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• (1630)

[English]

The Chair (Hon. Karina Gould (Burlington, Lib.)): I call this meeting to order.

Welcome to meeting number 10 of the House of Commons Standing Committee on Finance.

Today's meeting is taking place in a hybrid format. I would like to remind participants of the following points.

[Translation]

Please wait until I recognize you by name before speaking. If you are on the video conference, please click on the microphone icon to unmute yourself. When you are not speaking, your mike should be on mute.

[English]

For those on Zoom, at the bottom of your screen you can select the appropriate channel for interpretation: floor, English or French. For those in the room, you can use the earpiece and select the desired channel.

[Translation]

Members who wish to speak are asked to raise their hand, whether they are in the room or participating virtually. The clerk and I will do our best to maintain a consolidated speaking order.

[English]

Pursuant to Standing Order 108(2) and the motion adopted on Monday, September 22, 2025, the committee will commence its study of the use of offshore tax havens.

I would like to welcome our witnesses.

From the Canada Revenue Agency, we have Marc Lemieux, assistant commissioner; Eric Ferron, director general, criminal investigations directorate; Alexandra MacLean, acting director general, international and large business directorate; and Adrianna McGillivray, director general, compliance programs branch.

From the Department of Finance, we have Trevor McGowan, associate assistant deputy minister, tax legislation, and Robert Demeter, director general, tax legislation.

From the Financial Transactions and Reports Analysis Centre of Canada, otherwise known as FINTRAC, we have Annette Ryan, deputy director, partnership, policy and analysis, as well as Michael-John Almon, assistant deputy director.

I understand that only CRA will be presenting opening remarks.

You have five minutes for your opening remarks. Please proceed.

Marc Lemieux (Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency): Thank you.

I would like to say that we've tabled a more fulsome set of remarks. In the interest of time, I'll keep it to the main points.

[Translation]

Good afternoon.

My name is Marc Lemieux, and I am the assistant commissioner of the compliance programs branch at the Canada Revenue Agency, or CRA.

The experts with me today are Eric Ferron, director general of the criminal investigations directorate; Adrianna McGillivray, director general of the compliance programs branch; and Alexandra MacLean, special adviser and acting director general of the international large business directorate.

Thank you for the invitation to appear before this committee today in order to discuss the CRA's efforts to combat tax evasion and tax avoidance. Combatting tax evasion and tax avoidance is a priority for the CRA, and I will be sharing the progress we're making, as well as the work that lies ahead.

• (1635)

[English]

Let me begin by stressing that the CRA is making significant progress in identifying and addressing aggressive tax planning, tax avoidance and tax evasion. Over the past several years, we have taken significant strides forward by investing in audits and creating new compliance programs. In 2024-25, there was a fiscal impact of about \$18 billion.

We are carrying out more compliance activities and focusing on high-risk areas, particularly those involving sophisticated schemes. We are using and exploring new technologies to improve our audit and compliance programs by making them more efficient and effective.

On the international front, our collaboration with global partners continues to strengthen. Through the OECD's Forum on Tax Administration, we engage with over 50 tax administrations. We work together to share best practices and emerging trends, deal with international risks and improve compliance. This collaboration has supported the implementation of initiatives such as the OECD's common reporting standard, which gives us access to financial account information from close to 100 jurisdictions. It provides us with the data we need to uncover offshore accounts and ensure that taxpayers are paying their fair share.

However, it is important to note that holding an offshore bank account or offshore assets does not necessarily mean a taxpayer has committed any tax wrongdoing. We must take the time to carefully review the complex arrangements and ensure that there is a justified economic transaction that is aligned with the object and spirit of the Income Tax Act.

In addition, Canada is part of one of the most extensive tax treaty networks in the world. These exchanges and networks allow for better tax transparency and international co-operation.

Domestically, the government has provided us with critical legislative tools to enhance our effectiveness. For example, new mandatory disclosure rules require taxpayers and advisers to report certain transactions that could be used for aggressive tax planning. So far, we have received over 4,200 disclosures under these rules. We are examining each of them and starting audits where the disclosures reveal concerns about tax avoidance.

It is crucial for our legislative and administrative frameworks to be responsive. We are actively exploring new technologies like artificial intelligence and ensuring that our auditors and investigators have the tools they need, so that we can respond to emerging compliance risks and maintain the integrity of Canada's tax system.

[Translation]

Our goal is simple: to ensure a fair tax system, where everyone pays their share and Canadians can have confidence that the rules are being applied to all.

Thank you.

The Chair: Thank you, Mr. Lemieux.

I would also like to welcome Stéphane Sirard, deputy director of intelligence at FINTRAC.

[English]

We're going to start our rounds of questioning.

First, we have Mr. Kelly from the Conservatives for six minutes.

Pat Kelly (Calgary Crowfoot, CPC): Thank you, Chair.

In 2018 the Auditor General identified offshore transactions as highly problematic. The Auditor General pointed out that with regular Canadians, small business owners and ordinary taxpayers, when the CRA would request a receipt or information to support a claim, the tax filer had 90 days to comply. The taxes would then be automatically assessed in the absence of the production of a document. However, for other taxpayers, such as those with offshore

transactions, we found that the time frame to comply was extended for months or years.

It was the Auditor General's finding that offshore filers were given a break by the agency. After months or years of non-compliance with requests for information, taxes would simply be waived. I asked Commissioner Hamilton about this at a more recent meeting, when he was here in December. He didn't have any answer to my question about whether or not any real progress had been made.

Do we now have an even playing field between ordinary Canadian tax filers and offshore tax filers or those with offshore accounts?

• (1640)

[Translation]

Marc Lemieux: I will go first, and then I will pass the floor over to my colleagues who are the audit process experts.

Of course, we don't treat those files the same way, but we do make sure the approach is fair. Some taxpayers are better equipped than others to answer our questions, and we take that into account when setting the deadlines. That means some taxpayers can have more time, but we strive to be as fair as possible.

Ms. McGillivray can tell you more and explain how we carry out our audits.

[English]

Adrianna McGillivray (Director General, Compliance Programs Branch, Canada Revenue Agency): It's true that the OAG review did reveal that there appeared to be some inequities between the treatments of the taxpayers in certain categories.

There is an acknowledgement that offshore transaction audits involve complex arrangements that require extensive information-gathering activities. That does necessitate more time for the auditors to obtain that information.

That said, since—

Pat Kelly: If I may.... I'm sorry. There was quite a bit of time there for a response without an answer on whether we have shorter times, so I'd like to skip through and just get you to answer this question.

The recommendation was accepted by the agency—that the agency should set time limits around these audits. Are there limits? What are they, and how short are they? What's the gap between regular tax filers, who have 90 days, and offshore filers?

Adrianna McGillivray: Since that report, we did publish a communiqué to all of our auditors—and it is available online—that standardizes the timelines around audits. Time frames associated with information requests are detailed in that communiqué.

Pat Kelly: They get more than 90 days, then.

Adrianna McGillivray: It's a 30-day time frame, and there are extenuating circumstances where the time frame may be lengthened if the situation warrants it.

Pat Kelly: Okay. Thank you.

Brookfield Asset Management, under the management of the current Prime Minister.... When he was there, he oversaw the creation of three funds: Brookfield global transition funds I and II and the catalytic transition fund. Two of these funds were domiciled in Bermuda and one was in the Cayman Islands. Are these locations tax havens?

[Translation]

Marc Lemieux: We cannot comment at all on specific cases. Unfortunately, we have to keep our answers general.

[English]

Pat Kelly: My question was whether Bermuda and the Cayman Islands are tax havens.

Marc Lemieux: I'll let—

Alexandra MacLean (Acting Director General, International and Large Business Directorate, Compliance Programs Branch, Canada Revenue Agency): I think it's reasonable to call them low-tax or no-tax jurisdictions.

Pat Kelly: Okay. Thank you.

How much does the use of tax havens by large companies cost Canadians in lost revenue?

[Translation]

Marc Lemieux: That's hard to say. We've done studies, even internationally, in an effort to determine the gap between how much these taxpayers should pay and how much they do pay. The CRA has published reports on that, most recently in 2022. At the time, I believe the tax gap was between \$1 billion and \$3 billion. However, the estimate is based on a number of assumptions, so it's difficult to come up with an exact figure.

[English]

Pat Kelly: I'm running out of time.

We're going to have the PBO later today. Does the Canada Revenue Agency now give the PBO access to the information that the PBO has long requested and that has been refused by the agency, so that the PBO can measure the tax gap?

I'm not talking about macroeconomic data. I'm talking about the actual tax information that successive PBOs have requested from the CRA. Do you now co-operate with that?

• (1645)

The Chair: Thank you, Mr. Kelly. That's your time.

Pat Kelly: I have 10 seconds, I think.

The Chair: No, that was it.

We'll move on to Mr. Lavoie for six minutes.

[Translation]

Steve Lavoie (Beauport—Limoilou, Lib.): Thank you, Madam Chair.

Thank you to the witnesses for joining us.

For those who don't know, I represent the riding of Beauport—Limoilou, in the Quebec City area, and I spent two decades working in the banking sector, so talking finance brings me back a few years.

Mr. Demeter and Mr. McGowan, how does Canada make sure its tax rules are consistent with its base erosion commitments through the OECD?

