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# Standing Committee on Finance

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Chair: Karina Gould





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Monday, November 17, 2025

• (1200)

[*English*]

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

Welcome to meeting number 13 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. Before speaking, please wait until I recognize you. Those participating by video conference, click on the microphone icon to activate your mic, and please mute yourself when you are not speaking.

[*Translation*]

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

For members participating in person or via Zoom, please raise your hand if you wish to speak. The committee clerks and I will do the best we can to maintain consolidated speaking order.

[*English*]

I will remind you that all comments should be addressed through the chair.

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

Please note that, despite the best efforts of the committee clerks, we were only able to schedule one hour of witnesses for today's meeting. I apologize to the committee, but that's why we only have one hour. We couldn't get more witnesses due to scheduling.

I would like to take this moment to welcome our witnesses. We have Mr. Geoffrey Loomer, associate professor, faculty of law, University of Victoria.

[*Translation*]

We also have Julien Martin, professor of economics at the Université du Québec à Montréal.

[*English*]

We also have Dr. Markus Meinzer, director of policy, Tax Justice Network.

All virtual witnesses have conducted a mandatory sound check.

We will now begin. Each of you will have five minutes for opening remarks, and then we will open it up to questions.

Welcome to our witnesses. We will begin with Mr. Loomer for five minutes.

I turn the floor over to you.

**Geoffrey Loomer (Associate Professor, Faculty of Law, University of Victoria, As an Individual):** Thank you, Madam Chair and members of the committee, for the invitation to speak to you today about this important topic.

Again, my name is Geoff Loomer. I'm a law professor at the University of Victoria. I previously worked in tax practice at a large Canadian law firm. I received my Ph.D. in international tax as applied to multinational enterprises. I've been doing research and teaching in that area for the last 15 years.

I'm sorry that I couldn't be there in person today.

Tax havens are a fascinating and important public policy issue. They've been central to many of the key themes in international tax policy for a long time, those being international tax avoidance, international tax evasion, tax competition and tax co-operation.

In the last 15 years, we've seen a lot of movement, a lot of progress in this area. There is still more that could be done. It's important, I think, to take stock of where we are and what could be done today.

I've provided some speaking notes, which I think the committee has in English and French.

As a note on tax evasion, although I'm happy to take questions about that, it's not really the focus of my remarks today. I'll just say that we have made a lot of progress since 2009 in dealing with offshore evasion, mainly through enhanced information exchange and Canada's large and growing network of tax information exchange agreements. That's a positive thing.

The focus of my work has been on the much more substantial issue, in my view, in terms of revenue, of tax avoidance by multinational enterprise. I'm not an economist; I'm a lawyer, but I certainly follow the economics literature.

As you may know, the OECD, as part of the BEPS project, estimated a revenue loss—this is back in 2015—of 4% to 10% of global tax revenues, which is \$100 billion U.S. to \$240 billion U.S.

Canada, being a relatively high-tax country and the 10th largest economy in the world, obviously accounts for a good chunk of that. I don't have exact numbers, but I have provided the committee with charts on foreign direct investment directly from Statistics Canada, compiled by the Department of Finance. You can see, when you look at outbound investment, that the number one location or destination is the United States—that's not surprising—at about \$1.3 trillion. That's the total stock of foreign direct investment there. Number two is Bermuda. Number three is the U.K. Numbers four, five and six are Barbados, Luxembourg and the Cayman Islands. What's going on there?

When you look on the inbound side, it's more the treaty havens that matter—the Netherlands, Luxembourg and Switzerland—because of the attractive treaties and attractive holding company regimes that they have.

The difficulty, when we talk about tax lost or tax avoided, is that you have to compare the tax paid with what you think should be paid under a benchmark system, the right system, which involves difficult questions of tax interpretation: What is the law, and how is it properly interpreted according to its text, context and purpose?

I will note that we have made changes to deal with specific forms of tax avoidance through what we call specific anti-avoidance rules, or SAARs. The body of those rules has grown recently as part of the OECD BEPS project. I can get into the details if people want to discuss that: the anti-hybrid rules, the excessive interest rules and, most importantly, the global minimum tax.

However, Canada has a sort of push-and-pull in our tax policy. Particularly, our dividend exemption system has been structured to enhance the competitiveness of Canadian multinationals. The rules, far from preventing or prohibiting the use of tax havens, often facilitate their use and, indeed, I would say, encourage the use of tax havens because of a policy of competitiveness. That's a long-standing issue in Canada.

If the government is concerned about the use or what it may see as the misuse of tax havens, there are three possible criticisms and three responses. One, you can criticize taxpayers and say that their planning is too aggressive and that perhaps it's unethical. Two, you could criticize the CRA and say that enforcement is not sufficient. In my experience, these two things may occasionally be true on the margins, but by far the most substantial issue is the law itself.

If we want to respond to what we see as the misuse of tax havens, we have to think hard about what our tax policy is—as I said, there's a push-and-pull there—and draft tax laws that are consistent with that policy and are coherent.

- (1205)

I'll leave my comments there.

I'm happy to take questions from members of the committee.

Thank you.

**The Chair:** Thank you, Mr. Loomer.

[*Translation*]

Mr. Martin, you have the floor for five minutes.

**Julien Martin (Professor of Economics, Université du Québec à Montréal, As an Individual):** Thank you, Madam Chair and members of the committee. I am very pleased to be testifying before you today.

My name is Julien Martin and I am a professor in the economics department of the Université du Québec à Montréal, or UQAM.

