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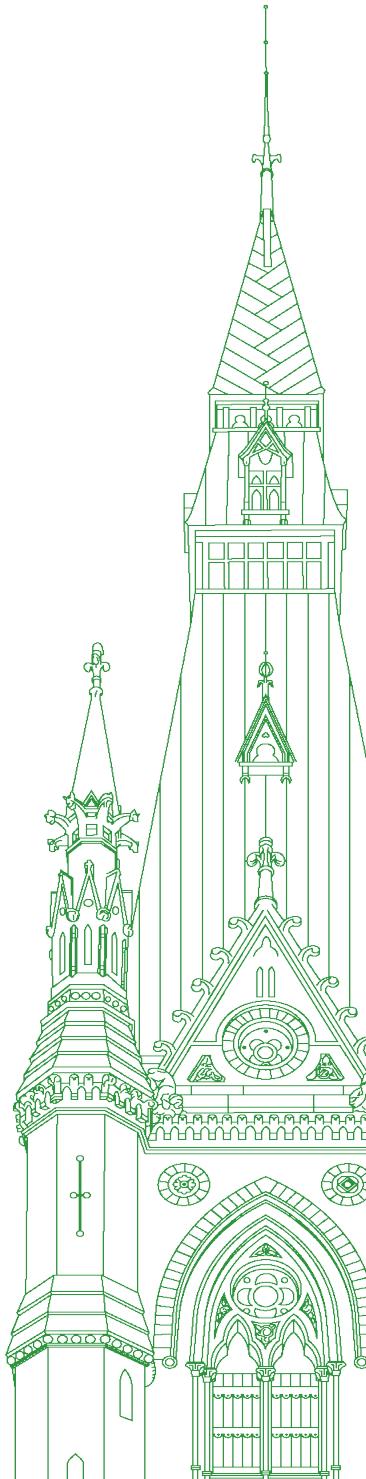

Chair: Karina Gould

Standing Committee on Finance

Tuesday, November 17, 2026

● (1125)

[*Translation*]

The Vice-Chair (Eric Lefebvre (Richmond—Arthabaska—des-Sources, CPC)): I call this meeting to order.

Good morning, everyone. Good morning, colleagues. Thank you for being here. Welcome to meeting number 59 of the House of Commons Standing Committee on Finance.

Today's meeting is taking place in a hybrid format, but everyone is attending in person. Thank you very much.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on Thursday, October 22, the committee is commencing its study of the tax treatment of used goods.

I would like to welcome today's witnesses. We have Karel Ménard, executive director of the Front commun québécois pour une gestion écologique des déchets; Timothy Fuchs, head of public affairs at IKEA Canada; and Steeve De Marchi, executive director of the Association des marchands de véhicules d'occasion du Québec.

Good morning. Thank you for being here.

You will each have five minutes for your opening remarks. After that, we will open the floor to questions. We will proceed in the order of introduction.

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

Karel Ménard (Executive Director, Front commun québécois pour une gestion écologique des déchets): Good morning, Mr. Chair.

Thank you, honourable members.

It's a pleasure and a privilege to be with you today. As the chair said, my name is Karel Ménard. I am the director of a national environmental organization specializing in ecological waste management, the Front commun québécois pour une gestion écologique des déchets, which has been around since 1991. Personally, I started working there more than 30 years ago, in 1994, so I know a bit about waste management in Quebec and Canada, and even in the world in general.

The Front commun tries to influence governments to adopt environmental waste management policies. It's fair to say that we have encouraged the Quebec government throughout the past 30 or 40 years to adopt policies such as the Quebec waste management policy and regulations concerning the establishment of technical landfills, among others.

Also, in the late 1990s, we were approached at the summit on the economy and employment in Quebec. That was a summit on the social economy, and we were invited to submit a project: the recovery centre network. A recovery centre is a place where used items can be brought in to be refurbished, repaired and resold. We were planning to establish a network of 60 recovery centres, and recovery centres across Quebec received some $7 million in funding at the time. As you see, my organization was very directly involved.

My organization, the Front commun, has four principles that guide its actions. In order or not, the principles are regionalization, democratization, the hierarchy of the three Rs—reduce, reuse, recycle—and accountability. Any project that promotes reuse, such as my appearance here, concerns us, because we absolutely have to promote reuse for environmental reasons. Reuse is really one of the drivers of the circular economy.

There's a lot of talk about recycling. Recycling has its benefits, but what is actually the right thing to do, if we really want to participate in the circular economy, is to reduce our consumption of resources. By the way, Quebec is one of the largest consumers of resources in the world. We went from 271 million tonnes of resources consumed in 2021 to 391 million tonnes of resources consumed in 2023, a 40% increase in just two years. Much more than recycling, reuse makes it possible to actually reduce our resource consumption, preserve our ecosystems and limit our environmental footprint.

It's really important to push for reuse. Why? Because, in terms of resources, a consulting firm hired by Recyc-Québec, a Quebec government corporation, estimated that the benefits of reuse in Quebec amount to a reduction of 226 metric tonnes of CO2 equivalent. That's equivalent to taking 50,000 cars off the road. It was also estimated that actions aimed at reuse prevented the production of about 5,000 tonnes of plastic. It also prevented the use of 120 million cubic metres of water. These are Quebec figures. I don't have the Canadian figures, but perhaps we can simply extrapolate for the other provinces. All that to say that reuse has a positive impact not only on society, because it helps people with financial difficulties afford basic necessities, but also on the environment, which must not be overlooked.

We are talking about trade in used goods, because if the federal tax on used goods were to be abolished, we would also like to address the issue of rentals. For example, people could rent tools instead of buying new ones. It's the same thing for repair. If I get my fridge repaired instead of buying a new one, I'm doing something good for the environment and for the economy, because people will fix the fridge. This is a type of economy that has disappeared somewhat in recent years. Removing the tax could give the repair sector a bit of a boost.

The Vice-Chair (Eric Lefebvre): Thank you, Mr. Ménard.

[*English*]

Now it's time for Mr. Fuchs for five minutes, please.

Timothy Fuchs (Head, Public Affairs, IKEA Canada): Chair and members of the committee, thank you for the opportunity to appear before you today to discuss the tax treatment of used goods in Canada and the role that GST/HST policy can play in advancing affordability, reuse, repair and the circular economy.

My name is Timothy Fuchs. I'm the head of public affairs for IKEA Canada.

Canada has the opportunity to advance our affordability and sustainability objectives at a time when many households are facing financial pressures. Increasingly, Canadians are turning to used and repaired goods as practical ways to make their household budgets stretch further.

While Canadians recognize the environmental benefits of keeping products in use and out of landfills, many customers tell us that circularity is also about affordability. For many families, wasting less in their homes means saving more money in their wallets, and businesses such as IKEA are responding.

At IKEA, we offer a free spare parts program that helps customers repair and maintain their furniture rather than merely replacing it. We also operate a buyback and resale program that allows customers to return eligible furniture. It is then resold through our as-is marketplace at more affordable prices. Last year, IKEA Canada resold more than 15,000 items, keeping them out of the landfill.

Customers are often surprised to learn that GST is generally applied when a used item is resold by a registered business. Even though a second-hand item might be slightly scratched or have chipped paint, the tax that is collected remains the same. In 2024, IKEA Canada launched an awareness campaign around the second-hand tax, for which more than 35,000 Canadians voiced their support, along with more than a dozen like-minded organizations from coast to coast.

In considering potential reforms, I would encourage the committee to focus on three key objectives.

The first, as noted, is affordability. Often, Canadians most likely to purchase used goods are students, newcomers, seniors living on fixed incomes, young families and lower-income households. Reducing or exempting the GST on eligible used goods would provide a direct and visible financial impact for many Canadians. At a time when governments are examining every available tool to improve affordability, this is a simple measure that could make a meaningful difference in the lives of so many people.

The second consideration is that of waste reduction and environmental sustainability. Extending the useful life of products keeps materials out of landfills and reduces demand for the resources required to produce new goods.

I would also encourage the committee to consider the treatment of repair services as part of this discussion. If the goal is to make sustainable choices more affordable, repairs must become a more affordable and attractive option for consumers. Too often, repairing a household product costs more than replacing it. A tax framework that encourages repair alongside resale would strengthen Canada's circular economy and help consumers get greater value from the products they already own.

Our third objective is support for businesses and job creation. The reuse economy relies on businesses and organizations that collect, sort, repair, transport, refurbish and resell products. It also creates opportunities for social enterprises, charities, technology platforms, logistics providers and small businesses. A tax framework that better supports these activities would encourage further investment, innovation and growth across Canada's circular economy.