Trevor McGowan (Associate Assistant Deputy Minister, Tax Legislation, Department of Finance): Thank you for your question. I'm going to answer in English.

[English]

We are actively involved with the OECD and the inclusive framework project of 140-plus members, organized by the OECD and the G20, in the development of international tax policy and rules. We are heavily involved, both at the planning and group side of things, through the development and then through the implementation of the rules.

In terms of ensuring consistency between Canada's rules and the international standards that we worked on, of course, because we have a hand in the development of the rules, we can help ensure that they are appropriate for the Canadian context and that they work here domestically. Our representatives who work on developing the rules are also the same ones who implement them, which, of course, provides for a seamless application of knowledge.

However, there are a number of factors that are built into the processes that help ensure compliance. There is an ongoing peer review, for example, with the pillar two rules, whereby Canada or any country will put out its rules and be evaluated by a number of other members of the inclusive framework to ensure not just that our rules are consistent with the base rules and the consensus that is agreed upon at the inclusive framework, but also that we are engaged in reviewing our peer countries as well. That has been built into the system to ensure uniformity as much as is possible, given that every country will have its own unique legal system and landscape.

[Translation]

Steve Lavoie: Along the same lines, I'd like to know what mechanisms you have planned to prevent overlap or gaps between the federal and provincial beneficial ownership registries?

[English]

Trevor McGowan: Again, we work very closely with our provincial counterparts. We're actually just planning for an ADM-level meeting in a few weeks to help ensure consistency.

We have, for the large part, a uniform tax base with a number of provinces, and we work very closely with those who do not share that base. We have a very open, collegial and good working environment with our provincial counterparts where we exchange ideas, certainly at the policy development level and at the officials level, and help ensure that their rules work together—not just that they are integrated well, but also.... For example, recent amendments to, say, the general anti-avoidance rule were inspired, in part, based upon communications with Quebec and their rules. It's a two-way street.

[Translation]

Steeve Lavoie: Thank you.

Mr. Lemieux, how does the CRA determine which sectors or countries to give priority to when investigating offshore tax evasion? What's the procedure?

Marc Lemieux: We use risk models to identify places we believe represent the highest risk, and that's how we determine which audits to conduct. That is the procedure, but I will ask Ms. MacLean to provide more information on the method we use.

• (1650)

Alexandra MacLean: All right. I'm going to answer in English.

[English]

For the large business population we risk-assess 100% of the population. We use about 250 algorithms to assess the data that arrives and to develop a risk ranking. We deploy our audit resources in accordance with the risk, as determined by.... The algorithms were originally developed by human tax experts, but they then run on the data.

Added to that, we now have additional information sources, which we're quite excited about. Marc mentioned the mandatory disclosure rules that have recently been introduced, and we now have a number of disclosures that we are reviewing, categorizing and assigning for audit based on the risk that we see in those reports. That's an introduction.

[Translation]

Steeve Lavoie: Thank you.

The Chair: Thank you, Mr. Lavoie.

We now go to Ms. Cobena. No, I am mistaken. It's Mr. Simard's turn. My apologies.

Mario Simard (Jonquière, BQ): How quickly you forget me.

The Chair: Never, Mr. Simard. Go ahead.

Mario Simard: Thank you, Madam Chair.

Mr. McGowan, first, I want to apologize for not being as knowledgeable as the member who is usually here instead of me, Jean-Denis Garon, an economist. I hope my questions won't come across as too simplistic.

I will preface my questions by telling you that, from the outside, it often looks as though there's a double standard when it comes to tax evasion and tax avoidance. While the average taxpayer would probably have a hard time finding a tax haven, both the finance de-

partment and the CRA are more willing to think about ways to make life easier for major hedge funds and multinationals.

I say that because, given what I know about tax evasion, I am gathering from various sources that you put a mechanism in place allowing multinationals to bring tax-free money back to Canada from tax havens, thanks to the elimination of double taxation on income tax. A regulation was introduced to that effect. Ordinary taxpayers, who don't have an economics or tax background, see the mechanism as a way to avoid paying taxes.

I would therefore like you to explain what section 5907 of the income tax regulations seeks to achieve, because it lets companies bring tax-free money back to Canada. If the department drafted such a regulation, I assume it benefits somehow. Now I'd like to understand how taxpayers benefit from the regulation on a day-to-day basis.

Trevor McGowan: I'm going to answer in English, because I want to make sure I use the right terminology.

[English]

I think there were three issues raised.

The first is the distinction between tax evasion and tax avoidance. Tax evasion is, of course, a crime, and it's dealt with largely through information sharing. Tax avoidance is the legal avoidance of tax. Where it is aggressive or inappropriate tax avoidance, then typically the government responds and tries to shut it down.

The question, of course, is absolutely correct and, I think, insightful. There are greater opportunities for international tax avoidance, depending upon the size of the enterprise. That is, for example, part of the reason pillar two—the global minimum tax, which would serve to impose a minimum tax rate of 15% on all the companies within a multinational group, regardless of what country they're in—applies only to the largest multinational organizations, those with gross revenues in excess of 750 billion euros. Those rules apply to the largest companies, not only in response to the fact that they have the capacity to bear the additional compliance burden but also out of recognition that they do more of this type of planning. It would provide the greatest impact fiscally.

Finally, in terms of the specific regulation mentioned, I believe the question relates to our exempt surplus system. That is a set of rules within the Canadian income tax system that allows active business income earned in a treaty partner or tax information exchange agreement country to be repatriated to Canada tax-free. The policy underlying that set of rules allows Canadian businesses to compete on a level playing field with their competitors in foreign jurisdictions.

If there's tax imposed in the foreign country on that active business income, then that is the tax that applies. It's called a territorial system, where Canada taxes our companies on their worldwide incomes, but active business income earned in our treaty partners and in tax information exchange agreement partners can be repatriated tax-free. That allows for a level playing field and a separation of taxing rights between Canada and other countries.

Finally, I think it's important to note that it applies only to active business income. It doesn't apply to passive income. Those are the kinds of passive investment returns that can be more easily shifted to a foreign jurisdiction, and those are taxed on a current or accrual basis in Canada under what are called our foreign accrual property income rules.

Effectively, tax repatriation applies to certain active business income from foreign affiliates.

I hope that answers the three parts.

• (1655)

[*Translation*]

Mario Simard: Thank you, Mr. McGowan.

The Chair: Thank you, Mr. Simard.

[*English*]

Ms. Cobena, we'll go over to you for five minutes.

Sandra Cobena (Newmarket—Aurora, CPC): Thank you, Madam Chair.

Canadians pay taxes when they earn a paycheque, when they buy a house, when they own any property, when they spend money and, of course, even when they die. It does feel, for the average Canadian, that there's no way to avoid the taxman, unless of course you're wealthy enough to set up an offshore tax haven.

Canadians were shocked to learn that the Prime Minister once chaired a pension fund that was deliberately based out of Bermuda, which is one of the world's top tax havens, to avoid paying the taxes—the same taxes that every Canadian family would have to pay.

Could you please explain, in plain terms, what a tax haven is, why corporations use them and what challenges the CRA faces when trying to collect taxes from entities that operate in Canada but shift their profits abroad?

Alexandra MacLean: I'll start on that one.

“Tax haven” is a term for a jurisdiction that imposes low, minimal or no income tax. It's often corporate income tax, but it can be personal income tax as well. Sometimes it's a special regime that's available only to foreign entities with the objective, occasionally, of attempting to attract investment income from other countries. That's the definition of a tax haven.

You asked, just to get your question clear, about challenges the CRA encounters.

Sandra Cobena: I asked why corporations use them and then about the challenges.

Alexandra MacLean: Why do corporations use them? In my experience, corporations generally are motivated to return profits to

shareholders. That's their bottom-line objective most of the time: to benefit shareholders. They look to provide the highest after-tax returns possible, so they're looking for low tax rates. That's a reasonable objective for business people.

Our challenge at CRA is to make sure that profits attributable to Canada are properly reported in Canada, and that profits that belong to other countries, such as important trading partners like the United States, the Europeans, the Japanese and the Koreans, can be taxable appropriately in those countries as well.

We have some tools. Currently, we use transfer pricing rules consistently with other countries that require that intragroup transactions occur at arm's-length prices, so really at commercial terms within a multinational group across its supply chain.

My colleague Trevor mentioned the foreign accrual property income rules. Canada has a policy of requiring that passive income that's earned offshore by Canadian multinationals and Canadian high-income individuals is taxable on an accrual basis in Canada as a general matter.

• (1700)

Sandra Cobena: May I ask a follow-up question?

Would you agree that ordinary Canadians don't have the luxury of setting up these complicated offshore tax structures in countries like Bermuda to avoid paying taxes? They're not simple structures.

Alexandra MacLean: There are certain transaction costs that have to be taken into consideration for offshore structures.

Sandra Cobena: Would you say that ordinary Canadians would not have the luxury to set up those structures, then?

Alexandra MacLean: I think that's fair.

Sandra Cobena: Would you agree that when high-income individuals or corporations move taxes offshore, the burden doesn't actually disappear and that it actually shifts onto the shoulders of working Canadians who don't have access to these schemes?