Several years ago, I participated in a study in which it was estimated that about 7% of corporate tax revenue in Canada disappears each year into tax havens. Gabriel Zukman and his co-authors concluded that the figure was 9%. So between 7% and 9% of Canada's revenue disappears into tax havens every year, representing a significant revenue shortfall, weakening our ability to fund public services and eroding the public trust in their institutions. This therefore directly affects Canada's interests, as it does those of many other countries.

Given these facts, I would like to stress four points that I believe to be important and that may inform this committee's deliberations. The first three are drawn directly from my research and the final one relates more to future challenges.

The first point I want to make is that tax evasion through tax havens is an extremely granular phenomenon. What do I mean by that? In a 2018 paper, Ronald Davies, Mathieu Parenti and Farid Toubal showed that French multinational firms were manipulating transfer prices to shift profits earned in France to low-tax countries. In addition to showing that there was evidence of prices being manipulated and profits shifted, that article established that most of the tax avoided through these practices was the work of only 450 corporations and concerned ten tax havens. Since that study, other more recent research using other databases has confirmed that the use of tax havens and tax evasion by multinationals involves a very small number of very large corporations operating in a limited number of tax havens. This aspect, the high granularity and extreme concentration of this conduct in the hands of a few big multinationals, needs to be taken into account when considering this issue and seeking to legislate in this regard.

My second point is that tax avoidance does not only affect government revenues, it also hurts the real economy. As we often think, tax avoidance means less revenue for the government. What a recent paper by Mathieu Parenti and Farid Toubal shows is that a firm that avoids tax procures a competitive advantage over its competitors, allowing it to sell more than the others. In the United States, it has been demonstrated that in certain sectors, more large firms than small firms avoid tax. It therefore gives these large firms a competitive advantage and strengthens their dominant position. The takeaway from this second point is therefore that tax avoidance is not just a question of public revenue; it also impacts the real economy. In particular, it tends to distort competition. When we consider tax policy, it must not be considered in isolation from competition policy; rather, it must be considered alongside it.

The third point I would like to make is that Canada is relatively poor in terms of research-accessible data on issues related to tax havens and tax avoidance. Studying tax avoidance, the use of tax havens and their implications requires very detailed data, and I have been able to do this with French or American data. In the case of Canada, however, I have not had access to this data, and very few researchers, if any, have access to it. It must be noted that under the OECD's BEPS project on tax base erosion and profit shifting, large multinationals are required to report, country by country, sales, profits, taxes paid and employment, among other things. That kind of data enables us, as researchers, to better understand what is happening, in any case as regards Canada. Several countries, including EU members and Australia, are passing legislation to make this data publicly available. Canada could potentially follow this path. This is data that is already being collected. At present, it is not made public by Canada, but that is a direction that Canada could take.

My final point, which is more prospective, relates to international co-operation in connection with tax avoidance. We must keep in mind that one of the recent major advances in international co-operation focused precisely on taxing multinationals and combatting tax havens. A few years ago, the framework developed by the OECD under the BEPS project led nearly 140 countries to agree on a two-pillar solution. One of the things established by the second pillar is a global minimum tax of 15% on multinationals. The United States appears to want to withdraw from the second pillar—

• (1210)

**The Chair:** Mr. Martin, please wrap up your remarks, if you would.

**Julien Martin:** I will wrap up right away.

The United States is trying to withdraw from the second pillar, so this multilateral system may be at risk of collapsing. We have to keep in mind that Canada cannot act unilaterally or negotiate bilaterally with Washington: In the case of tariffs, we saw that going it alone did not work. Canada therefore needs to preserve this multilateral aspect to the extent possible.

**The Chair:** Thank you, Mr. Martin.

[English]

We're going to continue with Dr. Meinzer. I would just like to note that he is joining us from Germany today, and I know he really

worked hard to make this work for his schedule, given the time change.

Thank you, Mr. Meinzer. You have five minutes.

**Markus Meinzer (Director of Policy, Tax Justice Network):** Thank you, Madam Chair and members of the committee, for the opportunity to speak.

My name is Markus Meinzer, director of policy at the Tax Justice Network, a civil society organization working globally to advance financial transparency and tax justice. My work focuses on countering illicit financial flows, including tax abuse and money laundering, through evidence-based policy research and risk assessment.

I want to make three points in my remarks.

The first point is that there is no universally agreed-upon definition or list of tax havens. Labels often reflect geopolitical bias determined by powerful actors rather than objective analysis.

Contrary to the stereotype of tropical islands as the primary offenders, our research shows that many developed economies, including OECD members, are central to enabling offshore abuse. We distinguish between corporate tax havens, which enable multinational profit shifting, and secrecy jurisdictions, which provide opacity for individuals. These categories frequently overlap in practice, but they help illustrate different channels of harm.

Our financial secrecy index combines the secrecy score, measuring the strength of transparency rules, with a global scale weight that reflects each jurisdiction's market share in offshore financial services. On this index, the United States ranks first, supplying more financial secrecy than any other country. Likewise, on our corporate tax haven index, many OECD member states—not only small island jurisdictions—rank among the world's biggest enablers of corporate profit shifting.

Canada is directly affected. Our most recent report, "State of Tax Justice 2025", estimates \$27 billion U.S. in revenue losses for Canada from multinational tax abuse between 2016 and 2021, with \$13 billion U.S. attributable directly to U.S.-parented multinationals. Almost half of the harm is caused by U.S. multinationals.