Any proposed changes to Canada's tax rules come with the big job of defining parameters both for consumers and for businesses. The great news is that Canada already has a head start. Jurisdictions such as British Columbia, Manitoba and Ontario already use measures to remove provincial sales taxes from such items as used shoes and clothing and some second-hand children's items. In each of these cases, the focus is on day-to-day household goods and includes specific price thresholds. In addition, clarity would be needed to ensure that eligible items are truly second-hand, as opposed to in-store reduced items that have never seen a primary sale.

Finally, I encourage the committee to engage more broadly with resale businesses, repair organizations, environmental groups, tax experts and consumer advocates before recommending final legislative changes.

In closing, we are proud that so many Canadians see IKEA as part of their communities. We believe that products with life left in them should continue to be used rather than end up in landfills. We know that our customers share this belief and increasingly want more sustainable options that allow them to extend the life of their products and live more affordably.

Thoughtfully designed GST/HST reforms could be one of the solutions to help Canadians access lower-cost goods, reduce waste, strengthen Canada's circular economy and support business innovation in the space. More importantly, they can provide practical assistance to Canadians facing everyday affordability challenges.

● (1130)

Thank you so much.

The Vice-Chair (Eric Lefebvre): Thank you very much, Mr. Fuchs.

[*Translation*]

Mr. De Marchi now has the floor for five minutes.

Steeve De Marchi (Executive Director, Association des marchands de véhicules d'occasion du Québec): Mr. Chair, members of the committee, thank you for having us.

First of all, I would say that our association does support the bill. We support it because we believe that this tax relief measure will actually go to the people who need it the most. Therefore, yes, we are in favour of the bill. It also helps reduce the tax gap between sales between individuals and sales to dealers. Each province has different ways of collecting the tax. There are stakeholders, third parties involved in tax collection, which means that transactions between individuals are not treated in the same way as transactions involving a dealer.

However, we are attentive to what the final version of the bill will be and how it will be presented. We've seen other occasions where the spirit of the legislation is favourable and good for all stakeholders, but, in the way the regulations supporting the act are written, there are so many details and impacts that, unfortunately, the goal isn't achieved. As a result, we would like to raise a few points or things to be vigilant about.

For your information, I will say that the Association des marchands de véhicules d'occasion du Québec, or AMVOQ, is an association of independent dealers who deal only in used vehicles. We have about 1,200 members in Quebec, and we operate in all road vehicle sectors, including passenger, leisure and recreational vehicles.

Something we would draw the committee's attention to is the category of transactions covered. In the original bill, there was a reference to used cars designed for use on the road. As the bill moves forward, it will be important to define exactly what a used vehicle is. Does it include on-road vehicles exclusively? Does it include other types of vehicles? We therefore recommend that a used vehicle be defined precisely with a view to possible tax exemption, so that the measure is applied uniformly and achieves its goal.

There is also the issue of the vehicle itself. This is also where it will be important to have criteria to define things like a used vehicle, a new vehicle and an off-lease vehicle. We think that will be very important, once again, to achieve the goal, whether the definitions are included in a future bill or in the regulations.

One point that we also consider very important and that is already a challenge at the moment is the alignment of the bill with the different tax collection models. Depending on the province you're in, different entities collect the tax. In addition, it has to be relatively easy and simple to apply, also considering—as you probably know—that some provinces have already made progress, and even promises, in terms of tax collection. Once a decision has been made, there needs to be effective and simple communication. If the proposed measures or the ones in place in the provinces could be aligned, that would also be a good thing.

For all these reasons, we are indeed in favour of the bill, but we are pointing out challenges that could prevent the legislation from achieving exactly the goal it seeks to achieve. Also, of course, our association proposes to work with government to help understand the used vehicle industry as a whole.

Thank you for having us.

● (1135)

The Vice-Chair (Eric Lefebvre): Thank you, Mr. De Marchi.

We will now begin the question period.

[*English*]

We're going to start with Mr. McLean for six minutes.

Greg McLean (Calgary Centre, CPC): Thank you, Mr. Chair.

Thank you for the input this morning, gentlemen. I much appreciate all you've given us here for the study we are undertaking at this point.

I am curious about some details—and I'll go in particular with Mr. De Marchi, first of all—on the transaction that happens in a used car sale.

We think about used cars coming from not just used car dealers, but potentially new car dealers that also sell used cars, which is normally the case. When those new car dealers are transacting with a new car buyer buying a used car from them, is the price they're giving inclusive of the GST they're going to charge on the resale of that car?

Steeve De Marchi: I'll try to explain how it works, and I'll give you an example. If you buy a $60,000 car and you bring one back for an exchange of, let's say, $30,000, you'll pay $30,000—so the difference—and you'll pay taxes on the difference only. The car is never taxed at its MSRP.

I don't know if I answered your question.

● (1140)

Greg McLean: Effectively, it is the difference that you pay the GST on—the value between the two.

When the dealer is selling to somebody new a used car they received from a new vehicle purchaser, they're selling it for $30,000 plus GST.

Steeve De Marchi: Yes, if there's no exchange. Sometimes people will bring back their old car, and the dealer will buy that car.

Greg McLean: Okay. Let's go right to the end. That used vehicle will be sold for $30,000 plus GST.

Steeve De Marchi: It is going to be sold. If you bring in an exchange the second time it's sold, again you reduce the taxation level to the difference. It goes like this. If the car is sold three times—

Greg McLean: I'm less than clear on that. Can you please explain that mechanic to me again?

Steeve De Marchi: The car that you—

Greg McLean: Let's get a clear example. You have a used car on the lot. You gave the old owner $30,000 to trade it in. When you sell that car again, are you selling it for $30,000 plus GST, or is the GST included in that $30,000?

Steeve De Marchi: You will charge GST on the actual price tag of the transaction. If you sell that $30,000 car with an exchange.... In other words, if you buy another car at the same—

Greg McLean: No, we have to get to a close. Pretend it's the first car buyer getting this used car. What are they paying? Is it $30,000 or $30,000 plus GST?

Steeve De Marchi: It's $30,000 plus GST.

Greg McLean: The GST, although it's included in the sale, gets tagged on again in the purchase.

Steeve De Marchi: I'm not sure I follow. It's not included in the sale.

Greg McLean: Okay.

I'll now go to Mr. Fuchs.

Thank you, Mr. Fuchs, for all your input.

Can we talk about margins at somewhere like IKEA? I'm presuming retail margins are, let's say, 10% on new product at the retail level. Would those margins be the same on used goods?

Timothy Fuchs: For used goods in IKEA's as-is section, product prices are about, I'd say, 30% to 70% lower. As with any used good, they have a lower price point than primary goods.

Greg McLean: You have a lower price point. Do you also collect a lower margin, or do you collect the same margin for having it distributed through IKEA?

Timothy Fuchs: Can you clarify the question?

Greg McLean: If you're moving 10 million dollars' worth of goods through your store in a week and the margin is 10%, you're going to clear $1 million in margin on new product. What's the margin on used product if you moved $5 million in as-is product in the same week?

Timothy Fuchs: The product margin on a used good is going to be lower than it is on a primary good. At the end of the day, the goal is consumer affordability. That product may not have a second life.

Greg McLean: Are you motivated in that respect, because the margin is lower, to move more new goods than as-is goods?

Timothy Fuchs: I don't think it's just a matter of margin. It's about doing the right thing as well. Consumers are looking for affordable options.

Greg McLean: That's much appreciated. Thank you. That was very good input.

[*Translation*]

I have one last question for Mr. Ménard.

Mr. Ménard, I'll take your example of a used fridge. Instead of having it repaired, a consumer chooses to replace it. Is it more expensive to fix it twice than to replace it? Is that part of the problem?

Karel Ménard: Yes, indeed.

The other part of the problem is that these devices are not designed to be repaired. Often, there are no repair people or spare parts.

I actually think that, through this meeting, we're starting a paradigm shift regarding used goods, because we really need to encourage that. Abolishing a tax and, potentially, other provincial taxes could actually make it more possible to repair.

● (1145)

The Vice-Chair (Eric Lefebvre): I wanted to let you finish your sentence.

Thank you, Mr. Ménard.

[*English*]

Thank you, Mr. McLean.

[*Translation*]

Mr. Lavoie now has the floor for six minutes.

Steeve Lavoie (Beauport—Limoilou, Lib.): Thank you, Mr. Chair.

Thank you to the witnesses for being here. I'm very pleased to have you with us today for the study of this motion.

Mr. Ménard, do you really believe that eliminating or reducing the goods and services tax on used goods will actually change Canadians' habits?

Karel Ménard: Absolutely. I think so. It may not involve all used goods. I don't think it would necessarily motivate all Canadians to opt for used goods, but it would for a certain segment of the population. It could also help further develop the social economy sector. If people have a choice between a used good and a new one, without having to pay tax on the used one, there is definitely a financial incentive there.

In addition, used goods often last longer than goods bought new. It's a bit of a paradox, but used goods that were manufactured back in the day are often of better quality. These include textiles, furniture and even appliances. That's another incentive.