Alexandra MacLean: The CRA is very active in applying Canada's tax rules to ensure that all Canadians are paying taxes appropriately under our laws. We have a lot of good new tools, and we're experiencing a lot more success than previously, so I guess I would just say that it's not the case that rich people can simply shift funds offshore and avoid detection and avoid the law.

Sandra Cobena: You explained that there are transactional costs to setting up these structures. In other words, you have to be able to afford an expensive lawyer and an expensive accountant to set them up. That, oftentimes, is not accessible to an ordinary Canadian.

On that basis, then, these structures are not available to ordinary Canadians. It's only for the wealthier—

The Chair: Thank you, Ms. Cobena. That's your time.

We're going to move to Mr. Sawatzky now for five minutes.

Jake Sawatzky (New Westminster—Burnaby—Maillardville, Lib.): Thank you, Chair, and thank you to all of the witnesses.

One of the things that makes Canada such a special place to live is the opportunity for everyone to have a fair chance at success. This is a very important discussion to make sure that we are keeping things very fair. A just taxation system is essential to building a fair economy that works for everyone.

To start, one of the questions I have is, how does Canada compare to other advanced economies in dealing with tax evasion?

Eric Ferron (Director General, Criminal Investigations Directorate, Compliance Programs Branch, Canada Revenue Agency): For tax evasion, Canada is part of probably the most sophisticated group internationally, which is called the J5. If I compare us to our partners in the J5—America, Australia, the Netherlands and the U.K.—I would say that we perform very well. Obviously, we all learn from one another. Having five jurisdictions with a lot of expertise at the table allows us to learn from one another, share information and also work on operations together.

When we go to the OECD, I must say that internationally a lot of countries come to us asking us for advice. We are always very pleased and eager to help and share that information. We're seen, I would say, as one of the five leading countries internationally when it comes to tax evasion, because of the J5.

Jake Sawatzky: Thank you.

Other countries come to us for advice. What is some of the advice we might offer them?

Eric Ferron: Canada often goes abroad to teach. The OECD has put in place some schools in order to teach investigators in other countries about tax evasion. We often go, for example, to Italy, where some of our teachers help developing countries. The feedback we get is always tremendous. People learn a lot. They progress and become better investigators.

I would say that, internationally, the feedback we've been getting is very good.

• (1705)

Jake Sawatzky: Would you say that Canadians can have confidence in the current systems that are in place?

Eric Ferron: I would say that, yes, we are doing well in Canada, and we're continuing to progress.

For example, by putting the J5 together only a few years ago, we have been able to do a lot more. We work with our FINTRAC colleagues here, along with the J5. We put in place, only a few years ago, what we call “the challenge”. We put our best and brightest people in charge of crypto investigations and other very complex investigations done in the cyber realm. We bring together FINTRAC, colleagues in the J5 and the RCMP. We put all these people from the five countries together to try to figure out what's going on and find leads to investigate.

Those are the types of things that make us special in terms of a group that's able to work collaboratively like that—having all these sophisticated people around the table coming up with the right leads to investigate, and also investigating them together sometimes.

Jake Sawatzky: Thank you.

You mentioned cryptocurrency. Could you elaborate on the evolving landscape here and on any kinds of new challenges that have arisen with cryptocurrency?

Eric Ferron: Cryptocurrency is evolving very quickly, along with all the other technology that surrounds it, such as blockchain and the devices used to do those transactions. For example, these days, you can see a lot of transactions being done on a cell phone. Often, this will be encrypted on very sophisticated devices that are difficult for all law enforcement, not just the CRA. They can have a hard time cracking those devices in order to get access to the information inside. Obviously, we do this with warrants issued by the courts, but it can remain difficult, given how the technology is progressing.

We have the best tools, but the technology is progressing so quickly that it can be difficult to investigate sometimes.

The Chair: Thank you, Mr. Sawatzky.

Thank you, Mr. Ferron.

[Translation]

Mr. Simard, we now go to you for two and a half minutes.

Mario Simard: Thank you, Madam Chair.

I don't mean to target you, Mr. McGowan, so forgive me for directing my questions to you again.

From my limited knowledge of taxation, I gather that the CRA's goal is to make sure the government gets its due by enforcing tax rates. Earlier, you explained the difference between tax avoidance and tax evasion. I don't want to get into an ethical debate, but as I understand it, the reason for introducing a policy or regulation is to achieve a desired outcome. We were discussing the tax exemption for income from countries with loose tax systems, and you said that one of the objectives of section 5907 of the income tax regulations was to help multinationals compete on a level playing field in those jurisdictions. However, doesn't that have the adverse effect of encouraging more and more multinationals to use the regulation in order to evade paying taxes? Is that something you adjust for or measure?

[English]

Trevor McGowan: Thank you for the follow-up question.

Building upon what I noted earlier, the basic idea behind the exempt surplus system—which allows Canadian companies that have subsidiaries in a foreign jurisdiction with which we have a treaty to repatriate earnings tax-free—is largely competition.

As a simple example, if a Canadian company wants to expand into the United States—as is the most common situation, I think—it can set up a subsidiary in the United States. That subsidiary can earn active business income from competing with American companies and pay the same taxes as its competitors, which puts it on a level playing field. When those amounts are returned, those can be tax-free.

It's similar to what you see in a lot of other jurisdictions, including very recently the United States, which moved to a similar territorial system.

First, the—

• (1710)

The Chair: Thank you, Mr. McGowan. That's the time for this round. Thank you very much.

Two and a half minutes goes by pretty quickly.

[*Translation*]

Mr. Lefebvre, you may go ahead for five minutes.

Eric Lefebvre (Richmond—Arthabaska, CPC): Thank you, Madam Chair.

Thank you to all the officials for being here.

Would you agree, Ms. MacLean, that not everyone has access to tax havens? Canadians get up every day and go to work. They collect their paycheques, they pay their share of provincial and federal taxes, they fill up their gas tanks and they pay gas taxes. It's not true to say that there isn't a tax on groceries, because farmers pay fuel taxes, and that cost is passed right on to consumers in the prices they pay for groceries. Ordinary Canadians are paying those taxes on everything.

Do you agree with me that the wealthy are the ones who benefit from tax havens?

[*English*]

Alexandra MacLean: I would say it's getting more and more difficult for the rich to use the types of structures you're referring to. We have better tools to address them. We have better information exchange, which perhaps my colleague Adrianna could address in a few minutes. We have a more comprehensive regime, and we have good audit resources.

Challenges exist, and I think it's true that there are barriers to entry, if you will, to attempting that type of structure, but there's much more risk in undertaking that type of structure today than there was decades ago, so I'm optimistic about the agency's ability to attack the types of structures you refer to and ensure that the appropriate amount of tax is paid in Canada.

The common—

[*Translation*]

Eric Lefebvre: Sorry to cut you off, but I have only five minutes.

Can you tell me how many people at the CRA are assigned to small businesses?

[*English*]

Alexandra MacLean: I don't have those figures available this afternoon.

[*Translation*]

Eric Lefebvre: Do you agree with me that the number of CRA staff assigned to small businesses is probably greater than the number assigned to big companies?

[*English*]

Alexandra MacLean: No, I don't think I could agree with that, because we do audit in relation to risk, and we certainly have higher coverage levels for larger businesses, more complex structures and riskier businesses than we do for small and medium-sized enterprises.

[*Translation*]

Eric Lefebvre: Thank you very much.

Now I'd like to talk about the offshore tax informant program. How many staff work on that program?

[*English*]

Adrianna McGillivray: If the question is how many public servants are working for the offshore tax informant program itself, it would be somewhere in the neighbourhood of 10, but we leverage the audit resources in the various audit programs so there's some program oversight, and then we use our audit resources and deploy them to carry out the audits.

[*Translation*]

Eric Lefebvre: As we speak, how much has been paid out to informants under the program in the form of rewards? What's the amount or percentage?

[*English*]

Adrianna McGillivray: What I can tell you is that to date, since the inception of the program, we've assessed approximately \$500 million in federal tax and penalties. That's over the course of the whole program, going back to 2014.

[*Translation*]

Eric Lefebvre: The program has a rewards component, so how much have informants received?

[*English*]

Adrianna McGillivray: I apologize.

In terms of the reward payment, the reward itself varies between 5% and 15% of the amounts collected. We don't publish or publicize the amounts that have been paid to those who have made submissions to the program, whom we call informants, but we do have a percentage. It's available on our website. We have a set of criteria for what makes an informant eligible, as well as a set of criteria that outline the varying percentages of the associated rewards.

[Translation]

Eric Lefebvre: Do you think raising the reward percentage would lead to more tips from informants? Do you think that would have a positive financial impact?

● (1715)

[English]

Adrianna McGillivray: It's an interesting question.

I would say that the program is very successful. It was one of the pieces of work that we put in place that have really helped in terms of bringing in data and information related to international and off-shore transactions. These are important transactions and important pieces of information that are being ingested into our audit program.

In terms of whether or not the percentage would change the number of submissions, I wouldn't be qualified to comment on that today, but I can say that we've had over 1,000 submissions since the inception of the program, which is quite impressive.

[Translation]

Eric Lefebvre: All right. Thank you for your answers. I'll follow up on this later.

The Chair: Thank you, Mr. Lefebvre.

[English]

We have Mr. MacDonald from the Liberals.

You have five minutes, please.