• (1215)

**The Chair:** I'm sorry, Dr. Meinzer. We're having trouble with the interpretation.

We're just going to pause for a minute until we figure that out.

**Markus Meinzer:** Okay. Thank you.

**The Chair:** Okay. Let's try again.

You can just pick up where you left off, and members will let me know if there are issues with the interpretation.

**Markus Meinzer:** Okay.

The second point is that the OECD has consistently failed, over decades, to counter these problems effectively, and the best chance for progress now is at the United Nations. The OECD's two-pillar solution, which has already been mentioned, was initially presented as a breakthrough but has been weakened and delayed, largely due to the resistance of the United States and its dominance of the OECD. The United States now even threatens economic retaliation against countries implementing the remaining rules affecting U.S. multinationals.

Therefore, acceptance of the side-by-side arrangement would undermine the remainder of the global minimum tax by exempting U.S. multinationals, which are responsible for the largest share of the global profit shifting. Side-by-side is reminiscent of medieval emperors, who were above the law that they themselves had set for everybody else. The exempt beneficiaries include tech giants closely aligned with President Trump.

This pattern is not new. The OECD has long granted the United States special privileges. FATCA and the CRS are examples.

For these reasons, Canada should oppose the side-by-side deal. However, no single country can withstand the U.S. pressure. Therefore, the only viable route is collective defence of tax sovereignty at the United Nations, with the potential to establish a truly democratic and fair system of global tax governance. Meaningful Canadian engagement is essential to developing reforms that can withstand the pressure from the U.S. and its libertarian anti-tax ideologues. By working with countries such as Germany, Spain, Brazil, South Africa, India and many others, Canada can help champion a strong, progressive UN tax convention.

Finally, the third point is that Canada can take unilateral steps now to reduce illicit financial flows and to protect its revenue base. For example, Canada could extend its public beneficial ownership register to all companies, including those that are formed in any province or territory, and also extend it to trusts. Second, Canada could enact public country-by-country reporting to expose profit shifting and strengthen tax compliance. It is gaining global momentum as a tool for holding multinationals accountable. As has been mentioned before, the European Union and Australia have already legislated for it. It is a safe policy.

Thank you for your attention, and I'm very much looking forward to your questions.

**The Chair:** Great. Thank you, Mr. Meinzer, and thank you to all of our witnesses for those opening remarks.

[*Translation*]

Mr. Lefebvre, from the Conservative Party, you have the floor for six minutes.

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

I want to say hello to my colleagues now that we are back from a week in our ridings.

I also want to thank the witnesses for being with us today.

Professor Loomer, in your opening remarks, you said the problem was the law itself and it had to be consistent with policy. I would like you to talk about that a bit, please.

[*English*]

**Geoffrey Loomer:** Sure. Thank you for the question.

When I say that, I do not have the authority to decide what the policy is. I've looked at these rules a long time, and I will say that the policy has a push-and-pull to it, so we have long-standing rules that allow multinationals to have their dividends come back to Canada exempt from corporate tax. There are ways they can minimize their corporate tax elsewhere, so that's the source of a lot of the profit shifting that comes into Canada.

However, when governments, both Liberal and Conservative, have tried to enact rules that will stem that practice, those rules don't get enacted, for various reasons—lobbying, pressure from the law and accounting firms on the advice of their clients, etc.

However, there's a balancing to do to decide if the rules that allow an exemption from corporate tax on dividends coming back to Canada provide a net benefit to us. Is there a net economic benefit? I think that in the seventies, the belief was yes. We're a net capital importing country. We need this to compete with the U.S., Germany and Japan.

Do we need that in 2025? It's not clear to me that we do. It's not clear to me that the policy makes sense: for example, to allow interest deductions in Canada or scientific research credits in Canada to fund offshore investment that then results in income that's brought back to Canada with no tax. You get a deduction here, and when the income comes back, you have no inclusion. Maybe that makes sense from a competitive point of view, but it requires serious consideration whether that's the right call.

● (1220)

[*Translation*]

**Eric Lefebvre:** Thank you.

Along the same line, I recall that the Prime Minister tried to defend Brookfield's use of tax havens by saying that it was a way of guaranteeing payment of taxes in Canada. Do you agree with the Prime Minister's statement?

[*English*]

**Geoffrey Loomer:** Thank you.

If I look at Brookfield and other large Canadian multinationals—the largest financial services companies, like Manulife and Sun Life; the big banks, like RBC; and the big energy companies, like Enbridge—I would expect that all of them have some tax haven use. Barbados was the traditional choice. It's shifted more and more to Bermuda, because 0% is better than 2.5%, and the flight from Toronto is shorter.

I expect there's a lot of that in the large Canadian multinationals. It is a normal practice. As I said, our rules have facilitated and indeed, I would say, encouraged that, so the Prime Minister is right when he says that.

Does it result in some net benefit to us? It's a complicated question. You would say that, well, it's good for everyone who has an interest in the Canada pension plan, because Brookfield invests the money and makes better profits because there's less tax paid, and that perhaps results in more income tax back here eventually when people are withdrawing their pensions. However, it's difficult balancing that.

[Translation]

**Eric Lefebvre:** Thank you.

Mr. Meinzer, I would ask you the same question. We have heard from Mr. Cochrane, the senior economist at the Canadian Labour Congress, who, on the other hand, described the Prime Minister's statement that tax avoidance guaranteed payment of taxes in Canada as laughable. What do you think about that?

