F-34

F-34

ISSN 1180-4386

Legislative Assembly of Ontario

Second Session, 38th Parliament

Assemblée législative de l'Ontario

Deuxième session, 38e législature

Official Report of Debates (Hansard)

Tuesday 15 May 2007

Journal des débats (Hansard)

Mardi 15 mai 2007

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Strengthening Business through a Simpler Tax System Act, 2007

Loi de 2007 visant à renforcer les entreprises grâce à un régime fiscal plus simple

Chair: Pat Hoy
Clerk: Douglas Arnott

Président : Pat Hoy
Greffier : Douglas Arnott

Hansard on the Internet

Hansard and other documents of the Legislative Assembly can be on your personal computer within hours after each sitting. The address is:

Le Journal des débats sur Internet

L'adresse pour faire paraître sur votre ordinateur personnel le Journal et d'autres documents de l'Assemblée législative en quelques heures seulement après la séance est :

http://www.ontla.on.ca/

Index inquiries

Reference to a cumulative index of previous issues may be obtained by calling the Hansard Reporting Service indexing staff at 416-325-7410 or 325-3708.

Renseignements sur l'index

Adressez vos questions portant sur des numéros précédents du Journal des débats au personnel de l'index, qui vous fourniront des références aux pages dans l'index cumulatif, en composant le 416-325-7410 ou le 325-3708.

Copies of Hansard

Copies of Hansard can be purchased from Publications Ontario: 880 Bay Street, Toronto, Ontario, M7A 1N8. e-mail: webpubont@gov.on.ca

Exemplaires du Journal

Des exemplaires du Journal sont en vente à Publications Ontario : 880, rue Bay Toronto (Ontario), M7A 1N8 courriel : webpubont@gov.on.ca

Hansard Reporting and Interpretation Services
Room 500, West Wing, Legislative Building
111 Wellesley Street West, Queen's Park
Toronto ON M7A 1A2
Telephone 416-325-7400; fax 416-325-7430
Published by the Legislative Assembly of Ontario

Service du Journal des débats et d'interprétation
Salle 500, aile ouest, Édifice du Parlement
111, rue Wellesley ouest, Queen's Park
Toronto ON M7A 1A2
Téléphone, 416-325-7400; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Tuesday 15 May 2007

Mardi 15 mai 2007

The committee met at 1554 in room 151.

SUBCOMMITTEE REPORT

The Chair (Mr. Pat Hoy): The standing committee on finance and economic affairs will now come to order. Could someone read the report of the subcommittee? Mr. Arthurs.

Mr. Wayne Arthurs (Pickering–Ajax–Uxbridge): Your subcommittee met on Friday, May 11, 2007, to consider the method of proceeding on Bill 174, An Act to enact the Taxation Act, 2006 and make complementary and other amendments to other acts, and recommends the following:

(1) That the committee meet in Toronto on Tuesday, May 15, 2007, for the purpose of holding public hearings.

(2) That the committee clerk, with the authorization of the Chair, post information regarding public hearings on the Ontario parliamentary channel, the Legislative Assembly website and with the Ontario edition of the Canadian Newswire.

(3) That interested parties who wish to be considered to make an oral presentation contact the committee clerk by 5 p.m. on Monday, May 14, 2007.

(4) That groups and individuals be scheduled on a first-come, first-served basis from the committees branch database until no further spots remain.

(5) That all witnesses be offered 10 minutes for their presentation, and that witnesses be scheduled in 15-minute intervals to allow for questions from committee members if necessary.

(6) That the committee request a technical briefing from the Ministry of Finance and that the briefing be held during public hearings or at the commencement of clause-by-clause consideration of the bill.

(7) That the deadline for written submissions be 5 p.m. on Tuesday, May 15, 2007.

(8) That, as per the order of the House, amendments shall be filed with the committee clerk by 12 noon on Wednesday, May 16, 2007.

(9) That the committee meet for the purpose of clause-by-clause consideration of the bill on Thursday, May 17, 2007.

(10) That the committee clerk, in consultation with the Chair, be authorized, prior to the adoption of the report of the subcommittee, to commence making any preliminary arrangements necessary to facilitate the committee's proceedings.