Therefore, yes, I think that removing one or two taxes could change people's habits. Not everyone will be on board, but it will definitely change people's habits.

Steeve Lavoie: Do you think the measure should be applied very broadly to target all used goods or should certain sectors be targeted to begin with?

Karel Ménard: I think we need to proceed as simply as possible. The measure also needs to be applied as simply as possible. We've thought about that. Should some goods be excluded? In fact, we mentioned in our notes the idea of perhaps excluding luxury goods. The idea behind this work is to promote the circular economy and work to protect the environment in general. Luxury goods, by definition, are not commonly used goods. A $50,000 ring may have already been purchased and taxed, but I think it should perhaps be excluded. It's not up to us to determine an amount.

Used vehicles should also not be charged taxes, because they could fall into the category of commonly used goods.

Steeve Lavoie: Okay. That's interesting. Thank you.

Mr. Fuchs, IKEA operates in over 60 countries. Are there any countries that have made changes in recent years? Every country in the world has a different tax system. Are there any countries that have put forward such a measure that we could learn from?

[*English*]

Timothy Fuchs: Comparing tax systems between countries is very difficult, because every tax system is different. It's a very tough comparison.

I go back to my earlier comments that if we're looking for really good examples, we need to look no further than Canada. There are so many provinces that are already doing this. There's British Columbia and Manitoba, and Ontario to some extent. I think if we were looking for a great example to model this legislation on, talking to our provincial colleagues would be a great way to look a bit deeper into what is possible.

[*Translation*]

Steeve Lavoie: I'm going to ask you another question. You gave some quick data earlier. In your project, I think you sold 15,000 used goods. What was the difference between before and after? Do you think there has been a decline in IKEA sales? Has it led to greater loyalty? Did it bring in a new clientele? What is your assessment of the impact of your resale and repair system?

[*English*]

Timothy Fuchs: The 15,000 items I referenced were from last year. That's the number of items that were taken back and resold to other customers. That's 15,000 items that did not end up in landfills. That's 15,000 items that 15,000 Canadians were looking for more affordable options for. It exists because customers are looking for it.

We offer the buyback program and the as-is section because customers are looking for more affordable options. They don't want their used furniture going to landfills. This solution is good for the customer in terms of affordability, and it's good for the environment. It also helps job creation.

[*Translation*]

Steeve Lavoie: Thank you.

Mr. De Marchi, thank you for being here. You spoke with my colleague Mr. McLean earlier. Calculating taxes doesn't seem that simple. You said that we need clear definitions of vehicle types and trade types. Is it a new vehicle or a used vehicle? Has your organization produced or could it produce a document for the committee that would sort all this out? We can talk all we like, but could we sort this out? I've been told that 80% of vehicles are sold second-hand. That would have a huge impact. Whether it's 80% or not, you understand that it influences decisions. We are still wondering whether we should include all used goods or just some of them.

Would it be possible to produce a document with suggested definitions and calculations?

● (1150)

Steeve De Marchi: Yes, absolutely.

To address Mr. McLean's question, this illustrates just how complicated it is to collect taxes on a used vehicle.

Our association would be willing to prepare such a document, and we'd be happy to do so.

Steeve Lavoie: We'll wait for the document.

The Vice-Chair (Eric Lefebvre): Thank you, Mr. De Marchi.

Mr. Lavoie, thank you so much.

Mr. Garon now has the floor for six minutes.

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

I'd like to thank all the witnesses for being here today.

I think this is an important study, and above all, one on which there's a great deal of consensus. I find this issue interesting.

Obviously, when a decision is made to exempt certain goods from sales tax or value-added tax, it can't apply to all goods. I think this has already been mentioned: If someone buys a sailboat for $400,000 and sells it for $300,000, I don't think there's a consensus in society that it should be exempt from taxes.

I'm favourably inclined, so I'm playing devil's advocate a little here, and I'd like to ask you a question about goods whose value increases once they're used. There's generally an assumption that when someone buys a quality item and resells it, they're not necessarily making a profit but are participating in a circular economy. However, we saw examples in the automotive market during the pandemic of people buying a used car for $18,000 and being able to resell it for $26,000.

What do you think the tax treatment of a transaction like that should be? Perhaps I'll direct that question to you, Mr. De Marchi.

Steeve De Marchi: I can try to answer that.

The principle is sound, but implementing it would be virtually impossible. It would be very difficult to track changes in value. Moreover, the example you give is exceptional. Indeed, during the pandemic, there was a period when production of road vehicles came to a complete halt, while demand increased. That's unusual because used vehicles don't normally appreciate in value.

I'm surprised by the question about planning for something like this, and I wonder if it's worthwhile. There aren't many types of used goods that appreciate in value, except in a very few specific, very niche areas.

Jean-Denis Garon: In any case, it's often in the area of luxury goods.

Steeve De Marchi: It could be a diamond, for example, or gold. However, I don't see how that could happen in the second-hand market, except during the global pandemic we experienced, which brought production to a halt.

Jean-Denis Garon: I have a question for you, Mr. Ménard.

I get the impression that the quality of many goods has declined over time. We don't really have a strong culture of buying used goods. People prefer to buy new, and I get the impression that what big industry is doing is lowering the cost of new products by reducing their quality, on the assumption that they'll end up in the garbage anyway. This reduces the market for used goods, but it also responds to consumer demand.

More importantly, we understand that 5% GST is certainly something, but it's hardly an insurmountable amount.

What do we need to change in our culture to ensure that a measure like this leads to growth in the used-goods market more generally?

Karel Ménard: As has been done in Europe, particularly with textiles and perhaps with goods imported from Asia, we could introduce an excise tax. It's a tax, if you will, that would increase the purchase price. In fact, when we buy a new product that generally comes from outside the country, there are many environmental, social and even economic costs that aren't internalized. I always say that we're living beyond our means when we buy disposable goods, and we're living in a throwaway culture. There's a lot of discussion about the circular economy as opposed to the linear economy, which can be defined as “extract, consume, discard”. The circular economy involves reintroducing a product into a production cycle. That's what we should be working towards, consumer goods that can be reintroduced into a production or consumption cycle.

It's a paradigm shift in economic terms, but we're not talking about degrowth, for example. As I said, we're talking about moving towards and developing an economy based on reuse and repair, and therefore all aspects of the circular economy.

I think the 5% tax is one of the building blocks of this structure. We have to start somewhere, and this could be a good starting point.

● (1155)

Jean-Denis Garon: It's purely a question of efficiency. We're filling up landfills with useful goods and resources, so it's an efficiency issue.

When we talk about economic growth, in the world we live in, we look at what we produce, the value of what we produce and gross domestic product, or GDP. That often works; we use it somewhat as an indicator to measure our material well-being.

Does the way we think about production and measure it leads us to conclude that, ultimately, used goods are worthless because they've already been produced? Are we thinking about economic growth the wrong way?

Karel Ménard: Yes, absolutely. Furthermore, if there's an environmental disaster, such as a flood, it will increase the GDP, because money is spent and money changes hands, even though it's a disaster. Perhaps we need to rethink that. We need to stop believing that purchasing goods will stimulate the economy. In fact, whenever we produce a good, we do so at the expense of natural resources. That means we're drawing down ecosystems to produce something that we're going to consume quickly. It's really wasteful.

Jean-Denis Garon: If I understand correctly—I'll put it in my own words—when we don't reuse goods, when we produce goods that aren't reusable, consumption essentially becomes an activity of destruction that increases our GDP. That's the problem we're seeing right now in the way we think about our economy.

Karel Ménard: That's largely it. I'm not saying we should stop consuming, but—

Jean-Denis Garon: That's not what I'm saying.

Karel Ménard: —we need to consume less and consume better, that is, repair, trade and share goods. We need to keep the economy going, but not necessarily through the production of material goods. Owning goods isn't necessarily a good thing from an environmental or economic standpoint.

Jean-Denis Garon: There are only 30 seconds left.

The Quebec government has made progress in establishing durability requirements for certain products, particularly heat pumps. Is that also part of the positive steps being taken in this direction?

Karel Ménard: Yes, although there are problems with the enforcement of warranties and the availability of spare parts. Suppliers can also opt out simply by stating that they do so. There may also be some gaps in the enforcement regulatory provisions.

We're starting from a long way back, and we're tackling something significant. However, we have to start somewhere.

The Vice-Chair (Eric Lefebvre): Thank you very much, Mr. Ménard.

Thank you, Mr. Garon.

[*English*]

Now, for three minutes, we have Ms. Jansen.

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

Mr. Fuchs, I understand that IKEA has a program where people can bring back furniture they no longer need and IKEA gives them store credit. You then sell that furniture to another family at a lower price. I think it's a fantastic idea, especially when so many young families are struggling to furnish their homes. Anything we can do to help with affordability right now—because every penny counts—is something we should be doing.