[English]

**Markus Meinzer:** I'm afraid that I'm not very familiar with the Brookfield case to be able to make an informed statement about this.

Usually, I would tend to argue that lowering taxes here in order to gain more revenue is a bad idea, and enticing the use of tax havens with the aim of increasing revenues here is also in the same category for me—not a convincing policy.

Usually, one would expect that the Laffer curve.... The long-held belief, coined in the Reagan era, that when you are lowering taxes, more investment will come and, in the end, you will end up with more revenue is just a myth and has not been proven to hold true anywhere in the world. The empirical evidence is firmly to the contrary. When you lower taxes, when you shift profits to lower-tax jurisdictions, the end result will never be increased tax revenue, at least *ceteris paribus*. It might coincide with another growth effect that would have happened anyway, and you would have ended up with even higher taxes had you not reduced your tax rates beforehand. This much I can say to this case.

Thank you.

● (1225)

[Translation]

**Eric Lefebvre:** How much time do I have left?

**The Chair:** You have 15 seconds left.

**Eric Lefebvre:** Right. Thanks to the witnesses for being here today.

**The Chair:** Thank you, Mr. Lefebvre.

We will continue with Mr. Leitão for six minutes.

**Carlos Leitão (Marc-Aurèle-Fortin, Lib.):** Thank you, Madam Chair.

Thanks to the witnesses for participating in this exercise. Their testimony is very useful and very interesting. However, there is one thing all three witnesses have mentioned: the need to continue thinking and working multilaterally.

Mr. Martin, I am asking you my question because you have not yet had a chance to speak. Specifically regarding this need to work together and to give tangible effect to the regime that was put in place under the OECD's BEPS project after lengthy discussion, and this was in fact your fourth point: How do you see this coming about, particularly when we observe that our neighbours, the Americans, seem to want to withdraw from agreements their former president had signed?

**Julien Martin:** Thank you for the question.

Yes, the United States is threatening to withdraw from the agreement, and particularly pillar 2. The tariffs example is important to take into account here. We were using a multilateral system for international trade. However, the EU member countries, the United Kingdom and Japan decided to go off and negotiate individually with the United States. They have all lost, for now. We shall see how Canada fares.

Obviously, it is a bad idea to tackle it individually, particularly where this international co-operation is not happening, or is happening less, because the United States does not want to participate. It is a bad idea to choose to tackle it all alone and try to put policies in place unilaterally, or to want to negotiate a digital services tax bilaterally with the United States, for example.

We really have to encourage international co-operation. If Canada wants to keep making progress on these issues, which are the same for the European countries and for Japan, India and South Africa, as I said, it needs that co-operation. It cannot go it alone.

**Carlos Leitão:** I do think the key to success is to keep working together.

You said that under the BEPS project, the data has to be reported country by country, but in Canada's case, it is not necessarily made publicly available. Personally, I agree with you and I think it should be.

What do you think would really be the major benefits if this information, which the Canada Revenue Agency now holds, were made publicly available?

**Julien Martin:** First, there is a transparency aspect. We know that transparency is part of the solutions. Second, there is simply being able to study the phenomenon, whether in government departments, in organizations or at universities. We have to understand the phenomenon better, see what firms we are talking about, and see what the amounts in issue are, among other things. Data is collected about all of that. Researchers need to know what profits a multinational is making, country by country, jurisdiction by jurisdiction. They also need to know what its sales there are, how many employees it has there, and how much tax it pays in those places. Based on that, we can say a lot about the tax haven phenomenon and we can quantify it, for one thing.

Australia, for example, is currently enacting legislation to make this data public. The European Union is also doing so. However, they will be making the data public in a slightly different way. So then you have to go into the details to see exactly what the data to be made public is. For one thing, is it about all multinationals or large multinationals, and what is the threshold? In Canada, I think we could really move forward on this fairly easily.

• (1230)

**Carlos Leitão:** Thank you.

[*English*]

How much time do I have, Chair?

**The Chair:** You have one minute.

**Carlos Leitão:** Mr. Meinzer, I have a question that is a little bit out of left field, about something that has always fascinated me, perhaps not in a good way.

Within the European Union, how does the union deal with places like Luxembourg, Ireland and perhaps even the Netherlands? How does the European Union do that?

**Markus Meinzer:** I would say that there is a certain dose of observable hypocrisy within the European Union, in that we cannot treat all member states in the same way. The European Union likes to point fingers and label other countries as tax havens. That is a big issue that we are not happy about, and we are constantly trying to point out the need for more ambitious reforms within the European Union.

However, the country-by-country reporting was a success story. We can show a deterrent effect of country-by-country reporting on multinationals' profit shifting of 28%. We've been making the—

**The Chair:** Thank you, Mr. Meinzer. We're going to have to leave it there.

That concludes the time for this round. Thank you, Mr. Leitão.

[*Translation*]

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

**Jean-Denis Garon (Mirabel, BQ):** Thank you, Madam Chair.

Thanks to all the witnesses for being with us today.

Professor Martin, one of the things you talked about creates a bit of a dilemma. On the one hand, we are often presented with the existing laws that encourage the use of tax havens as tools to make large Canadian corporations more competitive at the international

level. On the other hand, Canada is recognized as being a country of monopolies where there is a lot of concentration. You are telling us that in a country like this, where large corporations benefit from tax havens, we are impeding the emergence of small innovative businesses, which are ultimately unable to compete with the big ones.

Which of the two versions should we believe? Should we continue encouraging the use of tax havens, or should we try to shut them down so our small businesses are able to succeed?