The Chair: All in favour? Carried.

We shall recess until after the vote.

The committee recessed from 1555 to 1607.

STRENGTHENING BUSINESS THROUGH A SIMPLER TAX SYSTEM ACT, 2007

LOI DE 2007 VISANT À RENFORCER LES ENTREPRISES GRÂCE À UN RÉGIME FISCAL PLUS SIMPLE

Consideration of Bill 174, An Act to enact the Taxation Act, 2007 and make complementary and other amendments to other Acts / Projet de loi 174, Loi édictant la Loi de 2007 sur les impôts et apportant des modifications complémentaires et autres à diverses lois.

ONTARIO PUBLIC SERVICE EMPLOYEES UNION

The Chair: The standing committee on finance and economic affairs will now come to order. We've had the subcommittee report and that brings us to our presentation of the day from the Ontario Public Service Employees Union, if you would come forward, please. Good afternoon. Thank you for your patience. You're allowed 10 minutes for your presentation, and there may be up to five minutes of questioning following that. I would ask you to identify yourself for the purposes of our recording Hansard. You may begin.

Mr. David Rapaport: Good afternoon. My name is David Rapaport, and I'm the vice-president of the Ontario Public Service Employees Union for the Toronto region. With me today are OPSEU members Kathleen Demareski, Maurice Gabay and Leo Herskovits. Leo is a senior corporate tax auditor with the Ministry of Revenue and is acting president of OPSEU Local 599, representing staff at the ministry's Toronto tax office. Kathleen is a verification officer with the ministry's child care supplement program in Oshawa and is OPSEU co-chair of the joint Ministry of Revenue enforcement and renewal committee. Maurice is a corporations tax auditor with the Toronto tax office and is president of OPSEU Local 599.

I'd like to thank the committee for this opportunity to speak to you about our many concerns with Bill 174.

This bill has two main purposes. First, it aims to harmonize Ontario corporate taxes with the federal corporate tax system. Second, it will allow the province to outsource responsibility for collecting provincial corporate tax to the Canada Revenue Agency. These measures are part of what the provincial government calls the corporate tax administration redesign project.

In promoting Bill 174 and CTAR, Finance Minister Greg Sorbara has emphasized the benefit to Ontario corporations. In particular, the minister has noted that Bill 174 will both simplify corporate tax reporting and reduce the amount of tax that corporations pay.

Unfortunately, in this case, what may be good for Ontario corporations is bad for the people of Ontario and for the government's ability to set independent tax policy in the provincial interest. This may explain why, over the last two decades, provincial governments of every political stripe—under David Peterson, Bob Rae and Mike Harris—have studied and rejected the idea of merging Ontario's corporate tax administration with the federal system. It may also explain why, now that he is the federal Minister of Finance, Jim Flaherty thinks merging the two systems is a good idea.

The bottom line is that outsourcing Ontario's corporate tax administration to the federal government will cost Ontarians millions of dollars in lost provincial revenue every year. Currently, Ontario's corporate tax collection and auditing is entirely self-funding. The service itself costs approximately $80 million a year. This is less than the amounts collected in penalties and interest—money that will end up in federal coffers after the transfer takes effect in January 2009.

What's more, provincial auditors currently recover more than $300 million in unpaid corporate taxes each year. Most of these taxes are recovered from corporations that have already been audited by the Canada Revenue Agency. Yet once this responsibility is transferred, the province will be entirely reliant on CRA auditors to identify and recover these unpaid provincial funds.

This loss of autonomy will also affect our ability to protect Ontario's corporate tax base. One of our provincial tax auditors' key roles is to ensure that corporations do not avoid paying Ontario tax by allocating revenue earned in Ontario to other provincial jurisdictions. Under Bill 174, the province will lose its ability to independently monitor those allocations. Instead, Ontario will leave this role to federal auditors, who will simultaneously be responsible for monitoring corporate revenue allocations on behalf of seven other provinces and three territories.