Just to clarify, when somebody buys that furniture new, they pay GST. Is that correct?

Timothy Fuchs: That's correct.

Tamara Jansen: When IKEA sells that same piece of furniture second-hand, the next customer pays GST again.

Timothy Fuchs: That's correct.

Tamara Jansen: The government is collecting tax a second time on the same kitchen table. Is that correct?

Timothy Fuchs: I would say yes.

Tamara Jansen: If that family sells the table back to IKEA in a few years, it could be taxed yet again when IKEA resells it. Is that correct?

Timothy Fuchs: Yes.

Tamara Jansen: Doesn't that seem rather ridiculous? We're trying to encourage people to reuse things instead of throwing them away, yet we're taxing them over and over.

Timothy Fuchs: Ultimately, the tax is part of our conversation, but what is also really material is the behaviour. It's about someone buying a primary good and thinking, “I don't need to throw it away or put it in a landfill. I can resell it or repair it.” That's a good thing, but—

Tamara Jansen: I agree, but this is specifically on the taxing of goods. In my mind, if the GST was removed from second-hand furniture, IKEA would be able to pass those savings along. Is that correct?

Timothy Fuchs: Yes.

Tamara Jansen: Thank you.

Mr. De Marchi, I want to talk about something that doesn't make a whole lot of sense to me. It's similar to what we were just talking about.

A family buys a car. They pay GST. A few years later, they sell that car to a dealership, another family buys it and the government collects GST all over again. That can happen over and over for the lifetime of that car.

I want to understand this correctly. The federal government can collect GST on the same vehicle several times over. Is that correct?

Steeve De Marchi: Yes.

Tamara Jansen: If a young family buys a $25,000 used vehicle from a dealership, that's another $1,250 in GST, assuming there's no trade-in adjustment. If they buy that same vehicle privately, they generally don't pay federal GST. We're actually making it more expensive for people to buy from a legitimate dealership than from a private seller.

Steeve De Marchi: It's specifically because there are warranties.

● (1200)

Tamara Jansen: Dealerships can offer inspections, warranties and other consumer protections that private sellers will not.

Do you hear from customers who are struggling to find that extra tax money?

Steeve De Marchi: Yes, at the lower end, specifically.

The Vice-Chair (Eric Lefebvre): Thank you, Ms. Jansen.

Now, for three minutes, we have Mr. Sawatzky.

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

It's nice to see you again, Mr. Fuchs.

As you know, I have an IKEA in Coquitlam, in my riding. It's a large employer, and where many people go to get affordable furniture.

Through your as-is section, which we're discussing today, IKEA gives customers an opportunity to buy discontinued or previously used furniture at a lower price. I actually bought my dining room table from the as-is section when I was moving into my apartment. I'm very happy with it. It's nice to know it's not going into a landfill.

From your experience, what are the biggest barriers to expanding the resale of used furniture in Canada? Could changes to the GST system make second-hand furniture more affordable and encourage more Canadians to choose used furniture over new furniture?

Timothy Fuchs: Absolutely, whatever we can do to make it easier and more convenient for people to reuse and repair goods, including furniture, is a good thing. Again, customers are looking for more affordability. The more options we can give them in the marketplace for that, the better.

Canadians are deeply concerned about what's happening to their landfills. They don't want to throw things out. They want a better option. The easier we can make things for average Canadians to live better...absolutely.

Jake Sawatzky: Can you walk us through how the tax system works when a customer sells or returns furniture to IKEA and then IKEA resells that same piece of furniture?

Timothy Fuchs: Very simply, when the primary good is first sold, tax is collected. If it's returned to IKEA, we provide store credit or gift cards. That furniture is refurbished, if needed, at IKEA, and then it's put in our as-is marketplace, where it's sold at a lower price. As IKEA is a registered business, the taxes also apply to the second-hand good.

Jake Sawatzky: How would you suggest we make changes to GST to make things more affordable and to encourage people to buy more used furniture?

Timothy Fuchs: As we are discussing today, I think one of the key options is to reduce or eliminate the second-hand tax on used household items. It's also about ensuring that repair services are accessible at all, so consider a reduction of the GST/HST on repair services as well.

Those types of options make the choice of a second-hand good versus a primary good that much more affordable. They will drive consumer behaviour to make choices that are better.

Jake Sawatzky: Thank you very much.

Thank you, Chair.

The Vice-Chair (Eric Lefebvre): Thank you, Mr. Sawatzky.

Now, for two minutes, we have Mr. Garon.

[*Translation*]

Jean-Denis Garon: Thank you, Mr. Chair.

I'm not quite sure who to direct my question to. It's not that I don't want to be inclusive, but my question will somewhat exclude automobiles because I get the impression that, outside the automotive sector, most transactions involving used goods take place through businesses in the community sector. That's the case in my riding. Many of these businesses are non-profit organizations, or NPOs, that don't charge GST or QST in some cases.

I'm wondering how NPOs will view a measure like this, which would allow other businesses to start reselling goods and potentially be exempt from GST. That's the case for QST, in particular. In this ecosystem, I'm wondering whether these organizations, which also have social missions beyond reselling used goods, will see this as a form of new competition that could undermine their mission.

I don't know if you've looked into this to some extent.

Karel Ménard: We haven't looked into this in detail, but I don't think it would be perceived as new competition entering the market. As you mentioned, there are already non-profit organizations, NPOs, that have charitable or registered charity status and don't collect taxes. That doesn't necessarily create problems in the sector.

In addition, small NPOs, such as reuse centres in Quebec, for example, don't collect taxes because their revenues aren't high enough. However, they eventually have to collect taxes if their revenues increase. That can be a source of frustration for various reasons, both for consumers and in terms of administration, and so on.

I think that, on the contrary, not charging taxes would be well received.

● (1205)

Jean-Denis Garon: So what you're saying is that it could even simplify the work of NPOs, which would end up generating more revenue.

Karel Ménard: It would definitely be simpler for both NPOs and the public. Consumers wouldn't have to wonder whether they're going to pay 15% more at one place or 15% less at another.

So this could simplify things by harmonizing the situation for all NPOs.

Jean-Denis Garon: That's interesting.

The Vice-Chair (Eric Lefebvre): Thank you, Mr. Ménard.

Thank you, Mr. Garon.

[*English*]

Now, for two minutes, we have Ms. Cobena.

Sandra Cobena (Newmarket—Aurora, CPC): Mr. De Marchi, oftentimes, for an average Canadian family, buying a vehicle is not in fact a luxury. It's a necessity. That's how they get to work, how they take their kids to school and how they put food on the table.

Why should a family pay extra GST on a used vehicle? Let's say it's a $15,000 used vehicle and they have to pay federal GST of roughly $750 when the vehicle was already taxed when it was sold new.

Steeve De Marchi: This is a very good question, and I can't answer it. The answer is that we have to, but does it make sense? We think not.

Sandra Cobena: Right.

On average, a vehicle changes hands five or six times over its lifetime. GST is charged every single time it is sold when you buy through a dealer.

Steeve De Marchi: Yes.

Sandra Cobena: Privately, you don't have to—

Steeve De Marchi: No.

Sandra Cobena: —which is another question.

Have you estimated roughly how much federal sales tax can be collected over the lifetime of a vehicle?

Steeve De Marchi: Nope. We haven't gotten that far. It varies a lot, depending on whether there's an exchange or not. I wouldn't be able to give a specific business case right now.

It is a very good question. I would like to dig deeper.

Sandra Cobena: Would it be possible for you to provide an estimate for us? I'm looking, of course, for the vehicle that you see purchased most commonly by a family or by a youth trying to start out. Obviously, there's no trade-in, because it's their first vehicle. They presumably would buy something that's lower-priced and used. They're trying to stay within their budget.

Could you provide that to the committee after the fact?

Steeve De Marchi: Yes, we could. It would also be interesting to look at maybe four or five specific cases with the most popular vehicles.

Yes, we could do that.

Sandra Cobena: You also made the point that if two identical cars are sold by two separate individuals, one privately and one through a dealership, the dealership has to charge GST, but privately it's not mandated. Nobody does it. Nobody would know how to pay for it if they did.

Would you say that it creates an incentive to bypass dealerships, along with the inspections, the guarantees and the consumer protections they may offer, because dealerships have to charge federal GST on used vehicles?

Steeve De Marchi: It depends on who the buyer is. There is another part in this equation, which is your means. If you don't have enough cash to pay and to go outside the dealer system, you have to go to a dealer. They will finance it. These are the people who would benefit the most.

The Vice-Chair (Eric Lefebvre): Thank you, Mr. De Marchi.

Thank you, Ms. Cobena.

We will now go to Mr. Leitão for three minutes.

[*Translation*]

Carlos Leitão (Marc-Aurèle-Fortin, Lib.): Thank you very much, Mr. Chair.