**Julien Martin:** That is a good way of looking at things. The paper I mentioned stated that tax havens give firms that avoid tax a competitive advantage over other firms, which distorts competition. Does that distortion operate systematically in favour of the larger firms? In general, yes, but it is not always the case. It may be different in some sectors, but, generally speaking, if we want healthier competition in a country, it is essential that everybody be operating on a level playing field, and not that only certain firms have access to tax avoidance techniques.

A radical solution might be the opposite: allowing everyone to avoid tax. I don't think we want to go in that direction, however. To improve competition, I would reduce the tax avoidance practised by certain actors.

**Jean-Denis Garon:** I understand that tax avoidance has a certain cost. For one thing, you need accounting firms and tax lawyers, which are not within the reach of the small business on the corner. In general, you need to have a certain size, is that right?

**Julien Martin:** Exactly. This is mainly about tax avoidance through tax havens, but other ways of avoiding tax exist now. In fact, that is why I do not necessarily want to completely generalize the results. At present, we are looking at tax avoidance through the use of tax havens, which is the preserve of the biggest corporations. However, there are also sectors where medium-sized firms could avoid tax by using completely different techniques.

What we have to remember is that tax avoidance provides a competitive advantage and is therefore bad for competition. It is important to keep that in mind.

**Jean-Denis Garon:** I would like to hear your comments on publishing the data. For several reasons, we are not necessarily taking that subject on today. However, it seems that Canada suffers from a lack of transparency. Am I correct to say that if a Canadian corporation avoids tax via France, we can tell, but if a French corporation avoids tax via Canada, there is no way of telling?

**Julien Martin:** From the French data, we are able to see the conduct of all corporations in France, including subsidiaries of Canadian corporations in France. So we can tell whether those corporations are manipulating their transfer prices to shift profits to tax havens.

• (1235)

**Jean-Denis Garon:** I just want to be certain I have understood correctly. If I wanted to know about a Canadian corporation's tax morals, I have more chance of getting an answer by looking for the answer at one of its subsidiaries in France where there is data transparency.

**Julien Martin:** Yes, and all the more so right now, because of the country by country report that has been made public in the European Union. Similarly, once the data is published in Australia, we will know more from the Australian data about a Canadian corporation that has a subsidiary in Australia than from Canadian data.

**Jean-Denis Garon:** Thank you.

You are going to force me to agree with my colleague Mr. Leitão, that this data should be made public. That idea comes from the Liberal side, so I assume that it will get done quickly and it could be a generational policy. I am kidding.

Since the current Prime Minister took office, he has foregone \$90 billion in revenue over five years, which is a huge amount. That included the entire portion represented by the minimum tax on multinationals pillar, the second pillar. The reason cited for dropping it is that the Americans don't want it anymore. As the smaller principal economy partner, we here in Canada are doomed to follow the Americans.

I understand that the approach you are advocating is different. I know you ran out of time for your opening remarks. Can you give more detail as to what you would do with the second pillar, given the Americans' withdrawal?

**Julien Martin:** We have to look for alliances. Yes, if the Americans withdraw, if Canada maintains this position, the risk is that there will be trade reprisals by the Americans. To avoid the reprisals, coalitions have to be built. We have to do the opposite of what we are doing with tariffs: We have to go after European countries. For example, we have to go after the United Kingdom, India and other countries. We have to form coalitions to avoid finding ourselves—

**Jean-Denis Garon:** We have 15 seconds' speaking time left.

What would your answer be to a Canadian government that tells you it has eliminated the minimum tax, because it had no choice, but it is going to renegotiate it multilaterally, and someday, it will come back? Do you believe that?

**Julien Martin:** I believe we are capable of doing better, at least collectively. At the global level, we are capable of doing better than what we are doing right now in terms of co-operating to deal with the United States. Will we succeed? I don't know, but we are capable of doing it.

**The Chair:** Thank you, Mr. Garon.

[English]

We will continue with Ms. Cobena for five minutes, please.

**Sandra Cobena (Newmarket—Aurora, CPC):** My questions are for Monsieur Martin.

For ordinary Canadians, tax rules are of course clear, strict and enforced, and oftentimes audits are done. Multinational corpora-

tions with offshore subsidiaries have the option of using offshore tax havens. You spoke about them being complicated structures that are costly to put in place, so naturally they wouldn't be available to ordinary Canadians or even small businesses in the mid-market space in our economy.

On that basis, do you believe that Canada's current tax system treats all taxpayers equally?

[Translation]

**Julien Martin:** The system treats everyone the same. The question we have to ask is whether everyone can use the system the same way, and that is obviously not the case. As you said, corporations are able to pay for accounting services and audit services that enable them to manipulate the law. That is what Professor Loomer said, also. From that perspective, everyone is not equal before the law.

Here again, there are several reasons for this. It may be the way the law is written: that it offers some businesses opportunities and not others. That is beyond my expertise as an economist. You would have to talk to a lawyer about that instead. I would maybe leave it to Professor Loomer to discuss that.

[English]

**Sandra Cobena:** You also spoke about tax avoidance being highly concentrated among a few select entities and the impacts of that on our local economy. Can you expand on that?

[Translation]

**Julien Martin:** There are two aspects to that.

The first aspect is that, yes, if you study tax avoidance associated with the use of tax havens, you will find that it is highly concentrated in the hands of a few very large multinational corporations. We are talking about thousands of multinationals, but that number is still low in relation to the large number of corporations in the world.