Kent MacDonald (Cardigan, Lib.): Thank you, Madam Chair, and thank you to all the witnesses for coming today.

My first question is in regard to the global minimum tax that you discussed in your introductions. What steps are you taking so that it's fully implemented, and can you explain how it's going to work to discourage companies from relocating profits to lower-tax jurisdictions?

Trevor McGowan: Absolutely. I would be happy to go through its limitation.

Canada has been actively involved in the base erosion and profit shifting process since its inception. We have been actively engaged with our international counterparts on developing the rules and, as I said earlier, ensuring their work in a Canadian context.

Those draft legislative proposals in respect of the global minimum tax were released for consultation. We consulted on them. They have been enacted by Parliament for two of the three main components of the rules. Those are the IIR and the UTPR, the undertaxed profits rule, which allow Canada to essentially step in and tax its multinationals that have subsidiaries in low-tax jurisdictions, or to impose a top-up tax in Canada whereby foreign subsidiaries

would be collecting their global minimum tax. Draft legislative proposals for the final component, the UTPR, the undertaxed profits rule, were released for consultation, and we have gathered feedback from stakeholders on that.

In addition, we are continuing to be actively engaged at the OECD and the inclusive framework on developing and refining the global minimum tax rules to ensure that they work appropriately for Canadians even after they have been enacted. We have draft legislative proposals that were put out to refine the rules to take into consideration particular issues that have arisen recently, and we will continue working together with our international counterparts to do that.

Kent MacDonald: Is it fair to say that it's early days for the global minimum tax 2024, so we really don't have a lot of data to see its effectiveness yet?

Alexandra MacLean: I think it's fair to say that it's early days. You're right about 2024. The first returns are due under the global minimum tax in June 2026, so CRA is actively engaged in building systems to accept those returns. We have a website dedicated to the Global Minimum Tax Act to keep payers informed of the steps we are taking, and we have a team in place to examine those returns.

Kent MacDonald: I was working in the private sector when the Panama and paradise papers came out. Of course, I was mortified by what I was reading in the media. Do we know the total amount that CRA has recovered since then through reassessments for penalties or voluntary disclosures of individuals or corporations?

Adrianna McGillivray: Absolutely. Relating to the Panama papers, we've had about 330 closed audits, and to date we've assessed approximately \$119 million in federal taxes and penalties.

Kent MacDonald: Further along those lines of questioning, you talked about a more comprehensive regime now in going after these corporations that are using tax evasion. Currently, approximately how many active audits or investigations are under way into off-shore tax evasion and profit shifting, and how would that compare to five years ago? Have we increased the numbers?

● (1720)

Alexandra MacLean: I don't have numbers this afternoon. The pandemic impacted our activities for a period. We're back, for sure. We never ceased audits, including audits of cross-border transactions, but they were affected for a period during the pandemic.

We have better tools and better data than we did in the past, and our recoveries are improving consistently, but we are quite excited about the global minimum tax. Its ordering role, which my colleague Trevor touched on.... Basically, a given jurisdiction can protect its own tax base by imposing the 15% minimum tax. If it fails to do so, other jurisdictions can impose tax.

The Chair: Thank you, Ms. MacLean. We're out of time for this round.

Thank you, Mr. MacDonald.

We're going to Mr. Hallan for five minutes.

Oh. Did you switch?

Go ahead, Mr. Kelly.

Pat Kelly: Last week, at the ethics committee, there was testimony in a report from the Centre for International Corporate Tax Accountability and Research, which stated that "Brookfield's tax gap in the last five years (2017-2021) was over \$6.5 billion". It was the testimony of an expert at the ethics committee that the tax gap for that one tax fighter alone was \$6.5 billion. I'm going to ask for a little more information on the tax gap.

Does the CRA now comply with the request from the Parliamentary Budget Officer to give the PBO the audit information that has long been requested to measure the tax gap independently?

Marc Lemieux: We now produce a tax gap study at the agency, following international best practices.

Pat Kelly: I asked if you supply the information to the PBO.

Marc Lemieux: I don't have a precise answer to this. I don't know if the team can.... We have some challenges sharing some of the information, because of section 241. We publish tax gap studies.

Pat Kelly: Yes, you do, with your own method. The problem Canadians have is....

For example, 10 months ago at this committee, we had testimony from the commissioner, I believe, who said they were at a 95% call answer and accuracy rate at the CRA's call centres. That has been completely debunked by the recent Auditor General report. We would like to have the PBO get the information, so that he can independently measure the tax gap.

If I may, I'll move to a different question. How many criminal convictions has the CRA seen through for offshore tax evasion, let's say, for the most recent year you have information for?

Marc Lemieux: I'll turn to Eric Ferron for an answer on this one.

Eric Ferron: Between 2020 and 2025, we had 14 convictions with sentencing related to offshore tax evasion. We currently have 25 cases that are either being investigated or currently before the courts.

Pat Kelly: In a country with an economy in excess of \$2 trillion and 41 million people, were there only 14 cases of criminal tax evasion and overseas avoiders in that five-year period?

Eric Ferron: If there are more tax evaders than the 14 that were found guilty in those five years, I assume that, yes, they might have been there. Those are the ones we received referrals for and investigated. We referred them to the PPSC, which accepted laying the charges. It was able to bring them to prosecution and get sentencing.

Pat Kelly: You have successfully prosecuted fewer than three cases per year.

Eric Ferron: What we said is 14 in those five years.

Pat Kelly: It's fewer than three per year on average.

• (1725)

Eric Ferron: We don't prosecute. That's the PPSC.

Pat Kelly: That's right. You investigate and provide the information.

Eric Ferron: Exactly. We make the referral and they review—

Pat Kelly: You make the referral. Okay.

I think I have only about a minute left.

Two years ago, the then finance minister sent a letter to this committee about the need to update our terrorist-financing and money-laundering legislation. I'll put this question to FINTRAC. What do we need to do to update this act, and why has it not happened?

Annette Ryan (Deputy Director, Partnership, Policy and Analysis, Financial Transactions and Reports Analysis Centre of Canada): I think there have been a number of legislative changes in recent years, and currently, Bill C-12 contains measures that would further strengthen the regime.

Pat Kelly: We need a statutory review that would go beyond what's in Bill C-12. Is that fair?

Annette Ryan: That's correct.

Pat Kelly: I'm good.

The Chair: Thank you very much, Mr. Kelly.

We'll turn now to Mr. Turnbull for five minutes.

Ryan Turnbull (Whitby, Lib.): Thanks to all the witnesses for being here today. Mr. Lemieux, I think you said in your opening remarks that there were critical legislative changes and policy reforms that have aided your ability to track down and crack down on tax evasion and offshore tax havens.

Can you speak to what the main ones were? I know you mentioned the new mandatory disclosure rules as being one, but were there several others? I have some in my notes here, and I'm wondering whether you can speak to them.

Marc Lemieux: There is the common reporting standard that we have, and I think I've already mentioned that over 100 jurisdictions have implemented it and are sharing information with us.

There are also some enhancements that have been done to other tools that we have, but I will turn to Ms. MacLean to go into more detail.

Alexandra MacLean: Thank you.

I would like to highlight the introduction of the excessive interest and financing expenses limitation, or EIFEL, rules. They will generally restrict large corporations to deducting 30% of their profits as interest payments. Historically, interest expense deductions have been a large source of tax avoidance in Canada and around the world, and Canada is following the BEPS recommendations. Those rules are now in place, and we're getting our first filings this year under those rules.

Ryan Turnbull: Did we not also strengthen the transfer pricing rules, which I think you already mentioned? Can you speak to those?

Alexandra MacLean: There are proposals to strengthen the transfer pricing rules. We would be happy to see them enacted at the CRA.

Ryan Turnbull: Great. Then there is the general anti-avoidance rule, or the GAAR.

Alexandra MacLean: Absolutely. There have been recent changes to strengthen the general anti-avoidance rule, and I think my colleague Trevor would like to speak to that.

Ryan Turnbull: Feel free, Mr. McGowan.

Trevor McGowan: There were recent changes to enhance the functioning of the general anti-avoidance rule after it had been around for a number of years. Those include information-reporting rules built upon experience we learned from Quebec, actually—imposing a penalty that can be applied only where a transaction hasn't been reported, with the idea that it will help the Canada Revenue Agency identify aggressive tax planning.

Ryan Turnbull: Thank you. I realize, Ms. MacLean, that you said there are better tools, a better information exchange and a more comprehensive regime. You also talked about audit resources. I'm sure that, with limited audit resources, you have to decide and determine where to expend those resources most efficiently.

Are you using AI at all? I heard Mr. Lemieux talk about technology advancements helping to target the use of those resources based on risk. Are you using AI currently, and can you give us an update on that?

Marc Lemieux: As Alexandra explained, we are getting more information, so it's now time for us to put all of that information together. We have some advanced business intelligence tools, and yes, we are looking into using AI to make the link between all that different information so that we can pinpoint which business or taxpayer we need to audit and review.

There is a lot that comes out of the data that we need to exploit.

• (1730)

Alexandra MacLean: Very quickly, I did mention our algorithmic system, which is loosely AI, but as Monsieur Lemieux mentioned, we are very active in the AI space. It is early days. We have to make sure we keep taxpayer data secure as we start to deploy AI.