Good morning, gentlemen.

Mr. Ménard, I'd like to continue along the same lines as my colleague Mr. Garon.

By the way, I'd like to start by saying that I fully support your position on the need to reuse goods. I come from a different generation. When I was young, we reused a lot of things because buying new ones was expensive. Then came the era of mass consumption and, well, things changed.

So we absolutely need to reuse things, repair them and be able to repair them. We completely agree on that. If eliminating the GST and QST on used goods can help, so much the better. We'd be very happy about that.

I'd like to return to the issue of what appears to be unfair competition with non-profit organizations, NPOs. You started discussing it with Mr. Garon.

Where I need your help to understand things is when it comes to well-organized NPOs, such as Renaissance thrift stores, not to name names, which can, and rightly so, sell goods in very large volumes. Could this lead to unfair competition, or do you think that's not a problem?

● (1210)

Karel Ménard: I don't think so. It's never come up, actually. As I said, I've been in this field for over 30 years, and this issue of competition has never been raised. If sales taxes on used goods were eliminated, that could also benefit private sector players that are well established in Quebec, elsewhere in Canada and in the United States. I won't name them, but you know who I'm talking about.

The idea is really to encourage the purchase of used goods, whether they're purchased from a private company, a non-profit organization or a public company, or even from an antique dealer or online. We need to make things easier for consumers. If we move forward, there needs to be consistency. At present, I don't think people choose one option over another because of the tax.

However, if the taxes were eliminated, I think more people would buy used goods and eventually have their refrigerators or televisions repaired rather than buying new ones. Perhaps eliminating this small percentage of tax could influence consumer behaviour.

Carlos Leitão: Great. Thank you.

The Vice-Chair (Eric Lefebvre): Thank you, Mr. Ménard and Mr. Leitão.

We'll conclude this last round with Mr. Garon.

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

Jean-Denis Garon: Thank you, Mr. Chair.

Mr. De Marchi, I left you out earlier, so I'll end with you.

A lot of people buy used vehicles because they don't cost as much. Families have budgets to stick to. We'd all like to have new vehicles, but sometimes we have to buy used ones. Given the price of new vehicles, demand for used vehicles has been increasing for a number of years. We've even seen shortages of certain models at times. In the specific context of the used vehicle market, if the 5% GST is eliminated, what guarantees that the dealerships won't simply raise their prices by 5%?

Steeve De Marchi: The answer is simple: It's the market. For several years now, consumers have been buying used vehicles across Canada. They'll go wherever they can get the lowest price. A dealer who wanted to raise their price by 5%, rather than pass on the 5% savings, would immediately be compared with another dealer who didn't. Basically, the answer is simple: It's the law of the market.

Jean-Denis Garon: So, essentially, you feel that competition in the used vehicle market means that, ultimately, consumers will pocket 100% of the tax savings.

Steeve De Marchi: Yes. That's what we think and that's what we want.

Jean-Denis Garon: Thank you.

The Vice-Chair (Eric Lefebvre): Thank you, Mr. Garon and Mr. De Marchi.

I'd like to thank the witnesses for being with us today.

We will now suspend the meeting for a few minutes to welcome our next witnesses.

● (1210)

_____(Pause)_____

● (1215)

The Vice-Chair (Eric Lefebvre): We'll resume the meeting.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on Monday, March 9, the committee shall resume its study of the federal spending power.

I would like to welcome Annette Ryan, the Parliamentary Budget Officer.

Ms. Ryan, I'd like to thank you for being here, and I'd like to thank the people accompanying you as well. You have five minutes for your opening remarks.

Annette Ryan (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Mr. Chair, members of the committee, thank you for inviting us to participate in your study on federal spending power.

[*English*]

I'm joined today by Mark Mahabir, director general of costing and budgetary analysis and general counsel; Louis Perrault, acting director general of economic and fiscal analysis; Jason Stanton, acting director of costing; and Tim Scholz, acting director of economic analysis.

To start briefly, my mandate as Parliamentary Budget Officer is to support informed parliamentary debate on economic and fiscal issues. The federal spending power raises profoundly important questions about fiscal federalism, about the financial relationship between the federal government and the provinces and territories and about the sustainability of public finances, importantly as governed by subsections 36(1) and 36(2) of our Constitution.

● (1220)

[*Translation*]

My office has conducted a number of analyses on the financial relationships between the federal government and the provinces and territories, in particular as regards federal transfers and the sustainability of government finances over the long term. Our most recent report on fiscal sustainability was released in August 2024. It examined the long-term fiscal outlook of the various levels of government. We expect to release an updated report in July 2027.

I want to better understand the committee's current concerns and priorities when it comes to fiscal federalism. This will help us identify areas that may warrant more attention in our next report on the fiscal sustainability of the various levels of government in Canada.

[*English*]

Let me outline a number of important questions related to demographics and cost pressures at the provincial and territorial levels that are at the core of these questions of fiscal federalism. They include the following questions. Is the population growing or contracting in a province or territory? What are the age, income, linguistic and education profiles of these residents? What do these profiles mean for provincial and territorial spending pressures on health care, elder care, education, housing, homelessness and the need to repair aging infrastructures? From there, we can assess the degrees to which respective tax sources align to the spending pressures between the federal government and the provincial and territorial levels of government, which is the vertical fiscal imbalance or balance, and among provincial and territorial governments, which we speak about as the horizontal fiscal balance.

I'll close by highlighting that my office published four notes this morning providing our assessment of budget 2026, which speak to federal fiscal plans, some of which touch on transfer payments and areas of shared spending power, such as homelessness, health care and dental care.

[*Translation*]

Mr. Chair, I am ready to answer the committee's questions.

The Vice-Chair (Eric Lefebvre): Thank you very much, Ms. Ryan.

Now we'll go to Ms. Cobena for five minutes.

[*English*]

Sandra Cobena: Thank you, Chair.

Thank you, Ms. Ryan, for being here again and for your reports this morning.

The government has received roughly $158 billion in unexpected fiscal room, but committed 96% of that to new measures. Is it fair to say that almost every dollar of fiscal improvement was used for new commitments rather than deficit reduction?

Annette Ryan: That is accurate.

Sandra Cobena: Could you briefly explain why this is important for Canadians to understand? Why is that a big deal?

Annette Ryan: For sure.

Federal budgets are complex documents. The budget that was tabled a week and a half ago ran more than 500 pages. That's roughly $1 billion per page per fiscal year. There are a lot of moving parts. There are a lot of numbers. There are a lot of really complex questions. Essentially, as parliamentarians, you're charged with overseeing those numbers, figures and so on. We see it as our role at the PBO to help you unpack them: Does the government have more resources to spend or not? What choices did they make with those resources?

In this budget, $158 billion in new spending room opened up due to things like oil prices being at an elevated level, but there were other factors as well. To drive quickly to the chase of things, how they decided to spend that money is something we want to put in a simple set of stages. As you said, they essentially chose to spend 96% of what came together in new funds, some of which were a windfall.

Sandra Cobena: Why is it important to reduce the deficit? I think that concept may not be as clear to Canadians, so I just want you to focus on it. They had this fiscal room. They've spent nearly all of it, and they did not direct anything to reducing the deficit. Why is that important?

● (1225)

Annette Ryan: At its most basic, if a government is spending more than it raises in revenues, that transfers the need to cover that difference to the future. It is important that they chose to spend new fiscal room on a mixture of day-to-day expenditures, as well as on what's termed “capital investments”, because it goes to the question of whether we are living within our means now and to what extent we are making investments in the future that may pay off and contribute to how we repay that difference of what we're borrowing now. That's really at the core of parliamentary oversight of public financing.

Sandra Cobena: You mentioned this: Is the government living within its means? Would you say that it is or is not?

Annette Ryan: I think the core figure to look at there is what's happening to debt charges on the debt. The requirements to pay, year over year, are increasing as the fastest-growing line item in the budget. This year, they exceed payments for the Canada health transfer. Within four years, we'll be markedly above the Canada health transfer.

That's the type of debate we need to put simply to Canadians to make sure they understand that investments now—in things like military equipment, infrastructure, pipelines and so on—have very real costs that will need to be paid back, hopefully from successful projects and greater prosperity. If not, they still need to be paid back.

Sandra Cobena: That's important, because given that the holidays are imminent, Canadians are trying to live within their means. They're trying to stay within their budgets, but it is particularly painful to see that the government is not showing the same discipline in the way it is managing its own budgets. Thank you for that.

The government reports $289 billion in deficits but plans to borrow $765 billion. Can you confirm that the new borrowing is roughly two and a half times the deficit?

Annette Ryan: We calculate that it's 2.6 times.

Sandra Cobena: Does the government pay interest on the full—

The Vice-Chair (Eric Lefebvre): Thank you, Ms. Cobena.

Thank you, Ms. Ryan.