British Columbia, which has already merged its corporate tax system with the federal government, has experienced significant problems in this area. Also, as part of this federal-provincial harmonization, Ontario is in the process of eliminating the provincial capital tax. This corporate tax cut will cost the province more than $1 billion each year. To date, the government has not indicated how it will make up this shortfall. However, we note that Finance Minister Sorbara has decided to extend the regressive Ontario health premium, which raises $2.6 billion annually from Ontario families.

Changes to the capital tax will also mean a windfall for the federal government. Under Bill 174, once corporate tax administration is transferred to CRA, Ottawa will keep all unreported amounts recovered under the Ontario capital tax. None of these revenues will go to Ontario. Yet Bill 174 contains no measures that will make the federal government accountable for ensuring that non-filing and non-paying corporations pay the corporate taxes they owe to Ontario.

Is it any wonder that Ottawa is happy to pay the province $400 million to take over Ontario's corporate tax administration system? Over time, Ottawa's gain—and Ontario's loss—will far exceed this amount.

So far, I have focused on the direct, and substantial, costs to the provincial treasury. Equally significant is the loss of provincial control over corporate tax policy. If Bill 174 goes forward, it will be much harder for Ontario to introduce new corporate taxes or to fine-tune the tax system to meet provincial policy objectives. The main way to change revenues from corporations will be to increase corporate tax rates across the board—a move that will always be difficult politically. Targeting of tax effects will only be possible through tax credits—a cumbersome method at best.

By the same token, in 2002, the Provincial Auditor found that half of Ontario's corporations failed to file the required tax returns. In response, the Ministry of Finance took steps to start tracking down non-filing corporations and collect an estimated $115 million in unpaid taxes. This project is now on hold and, with the transfer to the federal government, Ontario will lose the ability to ensure corporate tax compliance in the future.

This decision to abdicate responsibility for tracking down non-filing corporations seems particularly perverse, given the government's recent acknowledgement of the need to crack down on the underground economy, as reported in today's Toronto Star.

Finally, I want to point out that Ontario currently employs approximately 500 staff in corporate tax collection. Of these people, roughly 40% work in tax collection and 60% as auditors. The majority of these OPSEU members are accredited accounting professionals—chartered accountants, certified management accountants, certified general accountants—and some have MBAs.

The Ontario and federal governments are apparently still negotiating human resources agreements related to CTAR. However, the Ontario government has made no commitment to any of these workers that they will be able to transfer to equivalent positions with the federal government or be redeployed within the Ontario Public Service. Bill 174 contains no such commitments, either. The CTAR project therefore risks a major brain drain of tax and accounting professionals out of the government, to the detriment of the people of Ontario.

To conclude, then, Bill 174 represents a major threat to Ontario's corporate tax base and the government's ability to provide adequate funding for the important public services on which our communities rely. Bill 174 is bad for Ontario. We therefore urge the government and this committee to reconsider this bill. By changing course now, you can preserve Ontario's ability to set and enforce an independent, made-in-Ontario tax policy in the interests of all Ontario citizens.

We'd be happy to answer any questions you might have. Thank you.

The Chair: And thank you. We have five minutes for questioning, so what I'll do here is give each caucus two minutes. We'll begin with the official opposition.

Mr. Toby Barrett (Haldimand–Norfolk–Brant): Thank you to OPSEU for coming before the committee. You made mention of federal Finance Minister Jim Flaherty. He has estimated $100 million in savings a year in red tape and compliance costs for Ontario businesses. I understand how you factor that in as a cost to your members.

I was just reading an article in the Windsor Star where they were commending Greg Sorbara and Jim Flaherty for working together. They make a recommendation that these two follow up on advice from the Institute of Chartered Accountants to extend this harmonization principle to the collection of sales taxes. We know there are two separate forms, PST and GST. Would you like an opportunity to comment on that suggestion? Does this have any merit or is it doable?

Mr. Rapaport: I'm going to ask Leo to comment on that.

Mr. Barrett: Same script?

Mr. Leo Herskovits: Obviously from OPSEU's point of view, we think it would be a terrible idea.

Mr. Barrett: You alluded to, perhaps, the inability of people to transfer to the federal government or pick up other work elsewhere. I think you mentioned 500?

