five minutes.

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

Mr. Lubberts, I want to start with you. I found your testimony very compelling. One thing that's clear to me is that although the Liberals and the NDP claim to care about building more affordable housing, they couldn't care less about it. If they really cared about it, they would adjust the tax system to encourage companies like yours to build more affordable housing. Instead, what they've done is the exact opposite. Would you agree?

Mr. Matt Lubberts: To some extent, yes, I think there are a lot of problems at a few different levels of government. I don't think there has been enough investment at all from the federal government into the affordable housing areas.

Mr. Marty Morantz: According to your testimony, increasing the capital gains tax makes it worse. Is that correct?

Mr. Matt Lubberts: It does. Yeah, that's correct.

I can give you an example. There are some developers I work with, and they build large, high-rise apartment buildings. Their profit margins are around 3% to 5%, so they're taking high risk on very low margins of profit when they view the performance. When they see municipal taxes, development charges or capital gains tax go up, all of these go into their margins on their performance, and when they reduce beyond the risk level that's acceptable by any investor, they have to back out of these projects.

● (1700)

Mr. Marty Morantz: They said that this tax will affect only 0.13% of Canadians, but the reality is, it doesn't just affect suits, it affects boots on the ground on these construction projects that are being shelved—

Mr. Matt Lubberts: That's correct.

Mr. Marty Morantz: —so the very people they claim to try and help, again, they really couldn't care less about. If they cared about them, they wouldn't bring in tax changes that would actually hurt people. For example, in the "about us" section of your website, it says you build affordable housing for indigenous people. According to your testimony, that increase means less affordable housing for indigenous people. Is that correct?

Mr. Matt Lubberts: Yes, the—

Mr. Marty Morantz: It says also that you build low-income housing for people with mental health or addiction issues. Based on this tax increase, that means less affordable housing for those people, too. Is that right?

Mr. Matt Lubberts: Yes, that's correct. With the developer—

Mr. Marty Morantz: Just to go on, recent immigrants, the working poor, veterans and racialized groups are being penalized because of the increase in the capital gains tax, because it will cause great companies like yours to build less affordable housing. Is that correct?

Mr. Matt Lubberts: That's correct.

Mr. Marty Morantz: Thank you, Mr. Chair. Those are my questions.

The Chair: Thank you, MP Morantz.

Now we'll move to MP Dzerowicz for five minutes.

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

I want to say hello to all members. A warm welcome to Mr. Kelly and Mr. Berthold. Welcome to the committee today.

I want to thank all the presenters for their excellent presentations. I found them all very interesting.

Mr. Lee, I very much appreciated you starting off, giving sort of your five key points about why you very much support the capital gains tax inclusion rate change.

I'd also add that—I think you alluded to it, but I just wanted to reinforce it—there's very much a value beneath why it is that we actually decreased the capital gains tax. It's because we're trying to reduce inequality, and we want to try to make sure that we are actually giving more money to the younger generation and taking from the older, wealthier Canadians and those with better income. I think you very much have articulated that well.

In answer to some questions, Mr. Lubberts said the capital gains tax would stop housing investment and there would be some correspondingly fewer jobs for Canadians. How would you respond to that, Mr. Lee?

Mr. Marc Lee: As I said, yes, there are a number of reasons for investment in housing. The main slowdown we're seeing right now in terms of housing investment is largely due to higher interest rates.

These are the big, macro factors that are driving housing investment.

One of the challenges they're facing around housing here where I live, in Vancouver and in British Columbia more broadly, is just simply the cost of building housing. It's a lot: When you have to buy land and you have to pay for construction, interest rates and other fees, just to break even on a rental property is about $2,000 a month. That's without any profit at all.

If we're trying to rely on the for-profit housing development sector to build affordable housing for us, it's just not really possible, simply because of the math of the cost of construction, so we've been emphasizing much more that we need a generational build of non-market housing, which can be built at lower break-even rents for rental properties, because you're taking developer profits out of the equation and you don't have to worry about this funny calculus about whether developers think that having to pay slightly more tax on various capital gains way down the road will affect the decision-making. You're directly building the housing that is needed by Canadians.

I think that's kind of a better way of looking at this. I mean, I've been looking at housing as an issue for eight years. I've published a lot. We have a big report coming out tomorrow with recommendations for local, provincial and federal governments around next steps for next-generation housing policies, and the capital gains inclusion rate has never come up.