Now, for five minutes, we have Mr. Leitão.

[*Translation*]

Carlos Leitão: Thank you, Mr. Chair.

Good afternoon and welcome to the witnesses.

[*English*]

Perhaps I will give a brief comment on what we were just discussing.

Clearly, we chose to invest heavily to expand the supply side of the economy. We understand the risks that this entails, but we also understand that there are risks associated with not doing that.

Let's get back to the issue of the day, which is fiscal federalism.

Canada is an interesting federation; let's put it that way. I've had discussions on this issue with both sides of the table, as you can imagine. You made a reference to this, but I think one of the key issues that we need to wrap our heads around is demographics. If we take a longer-term perspective, the changing demographics of Canada will affect—and are affecting—the ability of governments to fund their activities.

In that context, where do you think the points of weakness are most important—at the federal level or at the provincial level? The provinces fund and run their health care systems, their education systems, etc., so is the real weakness in the Canadian federalist fiscal arrangements at the federal level or the provincial level, and how would we square that?

● (1230)

Annette Ryan: Let me speak first about the different cost drivers that occur with the different levels of government.

I think we've all been talking for many years about the pressures of Canada's aging demographics. For many years, we've anticipated that this would bring increased health costs to provincial governments, and we're seeing that. There are a number of metrics and studies that you could look at to see how provinces and territories are spending on health care versus the Canada health transfer funds, which are at a growth rate now of 5% and are set to drop back to lower rates after 2027-28.

Demographics conceal emerging pressures on provincial spending. For an aging population, you need to think about elder care. What are the costs of keeping elderly Canadians in their homes or having them move into different types of residential living, and with what care supports? Those pressures are very present on provincial governments. The question of how the Canada social transfer is set up to deal with those pressures is a real one that your committee may want to look at.

In terms of other types of demographic cost pressures, there was a lot of interest in this budget in solving homelessness within 10 years. A lot of those costs occur at the provincial level, and it's important that the committee think about how that interplays with new demographic pressures. If the government is going to start to increase demographic growth in the country again in an accelerating way, that plays into different pressures on the provincial system in terms of health care, housing, infrastructure, education—all things in the provincial domain.

Those are very current pressures, and I think there are many cost pressures that occur at the provincial level from, respectfully, federal decisions.

Carlos Leitão: Briefly, because I think I'm running out of time, in this context, immigration is also a key issue in the sense that it contributes to increasing the production capacity of the economy. More people work, and that generates economic activity, which will then fund social services.

Annette Ryan: Quickly, I would say there is also another important consideration to start looking at: What does that mean for Canada's productivity numbers? As you have more Canadians as your denominator of output, if output is in things like—

[*Translation*]

The Vice-Chair (Eric Lefebvre): Thank you, Ms. Ryan. Sorry to cut you off.

Thank you, Mr. Leitão.

Now it's over to Mr. Garon for five minutes.

Jean-Denis Garon: Thank you, Mr. Chair.

Thank you for being here, Ms. Ryan. Thank you to your whole team as well. I want you to know how much we appreciate the work you do, as does everyone here, I'm sure.

I want to thank Mr. Leitão. Since the study began, he is the first Liberal member to touch on fiscal federalism. His fellow members usually try to dodge the subject. I mean it as a compliment.

Federal spending power is the residual power derived from the Constitution and given to the federal government to spend and thus to impose conditions in areas of responsibility where it has neither the constitutional jurisdiction nor, quite simply, the jurisdiction to make laws, all thanks to the scholarship of the Supreme Court. As a result, today we have a federal government that attaches conditions to the money it spends in areas of provincial jurisdiction.

Legal expert Marc-André Turcotte wrote a book a few years ago, and in it, he says that the federal government directs 50% to 60% of ongoing spending to areas of jurisdiction in which only the provinces have the authority to legislate.

Do you think that's still the range today? I'd also like to know whether your office has done any work to update the number.

Annette Ryan: The short answer is no, we haven't done any such study. As I said in my opening remarks, we are here to better understand the areas you're interested in, as we organize our work in preparation for the report we'll be releasing next summer.

Jean-Denis Garon: That is duly noted.

You talked about the vertical and horizontal fiscal imbalances and the fact that the provinces aren't all equal. They face demographic pressures, and their economies and resources are not homogeneous, which is why the federal government uses its revenue-raising capacity to help out in the form of transfers.

Does that necessarily mean that the government has to attach strings when it makes transfers to help the provinces in areas of jurisdiction assigned exclusively to the legislatures of the provinces? Is the control the federal government exerts by attaching strings or conditions necessary?

● (1235)

Annette Ryan: It's clear that it's not always necessary. I think the areas where it is strictly necessary are fairly limited, actually. Cooperation and coordination play an important role in those decisions.

Jean-Denis Garon: Take, for example, Canada's national housing strategy, established under the Trudeau government. There were so many conditions attached that the agreement took three and a half years to negotiate with Quebec. Quebec defended its constitutional jurisdiction, which meant that for three and a half years, there were human consequences. Homelessness and affordable housing were impacted. The vast majority of the conditions were lifted, and an agreement was finally reached. The rapid housing initiative is another case.

Is that an example of unnecessary conditions, which ultimately keep government workers in Quebec City focused on administering these agreements instead of delivering services to citizens? Are these conditions counterproductive to the delivery of services to citizens?

Annette Ryan: I don't want to comment on that without having studied it.

Jean-Denis Garon: Theoretically speaking, is it possible?

Annette Ryan: Theoretically speaking, I'd need to measure the use of resources against results. If it's a matter of having conditions before the money is spent instead of having an agreement on results and that kind of—

Jean-Denis Garon: I see. I have just a minute left, and I have another question.

Transparency is an issue. When the federal government cuts, or stops indexing, health transfers, the provinces are still the ones delivering the services. The average person doesn't even know what health transfers are. All they know is that they don't get the care they need when they go to the hospital or that a loved one is dying. When it comes time to cast their ballot in the next federal or provincial election, does the average citizen really know who's to blame for the fact that the necessary care wasn't provided?

Doesn't the federal government's approach of using its spending power but only if strings are attached significantly distort our democracy?

Annette Ryan: Certainly, it's a complex issue. I think it would be possible to examine whether reasonably comparable services weren't provided for a given period of time. It's complex. Are there things we could do? Yes.

The Vice-Chair (Eric Lefebvre): Thank you, Ms. Ryan.

Thank you, Mr. Garon.

[*English*]

Now we'll go to Ms. Jansen for four minutes.

Tamara Jansen: I find it quite ironic that we're sitting here trying to figure out how to save a Canadian family about $1,250 in tax on a used car, while just down the hall, we're looking at a federal budget with three-quarters of a trillion dollars in borrowing requirements.

In that light, I'll note that your report this morning says that the government is projecting $62 billion in reduced spending over five years. Is that correct?

Annette Ryan: I would want to check the reference.

Tamara Jansen: Let me ask you if that's correct.

Annette Ryan: If you help me with the reference, I could confirm.

Tamara Jansen: It's from your report.

That $62 billion is not in identified program cuts. Is that correct?

Annette Ryan: I believe you're talking about direct program expenditures, in which case federal finances did not identify specific programs.

Tamara Jansen: They haven't identified which specific programs, so is your office still waiting for an explanation from Finance Canada?

Annette Ryan: We're working quite closely with them. We have preliminary figures that I could speak to, if you like.

Tamara Jansen: No, we're just trying to find out whether we can trace them.

Budget 2026 introduced $151.5 billion in new measures. Is that correct?

Annette Ryan: That's correct.

Tamara Jansen: That's 96% of the additional fiscal room they had available. Is that correct?

● (1240)

Annette Ryan: That's correct.

Tamara Jansen: Since the 2024 fall economic statement, the government has announced about $325 billion in new measures.

Annette Ryan: Yes.

Tamara Jansen: That's nearly twice the fiscal room created over that period. Despite finding additional fiscal room, the government announced that new measures were substantially more than the room. Is that correct?

Annette Ryan: That's correct.

Tamara Jansen: Your report projects $765 billion in federal borrowing requirements over five years. Is that correct?

Annette Ryan: That's also correct.

Tamara Jansen: However, they report that the deficit is only at $289 billion. Is that correct?

Annette Ryan: Yes.

Tamara Jansen: The deficit accounts for less than half of the government's projected borrowing requirements. Is that correct?

Annette Ryan: Yes.

Tamara Jansen: Neither of the government's fiscal anchors puts a dollar limit on that borrowing. Is that correct?

Annette Ryan: With caveats, yes, you're correct.

Tamara Jansen: So the government can claim to meet its fiscal targets while borrowing three-quarters of a trillion dollars. Is that correct?

Annette Ryan: That's correct.

Tamara Jansen: Your report projects $260 billion in net lending and investment in Crown corporations. Is that correct?

Annette Ryan: Off the top of my head, I think you're correct.