Mr. Rapaport: We didn't quite say that. We said there have been no provisions in the transfer agreement to accommodate that need.

Mr. Barrett: Yes. You mentioned 500 positions. Sales tax, GST, PST: How many people are involved in that kind of work at the provincial level?

Ms. Kathleen Demareski: Literally thousands. Others would still be maintained by the Ministry of Finance and Ministry of Revenue to administer those taxes.

The Chair: Thank you. We'll move to the NDP.

Mr. Michael Prue (Beaches–East York): Thank you very much. I'd just like to preface my remarks with this: This bill is being rushed through so fast that as the NDP lead, they invoked closure before I even opened my mouth; I haven't even had a chance to speak to the bill yet. I guarantee you, though, if I do get a chance on third reading, which is also by closure—I might get 20 minutes—I hope to say some of the things you've said here today.

Can you tell me how much this is going to cost the government of Ontario? The finance minister and the finance minister in Ottawa, the Tweedle-Dum and Tweedle-Dee of finance ministers, have said that it's going to save business$100 million. That may be true—I don't know—but how much is it going to cost the taxpayers and the government of Ontario?

Mr. Herskovits: Well, there are a couple of components. One component, which the Liberals have indicated, will be about a $90-million savings in taxes. That's because they've harmonized the federal and provincial income tax laws. But there is roughly $300 million a year that the corporate tax auditors collect. That's indicated by the Provincial Auditor's report. It's $300 million we find every year, year after year, which the federal government doesn't necessarily find.

1620

Mr. Prue: So it's $300 million that the government of Ontario will not have next year to spend, should this go through.

Mr. Rapaport: Yes. It's a substantial amount of money that's found by our folks.

Mr. Prue: You said there were some 500 employees. Obviously, you more than make your salaries by doing this.

Mr. Rapaport: Yes.

Mr. Prue: How much would be expended for the 500 employees if the federal government takes this up? How much is the government going to save? I want to look at the bare bones at the end.

Mr. Rapaport: According to our calculations, it costs the government about $80 million to administer the plan, but as you pointed out, we pick up way more money as a result of the work that's done—

Mr. Prue: So the net loss is $220 million, and the federal government loses too because they have to pay the salaries.

Mr. Herskovits: The net loss is actually $300 million, because we also get penalties and interest of roughly $80 million. What it costs for the program is covered by interest and penalties, so what will be missing are the tax recoveries, the $300 million.

The Chair: Now to the government.

Mr. Arthurs: Thanks for being here this afternoon and for the presentation. In the time we have, I'd like to cover two things. Seven of the provinces and the territories are already engaged in corporate tax harmonization—you mentioned that British Columbia is having some challenges in that regard, significant problems. I want you to comment, if you could, on the nature of the problems in British Columbia, as you're aware of them, so that we have those on the record, and so that if our folks aren't aware of those challenges, they will be, and any comment you want to make in regard to our following suit. When you have seven other provinces and territories already engaged in a harmonized process, it would seem reasonable for a large province to consider the synergies that can be achieved and the experiences that have been achieved by harmonizing corporate tax collection.

Mr. Herskovits: The first comment I'd like to make is that Quebec and Alberta are the other two provinces that currently aren't in this, and they're large provinces, so

Ontario is basically following the tiny boys. British Columbia, which is the next-biggest province that's actually got this tax collection agreement, has been finding that the CRA has not been looking after their best interests with regard to the allocation of taxable income between provinces. What we have been finding in the last year or so since British Columbia has come out with these complaints is that the CRA has been going over and above the duty with allocation, with finding taxable income going toward BC. But what has been happening is that we, as experienced auditors in allocation, have been firing back counter-proposals to the CRA, arguing that what they're doing is incorrect. So they've been making a concerted effort to find the CRA some money, which is really not valid, and we've been countering it.

The Chair: Thank you for your presentation before the committee.

MINISTRY OF FINANCE

The Chair: From the subcommittee report, there was a request for a briefing by the Ministry of Finance, if those persons would begin to move forward, please.