Ms. Julie Dzerowicz: Okay. I very much appreciate that. That was a very appreciated answer.

I also appreciate your comments about more non-profit housing. I'm very much a big proponent of that.

The next question I have is this. I know that some professionals incorporate to get tax and liability benefits, whether it's your doctors or plumbers or other professionals. There have been criticisms that we're essentially killing working-class jobs or hindering entire sectors as a result of the inclusion rate tax change. What would be your response to this criticism?

● (1705)

Mr. Marc Lee: I think the specific change in mind in the 2024 budget is so very narrowly targeted that it's hard to see the types of impacts that you're talking about, particularly when a lot of the capital gains we're talking about are speculative forms of investment. They're not actually doing a whole lot to create jobs in the Canadian economy.

If we do want a fiscal framework that is more supportive of investment in terms of various subsidies or other things, there are other things we can do, like investment tax credits more specifically targeted, and you get the benefit of those only if those investments are made. To try to have all of that hang on capital gains inclusion rates seems to me to be very wrong-headed.

Ms. Julie Dzerowicz: Thank you so much.

The Chair: Thank you, MP Dzerowicz.

Now we'll go back to MP Ste-Marie.

[*Translation*]

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

I will address Mr. Duceppe and Mr. Bélanger.

Did you have time to look at the part on proposed changes that would apply to businesses?

Do you have any comments to make about the concerns expressed by the Fédération des chambres de commerce du Québec, or FCCQ, or on what other witnesses have said so far?

Mr. Yvan Duceppe: I will let Mr. Bélanger answer your questions.

However, I just want to say that before, when the capital gains inclusion rate was at 50%, it did not prove to be the solution for creating more investment in Canada. Many other factors came into play.

Mr. François Bélanger (Advisor, Economist, Research and Status of Women, Confédération des syndicats nationaux): At the Confédération des syndicats nationaux, or CSN, we leaned a little on Jim Stanford's analysis from the Centre for Future Work. His analysis was based on the Canadian government's 2021 financial data, as well as a great deal of data from Statistics Canada.

One of the interesting things that emerged from this analysis was that capital gains primarily occurred in two very specific economic sectors: the financial sector, specifically through financial intermediation, which represents 35% of capital gains in Canada. So, the questions—

[*English*]

The Chair: I apologize for interjecting, but we need you to move the boom on your microphone up to between your nose and your mouth. That's good.

[*Translation*]

Mr. François Bélanger: Okay. I'll go on.

The biggest sector is the financial sector, primarily through financial intermediation. That means selling, purchasing and quickly reselling to hit the arbitrage spread between rising and falling prices, which leads to making very large profits in very short periods of time. It doesn't really have any ripple effect on the real economy, economic production, or productivity; in short, everything that matters and is real to people. It therefore directly contributes to a kind of financialization of the economy.

According to that analysis, real estate is another important sector in terms of capital gains. Obviously, with the inflationary explosion we saw over the last few years, it accelerated even further and now represents 25% of capital gains. Again, these are significant gains and half are not taxed. Currently, they are taxed at 50%. Our current proposal is to increase it to 66.7%. I want to point out that it does not lead to any social gain. These gains are made exclusively through financial transactions.

Both of these sectors represent 60% of capital gains in Canada. For the rest, it goes down very quickly.

People say it has a negative impact on the growth of technological start-ups. However, the analysis shows that in 2022, the professional, technical and scientific services sector received less than 3% of all businesses' capital gains in Canada. That means it's certainly not one of the main sources of funding.

As the previous speaker, Mr. Lee, said, specific measures are needed to achieve this objective, such as targeted tax credits to encourage real initiatives. They might look like the federal government's measures in recent years' budgets: green economy incentives, for example.

● (1710)

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

[*English*]

Next is MP Davies, please.

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

I'm going to pick that up and go back to you, Mr. Lee.

Again quoting from this report, it says:

> Since the introduction of capital gains taxes in 1972...the federal government has adjusted the inclusion rate on capital gains several times: lifting it from 50% to 66.7% and then to 75%, and then reducing it in reverse increments.

I would note, by the way, that both of those increases, to 66% and then 75%, were done by Conservatives. The Mulroney government increased the capital gains inclusion rate.

The report goes on:

> There is no evidence of a predictable impact of capital gains inclusion on the rate of investment by Canadian businesses in new technology—whether tangible machinery and equipment, or intangible investments in research and intellectual property.