The second aspect is that once you give those large corporations a competitive advantage, because they have the opportunity to engage in tax avoidance, which means they are paying less in taxes than the others and their costs are lower than the others', you will be heightening those corporations' dominance. Because they are avoiding tax, those big corporations will get even bigger. So you will be increasing economic concentration in your economy. In the study I did with my co-authors, we show that this is the case in certain sectors in the United States. The citation for the study is in the document I provided to you.

• (1240)

[English]

**Sandra Cobena:** Thank you for that.

Yes, of course, it's not just about the lost revenue for Canada, but also about the impact on competition and the distortion of that competition that you mentioned, which is why it has been very difficult to see the Prime Minister's abuse of the use of offshore tax havens when he was at Brookfield.

You also talked about the lack of data publication and what that means. What are your thoughts on that?

[*Translation*]

**Julien Martin:** In general, Statistics Canada has a relatively restrictive policy when it comes to corporate data. For example, take the foreign direct investment data presented by Professor Loomer earlier. Certainly, the data exists, but the income generated by corporations in tax havens is not public. I have tried to get it, but that data is not public. It is only aggregated among several countries.

That is a signal that Statistics Canada has trouble disclosing this type of data. But that institution collects the data, because it is bound to do so via the country by country reporting. Making that data public would be a first step. However, it is up to Parliament to make it so that data is public. We have the data, but we need the political will to make it public.

[*English*]

**Sandra Cobena:** With that, of course, there is no transparency for Canadians in these aggressive tax avoiders. That would be helpful, even when making legislation to be able to address that issue.

What level of—

**The Chair:** I'm sorry, Ms. Cobena. That's the time for you.

**Sandra Cobena:** Okay, thank you.

**The Chair:** Thank you very much.

I'm going to turn it over now to Mr. MacDonald for five minutes, who I understand will be sharing his time with Mr. Sawatzky.

**Kent MacDonald (Cardigan, Lib.):** Thank you.

Thank you to the witnesses today.

I have a question for Professor Loomer.

You mentioned that Parliaments in the past have failed to introduce changes to the Income Tax Act, and you identified the Income Tax Act as being the most effective way to bring about change in reducing tax avoidance. If Parliaments continue not to be able to change the Income Tax Act, do you feel tax avoidance is going to increase, stay flat or decrease because of some of the international efforts?

**Geoffrey Loomer:** I think the current international efforts, over the last 10 years, are reducing the various strategies that one could use to avoid Canadian tax. There has been progress—without getting all legalistic—with the anti-hybrid rules, the excessive interest limitation rules and some of our rules on so-called treaty shopping when we're talking about the inbound side. Through those multilateral efforts, prompted by the OECD BEPS project, and some of our own, there has been progress.

The global minimum tax, again, is progress. I agree with the other commentators that it's not perfect, because we've been forced, one would say, to allow the U.S. to have this side-by-side system of their own, the so-called GILTI rules, and of course OECD pillar one, to have a source-based tax on digital services, has just been jettisoned in Canada because of pressure from the United States.

There has been progress. It's come from international co-operation. I think the global minimum tax, if we can really get there, with

a 15% floor, doesn't eliminate tax competition, of course, but it makes moving your profits to Bermuda and paying zero impossible. Bermuda has introduced a corporate tax of 15% on some multinationals to respond to that.

I think there has been progress, but yes, the fundamental system still has problems.

• (1245)

**Kent MacDonald:** Okay, thank you.

I'll turn it over to MP Sawatzky.

**Jake Sawatzky (New Westminster—Burnaby—Maillardville, Lib.):** Thank you.

Thank you, Mr. Loomer.

I just have a few more questions to build on what you mentioned in your introduction.

You mentioned that the most substantial issue was the law itself, so I was just wondering if you could touch on a few things that the Government of Canada has taken steps on, such as adopting the OECD common reporting standard, developing the federal beneficial ownership registry and increasing the CRA audit capacity. Could we build on these steps to increase the strength of tax laws?

**Geoffrey Loomer:** Yes, I think all of those are good developments.

My colleagues on the panel have talked about CBC—country-by-country—reporting, and certainly we've had that in Canada since 2016, but they're quite right that it's not public. I understand the privacy concerns about that, but other countries are doing it, so maybe we'll move in that direction. I guess I don't have strong views on that.

Reporting on beneficial ownership is important. These sorts of moves toward transparency are good. If your offshore structures are legitimate and you say, "Look, everything is consistent with the text, context and purpose of the law," then you shouldn't be worried about sharing the information.

I understand the privacy concerns and not wanting your competitors to be reading through all your financial statements and your amount of tax paid, but those information-sharing efforts are a positive thing, both on the evasion side and on the avoidance side, so that is progress.

**Jake Sawatzky:** Thank you.

Perhaps you could summarize what your suggestions would be, in a general sense, for increased tax laws.

**Geoffrey Loomer:** There are many. We certainly have, as I mentioned, a variety of specific anti-avoidance rules, and those have been increased.

Tax laws are very complicated, and reading them is difficult. Trying, as much as we can, to make those simpler would be a good thing, but it's challenging, and I know that. It's easy to say, "Let's make them simpler," but you're dealing with complicated international structures.

Underlying it, our exemption system favours Canadian-based multinationals. Here's the best analogy I could give: You say the speed limit in your neighbourhood is too high at 60 kilometres per hour and you decide to pass a law to reduce it to 40 kilometres per hour, but you say that for someone who drives a Canadian-made automobile it is unlimited. So—

**The Chair:** Thank you, Mr. Loomer. I'm sorry, but we're going to have to end it there for time.

Thank you, Mr. Sawatzky.