Before we begin, I believe we have an agreement that this could run 15 minutes. Is that agreed? Agreed.

Good afternoon, gentlemen. As you just heard, you have 15 minutes to run through what you think is pertinent before the committee. I'd ask you to identify yourselves for the purposes of our recording Hansard. You may begin.

Mr. Steve Orsini: It's our pleasure to be here this afternoon to talk about Bill 174. With me are Charles Whitfield and Bob Laramy. My name is Steve Orsini. I'm the assistant deputy minister of the office of the budget and taxation.

With the committee's permission and with the time allotted, we'd like to divide our presentation in two parts. I think it's important to talk a bit about the context and how we got to Bill 174, and then have Charles speak to the proposed amendments.

One of the things that I think is important to realize is that this is really a culmination of hard work between both the federal government and the province, stemming back to May 2004. At that time, both provinces signed a memorandum of agreement to collaborate in areas where we thought improving the delivery of public services would have benefits to taxpayers across the board.

In November 2004, the Ontario government announced that part of those discussions would include looking at corporate tax harmonization and administration. It was a May 2005 Canada-Ontario agreement where the federal government provided financing and funding to the tune of $400 million if Ontario would move toward a single corporate tax administrator and, in addition, assume the cost of administering corporate tax collection for the province as well as incurring all the costs associated with transforming their system to accommodate Ontario corporate tax collection.

In October 2006, both Ministers of Finance announced a memorandum of agreement to enter into a tax collection agreement to have the federal government collect corporate taxes for the province of Ontario. I think it's important: That memorandum of agreement provides a lot of safeguards and protection to the province of Ontario. In fact, in our fall economic statement, we identified a number of those protections that we believe will actually enhance revenue for the province of Ontario, identified on page 82. In fact, a number of provinces have reported that they see benefits, because when they do it for Ontario, they do it for all the other provinces, including British Columbia.

The memorandum of agreement announced back in October sets a framework for the federal government to collect our corporate income tax. It also allows the federal government to collect other taxes such as capital tax, our corporate minimum tax and a special additional tax for life insurers.

Just with harmonizing with the federal collection system, both governments estimate that the savings to business in compliance costs alone are up to $100 million a year. That's one return, one set of rules and one administrator.

In addition to the protections we have in terms of income allocation and auditing, we believe that will have a net benefit to the province of Ontario and also be a net benefit to businesses in terms of spending more time creating jobs and investing and less time filling out paperwork.

In the fall economic statement later that month last year, the government announced additional measures to complement the memorandum of agreement. When we harmonize with the federal base, there are a couple of provisions that disappear for taxation years after 2008, when this would take effect. One of those deals was our generous R&D incentive. Ontario provides about $200 million a year in R&D incentives. That would've disappeared. In terms of tax policy flexibility, the government has the flexibility to maintain that, and announced in the fall economic statement last year—part of the amendments coming forward shortly will include that R&D incentive, so that will continue to be provided. The same goes for the special resource allowance, a significant incentive for the mining sector in Ontario. Again, that would have disappeared had the government not decided to reintroduce a credit to maintain that as well.

There are some other differences in the tax base, and when you take all those differences, they will provide a $90-million tax reduction for businesses every year as a result of those policy changes.

That gives you a bit of an overview of some of the changes leading up to Bill 174. One of the things the memorandum of agreement had committed both governments to was best efforts to proceed with this initiative. Part of Ontario's commitment to best efforts is bringing forward legislation. That's why the bill is before this committee today. We have a number of amendments that will reflect both the 2007 budget and budget Bill 187, which has been enacted and will carry through, as well as feedback we've gotten from the business community on some of the technical transition measures. I could ask Charles to briefly go through the structure and purpose of those amendments so that you're familiar with those before they come before the committee.

1630

Mr. Charles Whitfield: Just two things: I'll provide you with a very brief summary of what's in Bill 174 and an overview of the proposed amendments to the bill that were filed today. There are two schedules to Bill 174. Schedule A would implement the Taxation Act, 2006, effective for taxation years ending after 2008, and schedule B makes related amendments to several existing statutes.