Ironically, the study found:

> Both types of business technology investment increased after the capital gains tax was introduced (first at 50% inclusion), and then both increased again when the rate was raised to 66.7%.

The conclusion is:

> The strongest sustained technology investment recorded [in Canada] was in the period from 1988 through 2000, when the inclusion rate was either 66.7% or 75%.

Mr. Lee, can you help us understand that?

Mr. Marc Lee: I think that Jim Stanford in that case didn't do a regression analysis to try to find all of the possible explanatory variables. What he's pointing out is that there's no prima facie case that lowering the inclusion rate led to increased business investment and vice versa in the times when the inclusion rate was—

Mr. Don Davies: I want to jump in and ask you, Mr. Lee, about jobs.

The report says:

> The biggest recipients of corporate capital gains, in general, have very poor job-creation records. In the last five years, the two biggest recipients (Miscellaneous Intermediation and Real Estate) received over half of all corporate capital gains, but created no net new jobs.

Can you explain what you know, if anything, about the impact on capital gains inclusion rates and job creation?

Mr. Marc Lee: Yes. I think it's related to my comments earlier that a lot of capital gains, as realized, are from speculative activities that don't improve our productivity and long-term economic prospects. In some cases of financial intermediation....

There's a lot of literature in recent years from Joseph Stiglitz and Mariana Mazzucato, who largely see the growing profits in the financial sector as being almost parasitic on the real economy. The extent to which these types of provisions encourage capital into more speculative forms of activity—as opposed to real investment that builds our productivity over the long run, like investment in machinery, equipment, factories, buildings and that sort of thing—is problematic.

We should be careful to distinguish those, particularly because economists have a very specific definition of what they're talking about when they say “investment”. It's very different from “investment” on the front page of The Globe and Mail, which tends to be much more about speculation in financial assets and real estate.

Mr. Don Davies: Thank you.

The Chair: Thank you, MP Davies.

Now we'll go to MP Berthold. Welcome to our committee.

[*Translation*]

Mr. Luc Berthold (Mégantic—L'Érable, CPC): Thank you very much, Mr. Chair.

I thank all my colleagues who welcomed me. I hope they will still be happy to see me today, after I’ve finished asking my questions.

Just so the witnesses understand why I’m here today, I want to say that I represent a very rural and very touristic riding: the riding of Mégantic—L’Érable, in the Appalachian region. We have mountains. We have lakes. Around those lakes, there are many cottages. Around Mégantic Lake, there are also many holiday resorts. You should come see it. It’s quite incredible. It’s absolutely beautiful. I invite all of you to come and see just how beautiful our region is.

We’re also next door to Beauce. Thetford Mines is a city that used to be a mining town; it now holds a large number of SMEs. If we are still living in the region, it’s thanks to those SMEs. It’s the first time a government measure generated so many reactions in my constituency office. I just explained why.

I will address the Fédération des chambres de commerce du Québec. My question is for Mr. Noël.

I saw that all of the chambers of commerce throughout these regions, such as Saguenay, commented on the government’s decision and the vote to pass the ways and means motion increasing taxes on capital gains.

Can you explain to me in a few words why there were so many strong reactions to this tax measure imposed by the Liberals on the local economy?

● (1715)

Mr. Philippe Noël: Yes.

I also said at the outset that we heard a lot of grumbling in our network. You spoke with chambers of commerce, as well as businesses who are direct members of the Fédération des chambres de commerce du Québec, or FCCQ. I'm thinking specifically of SMEs, or people involved in the SME sector. They say this measure completely discourages success and any incentive to invest in their own business.

Currently, the amount of investment into research and development is said to be very low. I just heard a few speakers say so. This will not, in fact, improve the situation. This tax measure will not help businesses get back on track.

As for Canada—which is at the bottom of the list of OECD countries in terms of investing in research and development and in developing its access to venture capital—this measure runs counter to the general principle of being able to access venture capital. A business will often benefit from selling shares to support its growth. We frequently hear those kinds of comments. We heard them well before the measure was announced in the last federal budget, back in April.

Mr. Luc Berthold: Every time the Liberals announce a measure to supposedly help people, it hurts them and leads to a great deal more negative impacts. The collateral damage is immense.

I can assure you that people with cottages around my region's lakes and on its mountains are not all millionaires. They are people who inherited cottages from their parents and great-grandparents. They chose to continue investing, to renovate them and make them more attractive, so that they could also benefit from retirement, especially a retirement fund. It's their way of investing.