[*Translation*]

Mr. Garon, you have the floor for two and a half minutes.

**Jean-Denis Garon:** Thank you, Madam Chair.

Mr. Meinzer, subsection 5907(11.2) of the income tax regulations provides a tax exemption for income that is repatriated from zero or low-tax jurisdictions, provided that an agreement for the exchange of information is in place, even where no active business is carried on in those jurisdictions. Essentially, a corporation is exempt from tax if it is honest enough to tell us that it is swindling us. That is what I understand.

Could you tell me why provisions like these exist when your organization has estimated the revenue shortfall associated with the tax gap for Canada to be \$8 billion or \$9 billion dollars per year? Why would we not simply repeal that provision?

I see Professor Loomer smiling, so I will let him answer my question as well.

[*English*]

**Markus Meinzer:** Thank you very much for the question. Was it for me or for Mr. Loomer?

[*Translation*]

**Jean-Denis Garon:** You can answer first, and I will then ask Professor Loomer.

[*English*]

**Markus Meinzer:** Thank you very much.

I think the reason for this is the widespread belief that lowering taxes would, in the end, increase economic activity and attract greenfield investment—the kinds of things that everybody wants, like new factories, new research and new jobs.

However, what we see in the data over the last decades is that what you achieve by lowering your taxes and exempting, for example, foreign dividends as part of that policy is that you attract, at best, profit-shifting activities, which is phantom investment. The IMF is calling "phantom investment" a good share of the global FDI data that is not made up of what we usually believe is the greenfield investment, but it's mergers and acquisitions or it's loaded onto companies, which will then reduce the tax base and therefore erode the tax revenues.

What I think is a policy to attract investment has been followed by Germany, for example. They also exempt the foreign dividends when repatriated. I think you should switch this to a credit system that is a simple policy. Many countries have this in place. It's safe. It still ensures that you are not double-taxing any multinational activity, whether it's abroad or domestic, so you treat equally the economic activity whether it's here or elsewhere. I also think switching from dividend exemption, even if subject to certain conditions, like a treaty or something in place—

• (1250)

**The Chair:** Thank you, Mr. Meinzer.

[*Translation*]

Time is up.

**Jean-Denis Garon:** I have a point of order, Madam Chair: I ask for unanimous consent to allow Professor Loomer one minute to answer this question.

[*English*]

**The Chair:** Do we have UC to allow one minute?

Then we'll need to have UC to extend the meeting for a couple of minutes.

**Some hon. members:** Agreed.

[*Translation*]

**Jean-Denis Garon:** It's just for one minute.

[*English*]

**The Chair:** Okay, you have one more minute.

[*Translation*]

**Jean-Denis Garon:** Professor Loomer, you have one minute to answer.

**Geoffrey Loomer:** Thank you.

[*English*]

There are things we have done, like the enhanced general anti-avoidance rule and other, new rules.

There was a report just last month from the OECD about the progress of the BEPS project in the last 10 years. It quotes a lot of good economic data, mostly by European economists. It shows there has been progress. If you look at the ratio of profits to employees in a jurisdiction, it's better. It's not perfect, but it's better than it used to be, which means you have less profit in places where it's just a letterbox with no employees. That's a positive change.

What else could Canada do to improve its system? If we want to stop or limit the use of low-tax jurisdictions, the global minimum tax will help, but....

I could send draft amendments for the Income Tax Act on paragraph 20(1)(c) on interest deductibility or paragraph 95(2)(a) on income characterization of foreign affiliates, but it won't be adopted.

**The Chair:** Thank you, Mr. Loomer. That concludes the minute.

Mr. Kelly, go ahead for five minutes.

**Pat Kelly (Calgary Crowfoot, CPC):** Mr. Loomer, I'm going to stay with you.

In your opening remarks, you spoke of the different investment destinations and the countries of origin for Canadian investment. A chart was circulated. I want to just make sure this is included in the record.

If I understand this correctly, the amount of money that Canadians invested in the United States in 2024—the total of investments from Canada to the United States—is \$1.3 billion. In reverse, American investment in Canada is \$683 billion. Is that correct?

**Geoffrey Loomer:** On the outbound, it's \$1.3 trillion, or \$1,289 billion. On the inbound side, \$683 billion.

Yes, we are a net capital exporter by a large margin.

**Pat Kelly:** It's a huge margin. It's \$606 billion. That's the net amount that we are exporting to the American economy. Is that correct?

**Geoffrey Loomer:** That's right.

**Pat Kelly:** Wow. That's actually a lot worse than the most recent numbers that I had been aware of.

It would seem to be accelerating, in that the net investment deficit since the beginning of the fiscal year, which is roughly when the Prime Minister was sworn in, is another \$50 billion.

Perhaps I won't get you to comment on that.

I want to go now to Professor Martin and pick up where Ms. Cobena left off around legislated solutions and data deficiencies in Canada.

There have been repeated attempts in Parliament to compel the CRA to measure and to actually give information to the Parliamentary Budget Officer, so that the Parliamentary Budget Officer can independently measure the tax gap in Canada. Senator Percy Downe has been the champion of this.

Are you aware of his work?