Turning to schedule A, the Taxation Act, 2006, does several things. First, it reflects the contents of the October 2006 memorandum of agreement. It contains measures proposed in the fall 2006 statement and also includes the mechanism for transitioning to the federal tax pools. As well, it consolidates in a single statute our personal income tax, which is currently administered by the Canada Revenue Agency, and the corporate taxes that would be administered by the CRA for taxation years ending after 2008. So under this one statute, post-2008 we'll have all the taxes that would be administered by the CRA. The effect of that is that the Taxation Act is more than 50% shorter than the personal and corporate tax measures in the statutes and regulations that it replaces.

Regarding corporate tax provisions, as Steve mentioned, the CRA would administer several taxes that are currently in the Corporations Tax Act: corporate income tax, minimum tax, capital tax and special additional tax on life insurers. Ontario would continue to administer the insurance premiums taxes that are currently levied under the Corporations Tax Act; it would continue to administer the Mining Tax Act and the transfer tax that's levied under the Electricity Act. The Ministry of Revenue is currently working with the CRA on a mechanism for jointly administering the payments in lieu of corporate taxes under the Electricity Act.

The act also incorporates all the necessary delegations to the Canada Revenue Agency and the rules relating to the application of the federal act as it applies for Ontario purposes that are required for federal administration. Those provisions are largely the same as those that already apply for our personal income tax.

It adopts the federal definition of taxable income for Ontario corporate income tax purposes. One of the provisions in the memorandum of agreement is that we would, as part of a single tax administration, harmonize with the federal income tax base. It contains the transitional tax credit/debit mechanism that prevents tax gains and losses that would otherwise arise from harmonizing with federal tax pools. These pools relate to things like unclaimed losses, depreciation and R&D expenses. There is a large number of pools, and once we harmonize with the tax base, we automatically pick up those pools. Those pools may be different for federal and Ontario purposes now. So to the extent that a federal pool is higher than an Ontario pool, there would be a tax benefit to the corporation. There's an additional tax levied in order to remove that tax benefit. Similarly, if the federal tax balance is less than the Ontario balance, the corporation would suffer a loss and we'd provide a tax credit for that.

The Taxation Act includes measures proposed in the fall statement. As Steve mentioned, one is to replace the resource allowance with a tax credit. I would note that Bill 174 does not include the proposed R&D tax credit. As well, as Steve mentioned, there's no replacement for other existing deductions and other measures that automatically disappear with base harmonization. Also, we harmonize with the federal capital tax base for regular corporations until the tax is eliminated.

There are no changes to any tax rates or tax credits. It maintains our refundable tax credits. A number of technical amendments are made to eliminate obsolete provisions and provide for consistency, both within the act and with the federal act. As well, there are a couple of amendments to the Taxation Act and the Corporations Tax Act in schedule B relating to the special additional tax on life insurers.

On the personal tax side, the Taxation Act includes all the personal income taxes that are currently in Ontario's Income Tax Act and that are administered by the CRA. Again, no changes are made to any tax rates, exemptions and credits. Various technical amendments are made to eliminate obsolete provisions to provide a greater consistency both internally and with the federal act.

Schedule B amends the Corporations Tax Act and Income Tax Act to avoid overlap with the Taxation Act, and certain amendments are made to other statutes: The Taxation Act would be included in the Taxpayer Protection Act; there's an amendment to the Corporations Information Act to authorize the Ministry of Government Services to enter an agreement with the CRA to collect information that's currently filed with the Ontario tax return; and the Electricity Act is amended to allow the minister to make regulations so that administrative provisions of the Taxation Act apply instead of those provisions under the Corporations Tax Act.

Page 7 provides an overview of the motions to amend Bill 174 that were filed today; 92 motions are proposed. These motions incorporate the R&D tax credit that was proposed in the 2006 fall statement and measures proposed in the 2007 budget. Also, other amendments are proposed that were identified after Bill 174 was introduced. There's a table that follows that describes those motions. Half the motions—a little more than half; 48 out of the 92 motions—relate to measures from the 2006 fall statement and the 2007 budget. As well, as you go through the table, you'll notice that some of those amendments or proposed amendments were also included in Bill 187.