Ryan Turnbull: My last, quick, question is for the gentleman over here. I can't see your name tag—I apologize. Mr. Kelly asked you about investigations, and you said that you make referrals. How many referrals have you made for investigation?

Eric Ferron: Do you mean in total? I don't have that data. It's annually.... It depends. I think, right now...I'd have to get back to you. I don't remember, off the top of my head.

Ryan Turnbull: Can you table that information with the committee?

Eric Ferron: Yes.

Ryan Turnbull: Thank you.

The Chair: Thank you very much, Mr. Turnbull.

[*Translation*]

It is now over to Mr. Simard for two and a half minutes.

Mario Simard: Thank you, Madam Chair.

Mr. McGowan, I imagine that the work you do tends to focus on flushing out those who evade paying their taxes. I imagine there's an investigative component.

Fighting tax crime is like fighting any other crime; you need deterrence and punishment. As someone looking at it from the outside, I often get the sense that punishment isn't one of the strategies you use. I asked you about a specific regulation earlier. I could also bring up everything I've read about voluntary disclosure, although I am aware that some measures have been taken on that front.

I'd like to hear what you have to say about punishment, specifically. That should be music to the ears of my Conservative friends. Are any measures in place to put a cost on tax evasion? If so, are the penalties hefty enough to deter people from using these schemes? I would appreciate hearing any examples you could give.

[*English*]

Trevor McGowan: I can say, certainly, that, on the tax policy recent developments side, we have a number of information-sharing and information-reporting rules that come with serious penalties. While tax evasion is illegal and a criminal offence and has its own penal consequences, there are a number of recent changes that we talked about.

We have the common reporting standard, which can help provide information on money and bank accounts internationally; the crypto-asset reporting framework proposals being developed at the OECD, and draft legislation, I think, was released on those; and enhanced reporting on cross-border transactions, in the T1135 form, on electronic payments of more than \$10,000. We have a lot of significant reporting requirements that have been introduced, each of them with serious penalties for failure.

[*Translation*]

Mario Simard: Quickly, do you know how many people are convicted of tax evasion annually? Do you have comparable data for other countries?

Eric Ferron: I don't have that information on hand, but I can tell you that, in the past five years, so from 2020 to 2025, more than 100 individuals have been convicted of tax evasion—106 to be precise. They—

The Chair: Thank you, Mr. Ferron. That's all the time the member has.

Thank you, Mr. Simard.

We have eight minutes left. Are the committee members okay with splitting the time in half, so four minutes for the Conservatives and four minutes for the Liberals?

Some hon. members: Agreed.

The Chair: Great.

Over to you, Mr. Lefebvre.

Eric Lefebvre: Mr. Lemieux, since the beginning of your presentation, you've said that the CRA has been making constant improvements. It's no secret that some rather damaging articles about you have come out in the news lately. How do you go about identifying problems in your organization? What method do you use?

• (1735)

Marc Lemieux: We use audit results to measure the impact of new measures and new audit teams. For example, how much of what was owed by taxpayers was the CRA able to identify?

When we do our audits, we add the amounts we've identified and we ask people to pay the additional amount.

Eric Lefebvre: That's a quantitative assessment—based on the numbers—but qualitatively speaking, does the CRA have a way to assess the service it provides to Canadians?

Marc Lemieux: The CRA uses a number of service standards to measure service quality, and they are publicly available. We report annually to Parliament on those service standards.

Eric Lefebvre: If I asked you to name two of the CRA's weaknesses, what would they be?

Marc Lemieux: I think I would let people make that determination based on the results we release. As the past little while has shown—and we've said this—we need to work on service delivery. We've developed a plan to address the service issues we identified.

Eric Lefebvre: If you have a plan, you should know exactly where the weaknesses in your approach are.

Marc Lemieux: Right now, the CRA is doing a lot of work to address the problem with the information provided to callers. My colleagues have spoken at length about that to parliamentary committees in the past few days. We have a 100-day plan, and we are looking not only to increase our call capacity, but also to identify what we can do to give people online self-service options. We are examining our operations to see where we can provide faster service, so that people don't have to call the CRA.

Eric Lefebvre: In terms of new technology, you talked about AI. That is one possible solution, as long as the answers and information provided are right. That's important. Ms. MacLean talked about it, saying that real experts are needed, at least in some specific cases.

Do you think more money is the key to the CRA's ability to do better? When I look at the past nine years, what I see is a 70% increase in the CRA's budget, yet the agency still has challenges, to put it mildly. Again, the Liberals have announced more funding for the CRA so that it can deliver better results. Personally, what I think is needed is an assessment of the organization's operations, to see where the strengths and weaknesses lie. You need to work with a dashboard, and then we can look at investments. Would you agree?

Marc Lemieux: I think our commissioner made the point that it's about more than just having additional resources. It's also about finding the best technologies and reviewing our practices to provide Canadians with the best possible service.

Eric Lefebvre: You're saying that more money isn't necessarily the way to fix things.

The Chair: Thank you, Mr. Lefebvre and Mr. Lemieux.

The last turn goes to Mr. Lavoie.

Steeve Lavoie: Thank you, Madam Chair.

Mr. McGowan, I'd like to discuss businesses with you. Those who know me know that I care a lot about businesses. I spent a lot of years working in banks, helping businesses obtain financing. I went on to represent them in chambers of commerce. How does the department measure the impact of international tax evasion on the competitiveness of Canadian businesses that adhere to their tax obligations in Canada?

[*English*]

Trevor McGowan: Hopefully, this will balance out an earlier question that I wasn't able to finish as well.

There's a constant balancing act between competitiveness—we want our businesses and our multinationals to succeed when they're competing in foreign markets—and a desire to not facilitate inappropriate tax avoidance and erode the Canadian tax base.

We've seen several measures over the last few years—they're very technical, so I won't get into them—trying to respond to planning that had arisen and that had inappropriately eroded the Canadian tax base.

We have, at the Department of Finance, in the tax policy branch, a team of economists. We work very closely with our economists and lawyers to help ensure that in markets in which Canadian multinationals compete, they compete on a level playing field, so the best business ideas can win.

We consult regularly with businesses. For each of our tax measures, we consult somewhat continuously throughout the year, gathering feedback, making refinements to our proposals and trying to ensure they meet their objectives as efficiently and effectively as they can.

• (1740)

[Translation]

Steeve Lavoie: I'm going to ask you something you weren't expecting. Say I had a trophy to give you. As far as tax measure improvements go, what would you say is your proudest achievement in the last five years? What are you proud of? Surely, there's something. I can see you smiling. Where did you make progress, and what are you proud of?

[English]

Trevor McGowan: It's difficult on a personal level to keep track of time, but over the last five years the pandemic response required a very significant involvement from my branch.

Steeve Lavoie: Yes.

Trevor McGowan: Over a very short period of time, maybe 72 hours, the wage subsidy was developed from idea to final product, which helped deliver, very rapidly, much-needed help to Canadians at a difficult time. That jumps to mind.

[Translation]

Steeve Lavoie: Thank you.

I know you've already talked about this, but what is the potential economic impact of all the tax compliance measures you've put in place at the international level?

[English]

Trevor McGowan: Our proposed revenue impacts associated with each of the measures we've talked about are contained in the relevant budget information. Pillar two, for example, was projected to have a positive impact of around \$2.1 billion per year on government revenues. On the EIFEL or interest deductibility rules, the amounts increase year to year, but around now it was \$1.6 billion to \$1.8 billion per year. Those are probably the two largest ones, but many of our others are contained in the relevant budget documents.

The Chair: That's great. Thank you, Mr. McGowan.

[Translation]

Thank you, Mr. Lavoie.

Thank you to all the witnesses.

[English]

We will briefly suspend while we change over for the next part, with the Parliamentary Budget Officer.

Thank you.

• (1740)

(Pause)

• (1745)

The Chair: Okay, colleagues, we're going to get started on the second hour of our meeting. Welcome back.

I would like to welcome our witnesses, Jason Jacques, interim Parliamentary Budget Officer, and Govindadeva Bernier, director of budgetary analysis at the Office of the Parliamentary Budget Officer.

You will have five minutes, Mr. Jacques. It's over to you.

• (1750)

[Translation]

Jason Jacques (Interim Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Thank you very much, Madam Chair.

Consistent with the Parliamentary Budget Officer's legislated mandate, my office has prepared independent analysis of international taxation and the returns on tax compliance and enforcement spending.

[English]

In 2019, we published "Preliminary Findings on International Taxation", which found that financial flows between Canada and certain jurisdictions are disproportionately large compared with their economies. Some of these jurisdictions have been recognized as tax havens.

In 2022, we published "International Comparison of the Canada Revenue Agency's Performance", which compares Canada's tax administration performance with that of comparable countries on a set of indicators, including the cost of collection and the value of additional assessments.

[Translation]

We would be pleased to respond to any questions you may have regarding our taxation analysis or other Parliamentary Budget Officer work.

Thank you, Madam Chair.

The Chair: Okay.

That was the quickest five minutes we've had.

Thank you, Mr. Jacques.

[English]

Mr. Kelly, we'll start with you for six minutes.

Pat Kelly: Thank you.