Tamara Jansen: The budget doesn't tell Parliament how much goes to Crown corporations. Is that correct?

Annette Ryan: It is very high-level reporting.

Tamara Jansen: It doesn't clearly separate loans from equity investments.

Annette Ryan: I'm going to say that is correct, yes.

Tamara Jansen: So Parliament cannot determine, from the budget figures alone, exactly which Crown corporations are receiving money or how much financial risk taxpayers are taking. Is that correct?

Annette Ryan: That is correct.

Tamara Jansen: The government has committed to NATO's 5% defence spending. Is that correct?

Annette Ryan: That is correct.

Tamara Jansen: But the additional spending needed to reach that target isn't included in the government's long-term fiscal projections. Is that correct?

Annette Ryan: Yes.

Tamara Jansen: If that commitment is fulfilled through additional borrowing, the government's projected debt would be higher than what Canadians are being shown today. Is that correct?

Annette Ryan: That's right.

Tamara Jansen: The government says it's reducing the size of the federal public service, but those figures exclude employment in Crown corporations and certain other agencies. Is that correct?

Annette Ryan: That is correct.

Tamara Jansen: They don't capture increases in outside contracting. Is that correct?

Annette Ryan: That's also correct.

Tamara Jansen: So it's possible for the government to report fewer public servants while its total cost of delivering government services doesn't fall.

Annette Ryan: Yes.

Tamara Jansen: Your October outlook projected deficits averaging $28.7 billion more per year than budget 2026, on a comparable basis. Is that correct?

Annette Ryan: Yes.

Tamara Jansen: That's a difference of $140 billion over five years.

Annette Ryan: [*Inaudible—Editor*] without verifying, it sounds right.

Tamara Jansen: So there's a very substantial difference between the government's projections and yours.

The government is committing $5.5 billion to team Canada strong. Is that correct?

Annette Ryan: That sounds correct.

Tamara Jansen: Your office says that additional performance information is needed to determine whether we'll actually produce 100,000 Red Seal workers. Is that correct?

The Vice-Chair (Eric Lefebvre): Thank you, Ms. Jansen.

We will now go to Mr. MacDonald for four minutes.

Kent MacDonald (Cardigan, Lib.): Thank you, Mr. Chair.

Welcome, Ms. Ryan and all your officials. I won't name them, because it would be a process to do that.

I'll go back to Mr. Garon's line of questioning. It was about the conditional versus unconditional transfer of federal dollars to the provinces. In P.E.I., the province I represent, the provincial position constantly is that they are not getting enough in transfers to deal with health care costs. Per capita, a smaller province would have more costs per person than some of the larger provinces in delivering health care.

Where are we going to be when we roll back from the 5% to the 3% in 2027-28? Do you have projections showing what provincial health costs are increasing by every year?

Annette Ryan: We have those types of projections, which we did in 2024. That's the study we're getting geared up to do between now and July 2027. We'll take all the best figures there are in terms of economic growth, population and different spending pressures, such as health care. We'll work that all together into projections to give you up-to-date figures on exactly that.

Kent MacDonald: In the study you did in 2024, was the federal government meeting the requirements of the provinces at that time based on the agreement?

Annette Ryan: On that I will turn to my colleagues, who were here in 2024.

Did we answer it in that way, folks?

Tim Scholz (Acting Director, Economic Analysis, Office of the Parliamentary Budget Officer): We'll get back to you with a response.

Annette Ryan: They will get back to you.

I will say that, on balance, there was a lot more stability in the figures in 2024. I think we're already starting to see provincial deficits moving in different directions based on whether provinces have access to natural resource revenues. We do have a divergence between younger, faster-growing provinces and territories and those that are slower-growing and have older populations.

Kent MacDonald: Do you have an opinion on putting federal conditions on transfers to provinces? There are some conditions on early childhood and a few around health care. Do you have an opinion on that, going forward?

Annette Ryan: I try to leave the opinions to you on the committee. I will say that in the past, the federal government has done a wide range of experiments in how it does transfers. Sometimes it tries to take a type of programming that's been tried in provinces like Saskatchewan and Quebec and make it available in the other provinces by essentially subsidizing it. Voters can decide whether they want to start financing that with their own tax revenues.

I think another major reason for conditions is the idea of value for money. If federal parliamentarians and taxpayers are willing to support an advancement through a different type of programming, or recognize that it's a current pressing issue, such as homelessness, housing or whatever it might be, that's part of the logic of why a federal government would pursue conditionality, knowing that the views of Quebec are clear and strong on that matter.

● (1245)

The Vice-Chair (Eric Lefebvre): Thank you, Ms. Ryan and Mr. MacDonald.

Now, for two minutes, we have Mr. Garon.

[*Translation*]

Jean-Denis Garon: Thank you, Mr. Chair.

Ms. Ryan, in its last budget, the government did not announce that health transfers would go up by more than 5% after next year.

Meanwhile, the government seems to have all kinds of money for a high-speed rail line. You published a cost estimate of the project using econometric analysis. You said the project could cost as much as $113 billion, but the confidence interval wasn't 95%. If we put the confidence interval at 95%, how high could the cost go, according to your analysis?

Annette Ryan: We explained in our report that it would be possible to see higher costs if the project followed the cost experience observed for projects in the U.S. and the U.K.

Do you have the exact figures, Mr. Perrault?

Jean-Denis Garon: What's the upper bound?

Louis Perrault (Director General, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer): There is a section at the end of the report, in the appendix, that deals with the analysis uncertainty related to the methodology. If we used a confidence interval of 95%, the cost would be roughly $243 billion.

Jean-Denis Garon: You're telling me, then, that the cost of the project could hit $243 billion.

Why could it go that high? I was called crazy for saying the project could cost as much as $200 billion. Now I see that my estimate may have been on the conservative side, not to align myself with the Conservatives, of course. What's the reason?

Louis Perrault: Much of the reason is to highlight the uncertainty tied to the econometric model itself. There are few observations available, so there will necessarily be a certain degree of uncertainty around the estimate. The methodology we use gives us—

Jean-Denis Garon: Nevertheless, the project could end up costing as much as $243 billion.

The Vice-Chair (Eric Lefebvre): Thank you, Mr. Perrault.

Thank you, Mr. Garon.

[*English*]

Now, for four minutes, we'll go to Mr. McLean, please.

Greg McLean: Thank you, Ms. Ryan and your colleagues, for being here.

I'll be quick because my time is short.

The first thing I want to ask about is the equalization formula. As you know, last year, in 2024-25, the federal government paid $25.3 billion out of its general revenue to receiving provinces in equalization. About 4.7% of expenditures of the federal government go toward equalization.

If there wasn't an equalization program that was this generous, would the government be able to reduce taxes overall by 4.7%?

Annette Ryan: It is a straightforward “yes” if they were to do that, but they might not meet the Constitution.

Greg McLean: It's much appreciated. I'm sorry. I'm being a little quick here.

If you think about the formula itself, it's about how much revenue a province could raise if it applied average national tax rates across five categories, including personal income taxes, business taxes and consumption taxes. The problem I've always had with that is that with your top-line number—that is the economy—you're suddenly applying a different average base on taxation. If you're a low-tax jurisdiction like Alberta, where you're getting much higher economic returns, you're way further down the Laffer curve in economic terms, and suddenly you're applying a different tax rate as if the economy would be producing that output if you had a higher tax rate on it. You're muddling the formulas in order to take from what would be very productive economies and redistribute it to other less productive economies, therefore keeping the status quo in place, if you will.

● (1250)

Annette Ryan: It is a complex area, and it's tough to put the counter-examples together. Most simply, as a different way to look at it, if you had a province where everybody made $50,000, and you had another province where most people made $50,000 but a few people made $200,000, you would have to tax the people where everybody is making the same a lot higher than people making $50,000 in a different province. Then the argument is that the other jurisdiction has to fight a lot harder, almost against gravity, to get the same kind of economic growth.

Greg McLean: Okay.

Annette Ryan: I take your point, but that's typically the type of —

Greg McLean: Let me get to the next point.

You have an interventionist federal government right now, as my friend Mr. Garon has pointed out, that is intervening in many other parts of the provincial economies, especially electricity. When you think about the subsidization of electricity in Newfoundland, New Brunswick and even Ontario, with the gift of a project of national interest, where the federal government is giving billions of dollars toward electricity infrastructure in Ontario, isn't that messing with this formula significantly?

Annette Ryan: Yes and no. I think a different part of the Constitution, subsection 36(1), gives the federal government a responsibility to concern itself with economic development across the country.

That's a short answer. There's a lot in there.

Greg McLean: Let me ask one last question, because I noticed your review this morning on the federal budget.

On the issue about borrowing $765 billion over the next five-year framework versus the deficit of $288.7 billion, that's increasing our borrowing by 50%, if you will, on the world stage. Has the delta between the deficit and borrowing ever been this high? What's escalated it so quickly?