Just to run through them quickly: The first one implements the new 4.5% R&D credit that was in the fall statement. There's an adjustment to the five-year transitional mechanism—the tax credit and debit mechanism—to support R&D performance. That was announced in the budget. Those measures arise out of consultations that we had with the R&D sector after we released a consultation paper on the transitional pools. It eliminates the capital tax, effective July 1, 2010, and there are budget measures that extend the apprenticeship training tax credit and the production services tax credit. It deals with the budget measures extending the carry-forward period for corporate minimum tax and introduces a new carry-forward mechanism for a special additional tax on life insurers. As well, it provides for the new Ontario child benefit for tax years ending after 2008.

The other half of the motions—the majority of those relate to the transitional mechanism. As we were looking at Bill 174 after it was introduced, there were certain corporate reorganizations dealing with amalgamations and windups and transfers of property that weren't in there, so we've gone and added those in there. That provides certainty for taxpayers—how to deal with that mechanism in certain particular circumstances. And there was another, more technical amendment to avoid penalizing farming and fishing corporations that use a cash basis in determining income. Beyond that, the other ones are fairly small in terms of volume.

1640

Again, there was a measure in Bill 187 that incorporates new accounting terminology for capital tax purposes. That maintains consistency. There is a technical amendment to the new credit for the resource allowance to prevent partnerships from obtaining greater benefits. There are also other provisions dealing with limited liability partnerships. There are amendments dealing with what they call the fresh start rules. Basically, what those rules deal with is where a tax exempt corporation, say, a crown corporation, incurs certain expenses that would otherwise be eligible for a tax credit. The amendments would make sure that they cannot claim those credits in respect of that should they become taxable in the future. As well, there are technical amendments relating to appeals to Ontario courts. Those were changes suggested by the CRA. There are other amendments dealing with information sharing. As well, there are several amendments dealing with technical stuff to correct cross-references and improve consistency in wording.

The Chair: That concludes—

Mr. Orsini: Yes, that concludes our presentation.

The Chair: All right. Thank you very much for that. The committee appreciates it.

We will be going to clause-by-clause on Thursday, but are there any questions, briefly, for—

Mr. Prue: Yes, if I could. I tried to listen intently. The previous deputation said that it was going to cost the Ontario taxpayers some $300 million. You didn't comment on that at all. Is it going to cost us $300 million?

Mr. Orsini: I can speak to that, and Bob Laramy from the tax administration side can also speak to that.

Our assessment is that fiscally Ontario is better off. We're getting $400 million and funding from the federal government. We're also having assurances built in, and they're built in the MOA, that ensure increased audits. One of the things we have to remember is that the CRA has access to information in other provinces that we don't have. So from a tax administration, tax compliance—their reach is much broader. One of the things that we've negotiated is increased auditing and income allocation across the province, which will have benefits to all provinces in addition to Ontario.

Mr. Prue: If I could continue, in terms of companies that are spread out across Canada—multinational companies that may have branches in five, six, seven provinces—how does the federal government allocate which funds go to Ontario?

Mr. Bob Laramy: Maybe I could sort of add there. There are a series of rules that all provinces have adopted. We adopt them already, as do other provinces, as does the federal government, to share the revenue among the provinces. That is what they call the allocation rules. They exist today. What is happening is—they're not changing. The federal government will be administering on our behalf to ensure that Ontario, like the other provinces under this agreement, is getting its fair share of it.

I want to point out, as Steve indicated, that one of the key measures in the memorandum of agreement was an increased emphasis by CRA in this area, because we do a fair bit of work in that area as a self-administering province. So they are creating basically an enhanced program and, as Steve pointed out, other provinces will benefit as well. In addition, there is a fair bit of activity, particularly at the larger corporations, to try to move their profits to lower-rate jurisdictions. We term it interprovincial tax avoidance. In addition to the emphasis on allocation, there's an enhanced program to deal with that as well—and, as Steve pointed out, access to more information that we currently don't have today. So on balance, the emphasis on these areas protecting the province's share of the profits is really going to be enhanced under this agreement. We really feel that that is the case.