In your recent appearance at the government operations committee, you said that the "most important fiscal anchor...is the debt-to-GDP ratio" and that "the government [is not] on track to...achieve that fiscal anchor", a fact you then went on to call "very alarming" and "stupefying, shocking". You said, "This is the first time in 30 years that I've seen one in which that ratio is going up over time."

This caught a lot of Canadians' attention. It was an alarm call for fiscal—

Ryan Turnbull: I have a point of order, Chair.

I have to ask about relevance. A point of order, according to the Standing Orders, can be on relevance to the study at hand. It's tax havens. This was a Conservative study. I'm not sure this is relevant to that study.

Pat Kelly: On that point of order, I had not gotten to my question, which was about to come and is germane to this. The witness said that he would take questions on any of his publications, which suggested a pretty wide latitude for this meeting. Therefore, if I may—

Jasraj Hallan (Calgary East, CPC): On that point of order—

The Chair: Whoa. Look, I heard Mr. Turnbull and then Mr. Hallan on the same point of order.

Ryan Turnbull: Just because a witness said he's open to questions on any matter does not mean we're not here to study a motion the Conservative Party put forward, one that we agreed to in this committee and that defines some general parameters for the types of questions we should be able to ask.

Based on relevance, Chair, I would advise that Mr. Kelly be bumped back into the lane.

The Chair: Thank you, Mr. Turnbull.

Mr. Hallan, go ahead on the same point of order.

Jasraj Hallan: Madam Chair, there is precedence for this committee, which Mr. Turnbull has been on before. Whenever the Parliamentary Budget Officer has come here, there's been wide latitude given, just like when a minister comes here. There have been times when the Liberals asked many questions outside the realm of a current study.

There's precedence for that, so I would ask you to rule that there's precedence in this committee, so that even the Parliamentary Budget Officer, Mr. Jacques, has a wide latitude on what kinds of questions he is asked. I believe that's why he said that he's also open to taking questions about any other report.

The Chair: Thank you.

Mr. Kelly, I think you can proceed. Obviously, this is a study on tax havens, so I look forward to hearing your question.

Pat Kelly: Thank you.

I was 43 seconds in, I think, when we hit the point of order, so I'll continue from there with five minutes and 17 seconds left.

You testified at committee about the “shocking” scenario we now face for the first time in 30 years, one of a debt-to-GDP ratio going up over time.

We are studying tax havens. Does the use of tax havens contribute to the debt-to-GDP ratio in that it constitutes a loss of tax revenue that is then made up by borrowing? May I ask, then, how the “stupefying” scenario we face connects to tax havens and the failure of this government to collect revenue?

• (1755)

Jason Jacques: As you point out, there is a direct connection between the measurement of the overall debt-to-GDP ratio, in particular the revenues the government collects, and tax havens.

As is well established by the reports we've published in the past, as well as those of the Canada Revenue Agency and other jurisdictions, there is a sizable tax gap in most developed countries, including Canada. That results in a situation of—I believe my predecessor used the number “billions”—billions of dollars that potentially go uncollected.

I believe the Canada Revenue Agency has also published several reports on the tax gap that used the term “billions” as well.

Pat Kelly: Your predecessor and his predecessor both tried to get information from the CRA to help you better measure the tax gap. Are you getting the co-operation that your office has historically sought to accurately measure the tax gap?

Jason Jacques: I think there are two parts to an answer to that question.

The first is that information flow with government departments is generally good, including from the Canada Revenue Agency.

That said, when it comes to actually measuring the tax gap, there are specific datasets that we or anyone would require to actually generate a reliable or reasonable estimate. Currently, the determination by the government and the Canada Revenue Agency, pursuant to section 241 of the Income Tax Act, is that the Parliamentary Budget Officer is not eligible to gain access to that data.

Pat Kelly: That has been unchanged, then, over the years. You lack information your office would require to even test or independently verify the CRA's estimates of the tax gap.

Jason Jacques: That is correct.

If I may add, I believe it's the motivation for Bill S-217, which is currently in the Senate and was moved by Senator Percy Downe. It would ensure that the Parliamentary Budget Officer—

Pat Kelly: Yes, I'm very familiar with it, having moved exactly that bill as Bill S-243 in the 42nd Parliament, which the Liberal members voted against and prevented from passing.

What does the increasing debt-to-GDP ratio, which is exacerbated by the use of tax havens by Canadians who are avoiding taxes, mean for Canada's credit rating and its ability to borrow, and what are the effects on expenditure if these fiscal anchors are completely jettisoned, as you said they appear to be in your OGGO testimony?

Jason Jacques: I don't know that I used the word "jettisoned". I'm familiar with that word. I used many words in that OGGO testimony. I think, as members around the table realize, I'm attenuating in my new circumstances and learning to avoid using adjectives.

With respect to the debt-to-GDP ratio, I would go back to the government's own words around debt to GDP. The government, on page 38 of the "2024 Fall Economic Statement" in December 2024, indicates that a declining debt-to-GDP ratio is the most important fiscal anchor for demonstrating fiscal sustainability and is essential for securing and sustaining Canada's AAA credit rating, period.

Those are the government's words, and our office and I certainly agree with what the government said.

Pat Kelly: According to your office and according to the government itself, our AAA credit rating is imperilled by the absence of fiscal anchors and the prospect of a declining debt-to-GDP ratio in the years to come.

Jason Jacques: I don't believe I used the word "imperilled". I don't know if I would agree precisely with that statement.

The debt-to-GDP ratio is certainly an important fiscal anchor. Again, given the mandate of our organization in promoting fiscal transparency, something we certainly look forward to on November 4 is much greater clarity.

The Chair: Thank you, Mr. Jacques.

We're there for this round. I'll turn now to Mr. MacDonald for six minutes.

• (1800)

Kent MacDonald: Thank you, Madam Chair.

Thank you to the witnesses.

I'm sure you've done an analysis, so can you let me know, with Canada's tax avoidance.... The previous witnesses talked about evasion and avoidance and about avoidance not being criminal activity, but it is certainly costing Canada money.

Would you be able to speculate on how much that would be as a percentage of our GDP, and how that compares to, for instance, levels of tax avoidance in the U.K., Germany or Australia?

Govindadeva Bernier (Director, Budgetary Analysis, Office of the Parliamentary Budget Officer): We haven't done that specific analysis. Because it's avoidance, it's hard to determine the exact amounts. I don't think there's any international comparison, because the tax systems are also different.

One ballpark amount would be to go into the latest CRA estimates of the tax gap. CRA provides some amounts in percentage of the corresponding tax revenue. I don't think CRA does it in percentage of GDP, but it's an easy calculation. It's something we could do, if requested by the committee with a motion.

Kent MacDonald: Further to that line of questioning, what's your current estimate of the annual federal revenue loss to international profit shifting and tax haven use by Canadian corporations?

Jason Jacques: We currently don't have an estimate. I guess this speaks to the urgency of coming up with a comprehensive estimate around the tax gap.

Looking at the report we published in 2019 using 2018 data, we're looking at a number in the low billions with respect to multinational corporations. Again, it's 2019 based on 2018 data. It's very indirect. The data one would need to actually obtain a more precise estimate sits within the Canada Revenue Agency. We don't have access to it.

The Canada Revenue Agency, at around the same time, published a number of around \$3 billion on the personal side, which included forgone revenue and tax revenue based on assets held internationally that were currently not being taxed.

Kent MacDonald: In the previous hour, the witnesses from the Canada Revenue Agency told us they had put in new measures like the fully public beneficial ownership registry and mandatory country-by-country reporting.

Do you think those are going to improve the situation in order to comply with our tax laws?

Jason Jacques: That's a great question. It's a question we are probably not well placed to answer at this point. We are not intimately familiar with the internal operations of how CRA is planning on implementing those changes.

Certainly, if there were more data and information, we would be happy to analyze it.

Kent MacDonald: There are suggestions that the minimum global tax might be set at 15%. Would you be able to speculate on how much revenue Canada could recover if that is fully implemented? Two stages of it are implemented now, and there was a third piece that was being reviewed.

Govindadeva Bernier: An interesting point with the global minimum tax is the way the current rules are set up. Usually, it's the country in which the multinational is headquartered that has the first bid at applying this 15% minimum rate.

What the person from CRA or the official from the Department of Finance.... There's the UTPR, which would allow a country where the multinational is not headquartered to add a top-up on that if it wasn't already implemented, or if that 15% wasn't taxed by the home country where the multinational was headquartered.

There is one significant issue, I believe, where the United States recently asked for a carve-out of these rules, which means that potentially many of these multinationals.... There are numbers floating around that potentially up to 40%-50% of global tax avoidance by corporations is coming from U.S. multinationals.

If the U.S. wants to be carved out of those rules, it's going to be hard for countries like Canada to apply the top-up. We might get tariffs, or additional things like that, in retaliation, as we've seen with the digital services tax, which was scrapped.

• (1805)

Kent MacDonald: We talked about the tax gap. Maybe I didn't fully understand what you said, but do you have an estimate of what the tax gap is now—money we're not collecting that we should be collecting?

Jason Jacques: No, we do not.

Kent MacDonald: The CRA has figures, and it calculates that.

Jason Jacques: CRA does calculate that.