Annette Ryan: I think in peacetime—

The Vice-Chair (Eric Lefebvre): Give a really short answer, please.

Annette Ryan: —the answer is no. What's escalated it is the choice to go hard on infrastructure and—

The Vice-Chair (Eric Lefebvre): Thank you, Ms. Ryan.

Thank you, Mr. McLean.

Now, for four minutes, we'll go to Mr. Turnbull.

Ryan Turnbull (Whitby, Lib.): Thanks, Ms. Ryan, for being here, and thanks to your whole team for the work they do.

I want to ask how Canada compares with our G7 peers. I get your point that fiscal room is being utilized and strained with the additional investments being made, but those are government decisions. In terms of how we compare to our G7 peers, though, does Canada not have the lowest net debt-to-GDP ratio in the G7?

Annette Ryan: Yes.

Ryan Turnbull: It does.

What about the deficit-to-GDP ratio?

Annette Ryan: I think it's quite favourable, keeping in mind that the other six G7 countries are in increasingly difficult fiscal situations.

Ryan Turnbull: What about our credit rating?

Annette Ryan: Our credit rating is very good.

Ryan Turnbull: In terms of debt service costs, doesn't that give us quite a low debt service cost relative to our peers'?

Annette Ryan: If we weren't borrowing heavily, it would. To the extent that we borrow more, our debt service costs go up more quickly. The specific cost we're paying in Canada is lower than in the U.S. and the U.K. per dollar.

Ryan Turnbull: In terms of the rise in long-term bond yields compared to other G7 countries, I believe Canada is one of the lowest, if not the lowest.

Annette Ryan: I would agree.

Ryan Turnbull: That means that the risk of borrowing costs significantly going up in terms of rates is relatively less here than among our G7 peers.

Annette Ryan: Keeping in mind our G7 peers are not in good shape....

Ryan Turnbull: It suggests, though, that Canada has stronger fiscal management and fundamentals than our G7 peers do, does it not?

Annette Ryan: I agree.

Ryan Turnbull: As has been mentioned, $27.5 billion less of a deficit was reported in budget 2026 than was projected in the spring economic update. Much of that—96% of it—is being reinvested into the economy, with about a third in affordability measures and two-thirds in capital investment. That's a government decision to invest in the economy and in growth. What kind of return does the federal government need to get on capital investment in order for it to be a good investment?

● (1255)

Annette Ryan: I would think the return the government needs to get for it to be a good return would be that it more than pays the investment cost, including interest. That's a pretty strong test given the amount of borrowing that's going forward.

Ryan Turnbull: What rate would you say it would have to be as a percentage?

Annette Ryan: We haven't considered it. We could certainly do so if that was something the committee was interested in.

Ryan Turnbull: I'd be interested in that.

In terms of the upside investment supercycle, we have a scenario in the budget called the investment supercycle scenario, and there's a downside scenario as well. Have you done any work to look at direct, indirect and induced impacts that could result from an investment supercycle?

Annette Ryan: Yes, we've started to think about what that would look like. I think the key issue there is the extent to which the spending on this tax measure would bring forward new investment beyond what businesses were already planning to do, and whether that investment is towards its more productive uses.

There are a number of conditional statements in there that we'd want to think more carefully about in designing a study.

Ryan Turnbull: Thank you very much.

The Vice-Chair (Eric Lefebvre): Thank you, Ms. Ryan.

Thank you, Mr. Turnbull.

Now, for three minutes, we'll go to Ms. Cobena.

Sandra Cobena: Thank you, Chair.

Ms. Ryan, could you confirm that the government dropped the debt-to-GDP ratio as its fiscal anchor and then proceeded to take on historic amounts of debt?

Annette Ryan: Yes.

Sandra Cobena: Then they adopted the deficit-to-GDP ratio, but followed practices that would allow the debt and deficits to in fact diverge.

Annette Ryan: Yes.

Sandra Cobena: Has the IMF called for the debt-to-GDP ratio to be restored as a fiscal anchor?

Annette Ryan: It has.

Sandra Cobena: Would you agree with that assessment?

Annette Ryan: I think it shows that the government is trending towards balancing revenues and expenditures.

As I've said previously, there is the case the government has put forward that if they invest well to grow the economy.... There is a logic to that. The difference between those two things is the carefulness of execution and whether all of the borrowing we're talking about is taking a stewardship lens. That includes considerations like whether the government is reinvesting from low-priority spending to higher-priority spending.

Sandra Cobena: To shift the question, what is the amount of money the government labels as capital investments that would not qualify under the internationally recognized system of national accounts?

Louis Perrault: In our exercise, it would be $135 billion that we would be reclassifying.

Sandra Cobena: If we applied the internationally recognized definition instead of the government's broader definition, would the operating budget remain in deficit every single year until 2030-31?

Louis Perrault: That's correct.

Sandra Cobena: The government is telling Canadians that it balanced the operating budget, but if it used internationally recognized definitions, it would not balance it for another five years.

Louis Perrault: That's correct.

Sandra Cobena: Thank you, Chair.

The Vice-Chair (Eric Lefebvre): Thank you, Ms. Cobena.

We will go to Mr. Lavoie for three minutes.

[*Translation*]

Steeve Lavoie: Thank you to the witnesses for being with us. I'm very glad they're here.

Ms. Ryan, before I get to my questions, I wanted to follow up on something you told my colleague opposite when he was asking you about the high-speed rail project and the $243-billion cost estimate. I want to come back to that because the government's estimates put the cost at between $60 billion and $90 billion. You said it could be as high as $113 billion. My colleague opposite likes to say the project cost will hit $200 billion. As I'm sure you'll understand, he was delighted when you came out with the figure of $243 billion.

You understand that we have an important and serious role here. Our job is also to reassure people. Alto is doing important work and hasn't yet defined what the final route will be. We do know, however, that Alto is working very hard to properly manage the project and control costs.

I built a house. They told me that it would cost $400,000 to build but that the price tag could quickly hit $1 million or $1.2 million. Sooner or later, it all comes down to how a project is managed, so when I hear a figure like that being thrown out, I want to gnash my teeth. I wanted to raise that before I got to my questions.

Do you think there's a risk to making transfers with no strings attached? When I talk to my constituents, they tell me they expect us to put money in the right places. None of the folks I meet on the street say to me that we should make unconditional transfers. Is there a risk of making transfers without attaching any strings to the money and saying go ahead?

● (1300)

Annette Ryan: There is absolutely a risk. Historically, that has been the rationale for attaching conditions to transfers. This goes back a long way. At different times and points in history, governments have opted for different approaches, including attaching conditions and making more open-ended transfers, if you will.

Steeve Lavoie: Do you have an example of how this happened in the past and resulted in conditions?

Annette Ryan: Yes, in the 1960s and 1970s, a range of programming was put forward.

I'm going to switch languages.

Steeve Lavoie: Of course.

[*English*]

Annette Ryan: We put forward a range of conditional programming to get provinces to try things in post-secondary education, social services and the provision of health care. That eventually got to be seen as overly onerous, bureaucratic, complex and not focused on the right things. The government consolidated them all into transfers like the Canada assistance plan and established programs financing.

That's the type of ebb and flow that you've seen throughout the years.

The Vice-Chair (Eric Lefebvre): Thank you, Ms. Ryan.

[*Translation*]

Thank you, Mr. Lavoie.

Wrapping up this round is Mr. Garon for one minute.

Jean-Denis Garon: Thank you, Mr. Chair.

Madam Parliamentary Budget Officer, the C.D. Howe Institute did a cost-benefit analysis showing that the high-speed rail project made no sense. Jacques Roy, Jean Mercier, studies and the Union des producteurs agricoles have all come to the same conclusion. What's more, we heard what you said today. You conducted an econometric analysis. You released a report. You are an officer of Parliament, independent of government. You have a team of skilled people.

Now we have the guy who spent 20 years working for the banks telling us that when he built his house, it was supposed to cost $400,000. It ended up going over budget, but that's how it is. I want to use my last 30 seconds to apologize on behalf of the committee for the way the parliamentarian treated you. You are competent people. You did an assessment. You used a confidence interval. You released a report. You're talking about that report. You're being asked about the work you did.

Now, I want to take this opportunity to tell you that, as I said at the outset, before the topic came up, we appreciate the work you do. It educates us and informs our position on government policies.

My minute is up, Mr. Chair.

The Vice-Chair (Eric Lefebvre): Thank you, Mr. Garon.

Our thanks to you and your team, Ms. Ryan, for being with us today.

I want to thank my fellow members for their stellar co-operation while I chaired the meeting for the first time.

Do I have consent to adjourn?

Some hon. members: Agreed.

The Vice-Chair (Eric Lefebvre): The meeting is adjourned.

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