• (1255)

[*Translation*]

**Julien Martin:** No, I am not aware of it.

[*English*]

**Pat Kelly:** What Percy Downe had proposed—and this was even moved in the House of Commons in the 42nd Parliament—was that anonymized tax data requested by the PBO be released to the PBO so it could independently verify the tax gap.

Would that be helpful for legislators and policy-makers, if we could actually measure the tax gap in Canada?

[*Translation*]

**Julien Martin:** For the very large multinationals, that data is public in Europe and Australia, in any event. So we could do the same thing in Canada. I think there could be a consensus in that regard.

It would be more complicated to get a consensus to make the data for all corporations public. However, as I explained at the beginning of the meeting, most of the tax avoidance associated with tax havens is the work of a few large multinationals. So it would be very good to have the data about these few large multinationals. Maybe instead of asking for it for all companies, we should focus on those larger multinationals. That would be progress.

[*English*]

**Pat Kelly:** When it comes to the very large companies, the Auditor General reported, as far back as 2018, that if a company has an offshore bank account or offshore dealings, they would be given months or even years to comply with orders from the Canada Revenue Agency, whereas a normal Canadian with only domestic dealings, whether it's a corporate file or a personal filer, must comply within 30 days or automatically have the taxes assessed if they don't comply.

Is it a fair system when an offshore filer is given months or years to comply, or even just has the taxes struck, while a normal small business tax filer in Canada will automatically have their taxes assessed if they can't comply with the CRA within 30 days?

[*Translation*]

**Julien Martin:** Here again, it is interesting to look at what is done internationally. If Canada could have the same requirements for these large multinationals as Australia and the European Union have, it would be progress. They are to be found everywhere. So if the European Union can ask them for something, there is no reason why Canada could not ask for the same thing.

[*English*]

**Pat Kelly:** For my final—

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

Mr. Turnbull, you have five minutes.

**Ryan Turnbull (Whitby, Lib.):** Thanks, Madam Chair.

Thanks to all the witnesses for being here today. It's a great conversation, with lots of great testimony.

Professor Loomer, I'll start with you.

I know you have made comments in the past about the general anti-avoidance rule and how it historically perhaps failed to meet its intended purpose. I hope I'm not mis-characterizing your comments, but I took that from something that you've said in the past.

How do you assess the government's recent changes to the GAAR, including the introduction of the 25% penalty that was included in Bill C-59, the fall economic statement?

**Geoffrey Loomer:** Yes, that is an accurate summary of what I've said in the past.

The GAAR is notoriously difficult to apply. There are circumstances in which it has been, in domestic or international transactions, and many circumstances in which it hasn't been. The academic commentary in Canada—particularly the writing of Brian Arnold, who has been involved in the GAAR since the beginning—generally says that the GAAR has not really done what it was intended to do.

As for the recent changes, effective 2024, including a penalty and a new economic substance test, it's too early to know whether they will change the way cases are decided. I think the general feeling, at least among Canadian law academics and tax law academics, is that it's a step in the right direction. Taxpayers will have to think a little more carefully. The calculus changes when there's a penalty—it's not just, "Oh, let's try it. If the court decides that the GAAR applies, well, we'll have to pay the tax, but we would have to pay the tax anyway."

The only penalty right now is a bit of interest—I mean, the interest could be significant—but adding a penalty does change the calculation. One has to think hard about whether this transaction is consistent with the policy or undermines the policy.

• (1300)

**Ryan Turnbull:** It sounds like it's a step in the right direction.

I know that budget 2025 also includes intentions to modernize Canada's transfer pricing rules to better align with international consensus on the application of the arm's-length principle, as reflected in the OECD transfer pricing guidelines. One aspect of that is to introduce new rules that provide more detail on how cross-border transactions between non-arm's-length persons must be analyzed, including a new transfer pricing adjustment application rule and a new definition of economically relevant characteristics.

Would you say those are also steps in the right direction? Would you care to comment?

**Geoffrey Loomer:** Yes, thank you.

I would agree with you. There have been consultations on these changes for a few years now, primarily in response to the Cameco uranium company case and the way different courts of appeal interpreted the rules. It's a move to modernize our transfer pricing rules

to make them more in line with the OECD guidelines and what some other countries are doing.

It's new and they are just proposals, so time will tell, but looking at it from a 100-foot level, it seems to be a step in the right direction, yes.

**Ryan Turnbull:** That's great.

I know my time is going to run out, but I note that you also made comments about the GAAR in particular, about some of the corporate tax avoidance rules not being all that effective and about us needing to have a more principles-based approach to drafting tax legislation. You've said that it would be preferable. I want you to go through why you said that. What does that really look like from your perspective?

**Geoffrey Loomer:** I could talk all day about principles-based legislation.

I'm not the only one who says this, but it makes a lot of sense. You will hear tax lawyers in practice, from private firms or justice, say the same. It means thinking hard about what your principles and policies are, and then drafting the legislation to match that, rather than a scattergun approach with all these rules that point in different directions.

As Professor Li mentioned in a previous meeting, when you have an anti-avoidance rule, it's a double-edged sword. You say, "I can't do A, B, C or D. Well, I'm going to do E, which isn't covered by the legislation."

In thinking about what the principle is.... For example, if your principle is on interest deductibility, you should be saying—

**The Chair:** Thank you, Mr. Loomer.

That concludes the time, although I'm sure many of us would like to hear more about that at some point.

On behalf of the committee, I would like to thank all of the witnesses present today.

With that, I look to the committee members to adjourn the meeting.

**Some hon. members:** Agreed.

**The Chair:** Have a great day, everybody.





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