The request originally came to us from Senator Downe, way back in 2012. At that point, we entered into consultations and discussions with the Canada Revenue Agency. The Canada Revenue Agency quickly concluded that, from its perspective, it is legally prohibited from sharing the relevant data with us that would allow us to calculate the tax gap. Ultimately, several years later, the CRA decided to calculate the tax gap on its own.

The Chair: Thank you, Mr. Jacques.

Thank you, Mr. MacDonald.

[Translation]

Mr. Simard, you have the floor for six minutes.

Mario Simard: Thank you very much, Madam Chair.

Mr. Jacques, if I understand what you just said, the Parliamentary Budget Officer works based on the tax avoidance and tax evasion data that the Canada Revenue Agency provides, but, unlike the agency, the Parliamentary Budget Officer doesn't have the full picture.

Jason Jacques: That's right.

Mario Simard: That means that the reports you can prepare are based on the partial data you receive from the agency.

Jason Jacques: Yes. As we previously mentioned, to make an accurate estimate of the income gap, we would have to obtain confidential data that only the agency can access.

Mario Simard: As an economist, you probably prefer the quantitative side of things to the qualitative side, but I'm still going to address the qualitative side.

I'm wondering how people can justify the use of tax havens. You may have already heard the Prime Minister say that using tax havens doesn't necessarily mean engaging in tax avoidance because, ultimately, you can still pay your taxes.

Do you think it's true that a company can use tax havens for reasons of competitiveness?

Jason Jacques: It's important to distinguish between tax evasion and tax planning. In some contexts, it's possible to use incredibly complex tax planning while complying with the law. Having said that, I'm not a lawyer.

Mario Simard: I understand, but we're chatting among ourselves. I don't want to make you do anything, but it still seems rather strange to me. It seems to me that, if I use a tax haven, it's for a certain financial gain, not for fun. I don't think it's a competitiveness strategy either.

• (1810)

Jason Jacques: I think the same argument could be made about RRSPs.

Mario Simard: If the situation is reversed, yes. I understand. You're clever.

Have you ever checked to see if there was a way to measure the effectiveness of the Canada Revenue Agency's measures to combat tax evasion?

I asked an official earlier about how many convictions there had been for tax evasion, and his answer left me a bit speechless. He told me that there had been 106, from 2020 to 2025. I'm not great at math, but that's around 22 tax evasion convictions a year across Canada. Either we're shockingly honest people, or we aren't taking the necessary measures to crack down on tax avoidance and tax evasion.

Do you have any comparisons?

Govindadeva Bernier: In 2022, we published a report in which we compared the agency's performance to that of other international tax administrations. We relied on data from an international survey conducted by the International Monetary Fund and the Organisation for Economic Co-operation and Development. We compared things like the value of revenue from audits. Canada's performance was around average overall, so it wasn't necessarily among the best, but it wasn't among the worst either. We didn't have data on the number of convictions, though.

One point that the agency's representative didn't mention, but which has to be taken into account, is that these are probably complex files, since the taxpayers have been avoiding taxes for a number of years. It takes time to conduct investigations and collect data. Without patting the agency on the back, I think it's still important to recognize the complexity of those files. A conviction doesn't necessarily correspond to one year in which there was tax evasion. It can cover a number of years.

Mario Simard: Thank you.

The Chair: Thank you, Mr. Simard and witnesses.

[English]

We have Mr. Hallan for the next round of questions, for five minutes, please.

Jasraj Hallan: Thanks, Chair.

Mr. Jacques, thanks for being here.

Would you agree that the industrial carbon tax adds a cost down the line, down the value chain, which ultimately adds a cost that the consumer at the end has to pay?

Jason Jacques: Theoretically, any tax within the system will ultimately increase the end prices of the goods that are being sold.

Jasraj Hallan: Thank you.

For example, with steel, if there's an increase in the cost of the industrial carbon tax, it would cost more to—

The Chair: Mr. Hallan, is this going towards the tax havens?

Jasraj Hallan: Absolutely.

In the case of steel, the industrial carbon tax goes up in price, which means that for the vehicles that transfer the food or the farmers who buy, let's say, farming equipment, that goes up in cost. That doesn't necessarily show up in a grocery bill, but it does increase the cost and at the end a consumer could pay the increased cost along the value chain. Is that correct?

Jason Jacques: We haven't recently studied this issue, and before I respond to that question, again, I'm happy to go back to my theoretical response. Before I respond to the actual question, the concrete question, I want to go back and actually conduct a bit of analysis.

Jasraj Hallan: Okay, that would be great.

Jason Jacques: As everyone is aware, carbon pricing, while it is one of the most effective ways of reducing greenhouse gas emissions, is very complex in terms of the pricing, the application to goods, and the rebate system and other offsets.

Jasraj Hallan: I just have one more question based on that.

When we see the rising price of groceries everywhere right now, and we've established that with any input cost to, let's say, farm equipment, ultimately when the farmer goes to grow our food it would increase that cost and for the person who's shipping that food to the grocery store, it would increase their cost if they're buying a truck or even—

The Chair: Mr. Hallan, I do have to ask if this is related to the tax havens?

Jasraj Hallan: Yes, I will get there.

At the end of the day, when any Canadian goes to buy groceries, there's not necessarily a line item that says industrial carbon tax, but there is a cost that is increased on Canadians' everyday buying at the grocery store. Is that correct?

Jason Jacques: Again, theoretically and in isolation, that might be the case.

I read through, as I'm sure most people in this room did, the statement from the Governor of the Bank of Canada with respect to his economic update this morning. He pointed out the fact that within the economy there are very complex factors that actually hit the bottom lines of households, one of them being the exchange rate and the other being import propensities, so it's important to look at everything together.

• (1815)

Jasraj Hallan: In relation to tax havens and the impact they have on Canada's fiscal position today, and with the budget coming up next week, we see that the government is going to set out some type of vision of what a capital expense is, but will this accounting trick not make it easier to spend more with less transparency?

Jason Jacques: We published a note on this several weeks ago, and one of the things that we highlighted is that the government isn't taking anything away. While it is going to be presenting its spending plan by dividing spending into the two new categories, capital and operating, the old category—everything that we've

grown to know and love—will still be there and available for us to analyze.

Jasraj Hallan: At the end of the day, the debt is still the debt, and the total cost is still the total cost. It doesn't matter whether we split it into different categories or create different line items for it. At the end of the day, the debt is still the total debt at the end.

Jason Jacques: Yes, and I'd say that something we flagged in the note is that the definition of capital, from our perspective, seems very broad. It's much broader than we've seen in other jurisdictions.

Jasraj Hallan: That is why I asked. It won't be transparent—

The Chair: Mr. Hallan, how is this related to the current study?

Jasraj Hallan: I'll get there.

Jason Jacques: Another point I actually made at the government operations committee was that this is the approach the government have indicated they're taking internally to make budgeting decisions, and it's very transparent that the way in which they're making decisions internally is also the way in which they're going to be communicating that information to parliamentarians.

The Chair: Thank you, Mr. Hallan. That concludes the time.

We will now go to Mr. Sawatzky for five minutes.

Jake Sawatzky: Thank you, Chair, and thank you to the witnesses for coming today.

Former PBO Kevin Page said, “Deficit financing capital investment...will accrue long term benefits for the young and future generations”, and, “The separation of operating and capital-related spending is an important transparency improvement.”

Do you agree with these conclusions?

Jason Jacques: I would say the Government of Canada already has three pre-existing systems for splitting operating and capital. It's wonderful if they come up with a fourth system for presenting operating and capital for parliamentarians. From our perspective, the conclusion we've reached is that the new system and especially the definitions around capital are very broad.

I guess it remains to be seen. We'll see on November 5, from a parliamentary perspective, whether parliamentarians looking at the budget feel the same way that Mr. Page does.

Jake Sawatzky: Coming back to the taxes, I was just curious: What measures would you suggest to further ensure we are tougher on tax evasion?

Jason Jacques: I don't know that this is something we're well placed to comment on. It seems like the question would be more appropriate for another agent of Parliament, like the Auditor General.

Jake Sawatzky: Do you have any suggestions as to some of the technology that is currently being used to track the tax evasion that's happening?

Jason Jacques: No, certainly from a technological or operational perspective, we're not well placed to comment on that.

Something that we have seen in the past... The *raison d'être* for our organization is one of transparency. Certainly there seems to have been an impact with the creation of our office and the accuracy and transparency around economic and fiscal forecasting on the part of the Department of Finance and the government.

That's something that's been concluded by the International Monetary Fund and the OECD. Potentially having something similar or having us play a similar role around the tax cap, if Parliament deemed it appropriate, could be similarly helpful. Shining a light on the dark corners of the government occasionally provides benefits.

Jake Sawatzky: Could you elaborate a bit about what the details of that would be?

Jason Jacques: With respect to...?

Jake Sawatzky: It's with respect to increasing transparency and all of that sort of thing that you mentioned.

Jason Jacques: On the increasing transparency side, I was specifically referring to Bill S-217. It's analogous to the role we currently play on the economic and fiscal forecasting side. The Parliamentary Budget Office has a mandate to undertake this forecasting work that the Department of Finance already does. Some people might argue it's duplication. Certainly I think many parts of the public service would.