You must have heard comments from your members too, because they include SMEs and workers. You said that the discontent is widespread. It's not just coming from the big owners of huge businesses.

Mr. Philippe Noël: You are right. Even on the level of corporate taxation, we often hear this criticism. As you know, corporate tax rates on capital gains are high compared to those of states around us. This proposed measure therefore represents yet another burden on top of everything else.

As for cottage owners, as you said, they invest in their own dwelling, sometimes to improve it. It keeps the economy—and sometimes tourism—going in certain regions, including yours. Certainly, if we take all these factors into account, the proposed increase is not a decision that supports our economy. Furthermore, it often penalizes businesses that succeed. And these people are not necessarily multimillionaires, just people who may be on the verge of retiring and are specifically counting on that to supplement the next few years.

Mr. Luc Berthold: Have you done an analysis, or studied the effect of this measure's negative impact on our economy?

Mr. Philippe Noël: Perhaps I could let my colleague Mr. Rioux respond, since he did quite a bit of digging into the issue.

Mr. Hubert Rioux: Quantitatively, it is difficult to determine the exact effect, because we do not yet have all the measure's details. We will have them this fall. However, there are a number of things we can say already.

For example, the Canadian Entrepreneurs' Incentive—which was set up to compensate somewhat for the effects of the increase—doesn't apply to the arts and entertainment, recreation, hospitality or restaurant industries. I don't think business owners in these types of industries are part of Canada's wealthiest 1%. The same goes for those employed by those businesses. I say it very respectfully, but so much for fairness!

That said, coming back to a certain number of points raised about investments made by businesses, they do invest capital, especially to save for harder times, expansions or acquisitions.

The increase will therefore make businesses' investment decisions more difficult. The acquisition of high value-added assets with potential for appreciation, such as intellectual property, even land or property, aren't always passive or speculative investments. Economic studies are clear on the matter. Increasing the capital gains inclusion rate will negatively impact the mergers and acquisitions market that we need to increase the size of our businesses.

In Canada, we are lagging in this area compared to our competitors. Our businesses are generally a little smaller, which has an impact on their productivity rates.

● (1720)

The Chair: Thank you, gentlemen.

Thank you, Mr. Berthold.

[*English*]

Now we will go to MP Sorbara, please.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Chair, and welcome to the witnesses.

First, I'd just like to make a comment. We know that Canadians over the last several years have faced a very high cost of living due to global inflation. I know that many of the residents in my riding have voiced those concerns. It was obviously very good, solid economic news to have the inflation rate come in at 2% today. It's at the bank's target. It has been within the bank's target range for all of 2024.

We have seen three rate cuts, cumulatively 75 basis points. As an economist, and in my personal opinion, this sets up the Bank of Canada to pursue further rate cuts. I think we've achieved what's called a “soft landing”, in economic terms. Rates will be coming down. Canadian families know that. It's a good thing to do. We have much more work to do. We want to make sure we take care of all Canadians. That confidence continues to increase.

With that, Chair, I'd like to now turn to the subject matter at hand, the capital gains front and specifically the inclusion rate.

I thank you, gentlemen, for your viewpoints. As we know, our tax system is design to raise revenue to pay for services and programs that Canadians depend on, be it old age security, be it today the Canada child benefit or be it the national early learning and child care plan. However, we must also design a tax system that does not distort and that does not provide perverse incentives for certain behaviour to occur. With differing tax rates for interest, dividends and capital gains, that is what happens with the capital gains inclusion rate being at the level it was. “Economic actors”, to use that term, would pursue such policies as surplus stripping. I won't get into the specifics of that, as that would take a little longer, but surplus stripping is a tax avoidance strategy used to garner capital gains instead of other forms of income.

We need to have a tax system that promotes fairness and neutrality or integration. The step we've taken on the increase to the capital gains inclusion rate is something that answers and does all of those to a certain extent. What we don't want is a system that purports to provide incentives for tax avoidance strategies to take place, distorts economic activity and leads to an extreme accumulation and concentration of wealth. That is not good for our society. That is not good for our children. That is not the Canada I fundamentally believe in.

Going from an effective tax rate that is currently 25% and moving the effective tax rate up to a certain number higher, depending on the province you live in, but still being allowed to generate a lot of economic wealth is something that I believe is fair. It provides more for a neutral tax system that is progressive. It allows us to fund a number of programs that Canadians depend on, such as the Canadian dental care plan, the early learning and national day care plan, the workers benefit and the seniors benefit, which goes to thousands of seniors in my riding.