I want to point out one other thing with the $300 million. We shouldn't lose sight of the fact that in the new world, it's one set of rules, one return, one payment. When you have one set of rules, one audit takes care of it. Right now, we raise revenue, but in many cases, we're raising revenue because we have different rules. So we're not going to have those different rules. We're going to raise more revenue, actually, by harmonizing with the federal government, and we're not having to audit a whole bunch of Ontario differences. We shouldn't lose sight of that fact, and I think that in the overall scheme of things, people have a tendency to miss that point. So on balance, it's a more comprehensive program in areas that we spend our time in, as well as a simpler and more efficient way to do audits.

The Chair: Mr. Barrett.

Mr. Barrett: We know that a memorandum of agreement concerning this single administration of corporate tax was signed in 2006. The Minister of Finance has oversight as well as the national Minister of Finance and the national Minister of Revenue. Will the Ontario Minister of Revenue not oversee the implementation of this process? I know this position was created after—

Mr. Orsini: When that agreement was signed, there was no Minister of Revenue. Now that there is a Minister of Revenue, there will be a role for the new Minister of Revenue, certainly in the implementation of a number of the sub-agreements that are going to be negotiated. One thing to keep in mind is that the Canada-Ontario agreement—the federal government announced that it was providing $400 million and picking up all the costs in May 2005, and we've been negotiating to build in all those protections. The memorandum of agreement signed last October does build in some other sub-agreements that we'll be negotiating. There's certainly a role for the Minister of Revenue to play, a leadership role, in addressing those complex administrative issues. There's still a number of agreements that have to be negotiated.

Mr. Prue: I'm a little perplexed. Here's a bill that's five months old, and here are the government amendments—which is slightly larger—handed to me today. How well thought through was this if you've got this many amendments handed to me today? I'm sure the opposition will have some, but these are just the government amendments that you've provided.

Mr. Orsini: This is a new act, which combines a number of other pieces of legislation, that's going to reduce the total volume of legislation and regulations by more than 50%. It's rare that we have a huge opportunity to cut down the paperwork in legislation. It is actually a historic moment, from our perspective, to cut down the amount of paperwork. It's going to build on consistent rules at the federal level. We're going to benefit from court decisions at the federal level, and we're going to benefit from administration and knowledge gained at the federal level as well.

The amendments brought forward were really part of our consultation process and part of a number of policy changes that the government has introduced that have actually been enacted through Bill 187. We had the fall economic statement that made a number of policy decisions, we had the 2007 Ontario budget that included a number of policy decisions that were contained in Bill 187, and we also included our consultations with the business community to get it right, to make sure that the transition is as smooth as possible. It's been well thought through, but it's a complex piece of legislation.

The Chair: Thank you for appearing before the committee. We are adjourned.

The committee adjourned at 1649.

CONTENTS

Tuesday 15 May 2007

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président
Mr. Pat Hoy (Chatham–Kent Essex L)

Vice-Chair / Vice-Président
Mr. Phil McNeely (Ottawa–Orléans L)

Mr. Ted Arnott (Waterloo–Wellington PC)
Mr. Wayne Arthurs (Pickering–Ajax–Uxbridge L)
Mr. Toby Barrett (Haldimand–Norfolk–Brant PC)
Mr. Pat Hoy (Chatham–Kent Essex L)
Ms. Judy Marsales (Hamilton West / Hamilton-Ouest L)
Ms. Deborah Matthews (London North Centre / London-Centre-Nord L)
Mr. Phil McNeely (Ottawa–Orléans L)
Mrs. Carol Mitchell (Huron–Bruce L)
Mr. Michael Prue (Beaches–East York / Beaches–York-Est ND)

Substitutions / Membres remplaçants
Mr. Bill Mauro (Thunder Bay–Atikokan L)
Mr. Shafiq Qaadri (Etobicoke North / Etobicoke-Nord L)

Clerk pro tem / Greffier par intérim
Mr. Trevor Day

Staff / Personnel
Ms. Anne Marzalik, research officer,
Research and Information Services