Thankfully, the International Monetary Fund and other researchers have concluded that to have a bit of competition actually improves transparency and accuracy in the forecasting. It also better serves parliamentarians, because it forces both the government and our organization to share additional information with parliamentarians, so they have a better understanding of what's going on.

Having another external organization playing a similar role around the tax cap—going back to the operational question you had regarding interventions—I think would potentially provide a very good opening for parliamentarians, if similar work was being done, whether it's by us or by another organization.

• (1820)

Jake Sawatzky: For Canadians out there who would just want to know in plain terms about how this would affect their daily lives, what would you say about that?

Jason Jacques: Do you mean with respect to tax havens?

Jake Sawatzky: Yes, essentially. How does this end up affecting day-to-day life for Canadians?

Jason Jacques: Everyone has a really clear sense of the fact that there are people who potentially have money to pay high-priced lawyers and accountants to set up complicated tax structures, so they potentially don't have to pay their fair share. For the vast majority of the 30 million people who file T1 tax returns, it means they have to pay more for the social programs that Canadians value.

Jake Sawatzky: Those are all my questions. Thank you, Chair.

The Chair: Thank you, Mr. Sawatzky.

We will move on now to Monsieur Simard for two and a half minutes.

[*Translation*]

Mario Simard: Thank you very much, Madam Chair.

Mr. Jacques, I don't know if you've already done a study on this, but do you know if there are any mechanisms in place so that before the government awards a company with a public contract, it can determine whether the company uses tax havens?

The example that comes to mind is KPMG, a multinational company that receives a lot of contracts from the federal government. It had been criminally charged in the United States, but if I'm not mistaken, there was an out-of-court settlement in Canada between the Canada Revenue Agency and KPMG.

Jason Jacques: I don't know. Mr. Bernier, could you answer?

Govindadeva Bernier: To my knowledge, there isn't a mechanism to ensure that. Even if there were one, as the senior officials from the Department of Finance and the agency explained earlier, those companies manage to operate in accordance with the letter of the law in most cases. I'm not a lawyer, so I can't assure you that that would be the case. Having said that, even if the government could prove that companies were using tax havens, it might be difficult to deny them contracts for that reason alone.

Mario Simard: To your knowledge, isn't there a mechanism that would enable the government to get an idea of that? When contracts are awarded, aren't there any audits to see if the companies have acceptable tax practices? Is that not a criterion?

Jason Jacques: We aren't experts in that area.

Mario Simard: I don't know, but sometimes you do evaluations of government contracts. You can analyze them and see where there are abuses. Is that a criterion that the Office of the Parliamentary Budget Officer can study?

Jason Jacques: Unfortunately, we aren't procurement experts. I know there are other officials who could answer your question directly.

Mario Simard: Thank you very much.

The Chair: Thank you, Mr. Simard.

[*English*]

Given that we have about six minutes left for committee time, I'm wondering if it's the will of the committee to split that time equally between the Conservatives and the Liberals in the last round.

Some hon. members: Agreed.

The Chair: It's three minutes for you, Ms. Cobena.

Sandra Cobena: In a report released today called "Planned Capital Spending under Canada's Defence Policy: 2025 Update", you outlined new defence expenditures that were not included in your September "Economic and Fiscal Outlook".

Taking this additional spending into account, what are Canadians now facing in terms of a projected deficit?

• (1825)

Jason Jacques: As we mentioned in the September “Economic and Fiscal Outlook”, one of the major areas of spending, around which we weren’t in a good position to provide an estimate, was the government’s commitment to the 5% NATO commitment, and we were focused on 2%. Concerning the difference between 2% and 5%, we continue to not have enough detail at this point.

At this juncture, it’s unclear how much of the additional spending will overlap with other areas of spending, but suffice it to say that I think, going back to the testimony that I offered at the government operations committee, it would be tens of billions of dollars of additional spending.

Sandra Cobena: What does that do to the projected deficit, then?

Jason Jacques: It would increase the deficit.

Sandra Cobena: Do you have a rough estimate in terms of a number?

Jason Jacques: I do not. We are planning on publishing, about 10 days after the budget, a budget issues note. At that point, we’ll be in a good position to provide you with a number.

Sandra Cobena: You’ve just mentioned tens of billions of dollars of additional spending, meaning that it will most likely be going straight into the deficit.

If the government refuses to rein in spending, then what are the intergenerational consequences? Are we effectively passing today’s bills to our children?

Jason Jacques: From an intergenerational perspective, it depends on how the deficits are financed or what the deficits look like, because, of course, what we published in September was a baseline, and we have to wait until November 4 to see how the government responds to that baseline.

The government has already indicated that it plans on restraining and potentially cutting spending. It has already announced some additional measures. There could potentially be additional revenue measures that would close the deficit as well.

I think the other key point is that everyone at this point has been sensitized to the idea that the deficits are going to be potentially substantial for the next two to three years. The real question, and the question I have raised, is this: What happens in years three, four and five?

In highlighting the debt-to-GDP ratio and the path of the debt-to-GDP ratio, the concerning aspect of it was that, in the outer years, it continued to increase, so the economy was not growing fast enough to pay for the growth in that outstanding debt stock.

The Chair: Thank you, Mr. Jacques. That concludes that time period.

We’ll go back to Mr. Turnbull for the final three minutes of this session.

Ryan Turnbull: Mr. Jacques, thanks for being here.

I would assume that as acting PBO, you have a lot of respect for former PBOs like Yves Giroux and Kevin Page.

Jason Jacques: Yes, absolutely. Kevin and I are close personal friends.

Ryan Turnbull: That’s great. I figured as much.

I know that you’re new to your role, but both former PBOs, after your appearance at the OGGO committee, had some words to say about your testimony.

Yves Giroux said that your comments were somewhat “pre-mature”. Kevin Page said that the language you used isn’t typical for someone in a non-partisan role.

Kevin Page also said, “I think the language from the current parliamentary budget officer, Mr. Jason Jacques, is just wrong and he should walk that back, quite frankly.” He said that he should tell people that our fiscal situation is “sustainable”.

I noticed in your opening remarks that you said you were learning to avoid adjectives. I just wondered if you had any regrets about the kind of emotionally charged language you used in your previous testimony.

[Translation]

Mario Simard: Madam Chair, I have a point of order.

Earlier, my colleague raised a point of order to say that our Conservative colleague should be talking about tax avoidance and not the carbon tax.

I don’t think the objective of the Standing Committee on Finance is to put Mr. Jacques on trial. I would show some humility—

[English]

The Chair: Wait—

Some hon. members: [Inaudible—Editor]

The Chair: Identify the point of order.

We will let Mr. Simard finish his point of order.

Then I have Mr. Kelly, and then we’ll go to Mr. Turnbull.

[Translation]

Mario Simard: I would show some humility. There’s a custom where we don’t damage the reputation of public servants, officers and people who come to answer the committee’s questions.

I don’t think Mr. Turnbull’s question has anything to do with tax evasion, so I’d advise him to take the comment he made to our Conservative colleague and apply it to himself.

• (1830)

The Chair: Thank you, Mr. Simard.

[English]

I have Mr. Kelly and then Mr. Turnbull on the same point of order.

Pat Kelly: Yes. Thank you.

I agree with Mr. Simard.

I had argued that latitude is typically allowed when there's an officer of Parliament, but I can't help but note, Chair, that you three times interrupted Mr. Hallan to steer him towards what you thought might be a bit more relevant testimony. I would hope that that standard would be held with Mr. Turnbull, and you'll maybe rein him in and get him on topic, if there is in fact any time left, and it doesn't look like there is.

The Chair: Okay. Thank you, Mr. Kelly.

Mr. Turnbull.

Ryan Turnbull: Well, it's interesting that the latitude that the members opposite asked for in this committee.... I would suggest that Mr. Kelly made some effort to bump himself back into the lane of relevance, but Mr. Hallan made no effort to do that, despite being asked by you many times.

You opened the door, and you don't want the rules to apply equally to other members in this committee.

I do think, Madam Chair, that if you allotted that latitude to members on the Conservative side, the Liberal members should have the same—

An hon. member: [*Inaudible—Editor*]

Ryan Turnbull: I'm sorry. I have the floor.

The Chair: I hear you, Mr. Hallan. Mr. Turnbull has the floor. We'll come to you in a moment. I did hear you, and I mentioned that you were on the list.

Ryan Turnbull: Pardon me, Madam Chair. I'm used to Conservative hypocrisy, but at the committee we should, I think, allow the same latitude to all members on the committee. If other members are arguing “latitude” when they have time to ask questions, then that should apply to all members equally.

The Chair: Thank you, Mr. Turnbull.

Mr. Hallan, on the same point of order.

Jasraj Hallan: Absolutely.

Thank you, Chair.

I want to thank my friend, Mr. Simard, for bringing up this very relevant point of order. I fully agree with him and Mr. Kelly.

I think the issue here is that what Mr. Turnbull is trying to do is make a personal attack on Mr. Jacques, and that is the point of relevance that we're trying to bring up here—that he's trying to use someone else's words against Mr. Jacques, which is not only unfair; it's unprofessional. I would ask Mr. Turnbull to please respect our witness and not make any personal attacks.

You're more than welcome to go down the path of tax havens, which this study is on and which we all focused on. We all said “tax havens” in all of our interventions. I'm just hoping that Mr. Turnbull will respect the committee and do the same.

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