With that, I have a question for Marc Lee.

Would you not agree that the inclusion rate change results in a more progressive, fair and neutral tax system?

Mr. Marc Lee: Yes. The increase in the inclusion rate to 66.7% for capital gains above $250,000 is very narrowly targeted. It will fall on only a very small handful of very well-off individuals and only upon the time when they sell their assets. It's likely to have very few distortions as a result. In fact, economists have argued that by making this particular change, it actually reduces the distortion between that and dividend income.

● (1725)

Mr. Francesco Sorbara: Yes.

Mr. Marc Lee: That is one of the things we want. We want to have neutrality so that people aren't going through complicated economic endeavours in order to make income look like capital gains so that it gets preferential tax treatment.

Mr. Francesco Sorbara: Exactly, Marc.

In my remaining time, the argument that somehow research and development or productivity over the last three decades has been.... There's a causation role between the level of capital gains rate and the level of productivity in our country. Many factors determine total productivity, with human capital being one, capital being another, and other components.

I've heard some of those arguments. I will disagree with those fundamentally. Our productivity for the last three decades here in Canada has been affected by a number of variables, not solely on what the inclusion rate is. Would you agree with that?

Mr. Marc Lee: Yes, I would. I mean, there are many factors that determine investment and productivity. If anything, these are the broader macroeconomic factors: the overall level of interest rates and the state of government debt and deficits. These tend to drive economic factors much more than those looking for narrow efficiency gains through tweaks in the tax system.

The Chair: Thank you, MP Sorbara.

We're getting close to the end of our time; we just have a few minutes left. I understand that there is agreement to have MP Morrice ask the last number of questions before we conclude today.

MP Morrice, go ahead, please.

Mr. Mike Morrice (Kitchener Centre, GP): Thank you, Chair.

Thank you, colleagues.

My question is for Mr. Lee.

Mr. Lee, I really appreciate your making clear how very high-income earners do receive the most capital gains, so they obviously disproportionately benefit from the tax savings of partial tax inclusion. It's a big part of why I've supported this government's change to the capital gains inclusion rate. It's because it gets us closer to ensuring that the wealthiest in our country pay their fair share, so that we can then address the crises that communities like mine are facing, from the climate crisis to housing.

That said, I did hear questions from moderate-income earners in my community this summer. I'd like to share an example with you and get your take on it. Ken shared with me that he purchased a property decades ago that has grown significantly in value. He hopes to leave his property to his daughter when he passes, but as a result of the transfer, his daughter would be left with a significant capital gain tax liability without any increased cash flow. That's, of course, increased due to this change. Ken shared with me that he's not sure how his family would pay for that without being forced to sell a property that has significant sentimental value to them.

My question for Mr. Lee is this: Do you feel the government considered this impact on more moderate-income earners like Ken and his daughter? Do you recommend any supplemental measures that could avoid unintended impacts of this potential loss of a property that holds, like I said, some significant sentimental value for the family?

Mr. Marc Lee: I think it's important to first point out that people who are declaring large capital gains are in an incredibly privileged position in our society. On the back of the napkin, so to speak, looking at $1 million in capital gains in Canada, under the new rules, $625,000 of that million would need to be declared for income tax purposes, whereas previously $500,000 would have to be declared for income tax purposes. At the top marginal tax rate, if you're looking at a 50% federal and provincial income tax rate, the difference is $60,000 on $1 million of income.

Maybe if you're talking about a situation where you're getting into millions and millions of dollars and it's all declared in one year, there may be some issues with that, but again, we're talking about how much of a discount we're providing compared to the 100% inclusion rate for earning income through wages and salaries, so I don't know that that's necessarily the core thing we need to be thinking about. I'd be interested in seeing specific examples of where this happens.

There are provisions in the tax code for farms and fishing properties. When you transfer them to your child, they can be spread over up to nine years, thereby reducing the likelihood of amounts and capital gains going above that $250,000 threshold. In situations like that, to the extent that we consider them a public policy problem, allowing folks to average out those gains over a number of years is generally a good way of doing it.

● (1730)

The Chair: Thank you very much, MP Morrice.

Thank you to all our witnesses for your testimony here today on the changes to capital gains. We really appreciate it.

We wish you the best with the rest of your day.

Thank you very much, everyone.

We are adjourned.