



STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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Mr. Gene Makowsky
Regina Dewdney

Mr. Scott Moe
Rosthern-Shellbrook

Mr. Roger Parent
Saskatoon Meewasin

[The committee met at 15:03.]

The Chair: — I want to welcome the committee sitting this afternoon. We have one substitution for Cathy Sproule. John Nilson is the substitution. Members have a copy of today's agenda. If members are in agreement, we will proceed with the agenda.

We will now consider Bill No. 99, *The Public Employees Pension Plan Amendment Act, 2013*. We will start with clause 1, short title. I will ask the minister if he has any opening remarks and also if he would like to introduce his officials. You may proceed, Minister.

Bill No. 99 — *The Public Employees Pension Plan Amendment Act, 2013*

Clause 1

Hon. Mr. Krawetz: — Thank you very much, Mr. Chair, and my apologies to committee members for being a little late. I am going to introduce the officials that are with me of course before I begin, and on my left is Clare Isman, who is the deputy minister of Finance, and on my right is Brian Smith. Brian is the assistant deputy minister of the Public Employees Benefits Agency within the Ministry of Finance, also known as PEBA [Public Employees Benefits Agency].

Mr. Chair, I will expand a little bit on the second reading speech and indicate exactly what the bill is, for the benefit of committee members and the people watching in the province. I am pleased to offer opening remarks on Bill No. 99, the public employees pension amendment Act, 2013.

This amending legislation will enable the Public Employees Pension Board to make trust decisions by a simple majority vote of board members. It will empower the board to borrow for administration purposes of the Act.

It will provide that the Lieutenant Governor in Council, and I'll refer to it from now on as the LGC, the Lieutenant Governor in Council may designate the public employees pension plan's default fund by order in council. It will also provide that the LGC may order that members who have never made a choice of what fund they want to invest their PEPP [public employees pension plan] funds in may be moved into a designated default fund, and it will provide that PEPP be permitted, in accordance with an order by the LGC, to receive members and funds from a registered pension plan wanting to become part of PEPP.

The Public Employees Pension Board recommended the majority of these changes based on the findings of an in-depth review of PEPP's investment options. The proposed change to a simple majority voting system is based on best practices and ensures uniformity amongst public sector pension plans in Saskatchewan. It is identical to an amendment made to *The Municipal Employees' Pension Act* in May of 2013. Also, Mr. Chair, it may be referred to as MEPP [municipal employees' pension plan].

With respect to the first proposed amendment, moving away from an unanimous vote to a simple majority of the board for

trust decisions helps to facilitate timelines on critical decisions. The old requirement for unanimity on trust decisions is viewed as too onerous. And this practice is consistent with a number of comparable plans. In the event a board member votes against a motion or is absent from the board meeting, the amended legislation would exempt them from any liability arising out of the decision taken by a majority of the board in their absence. This is consistent with provisions under *The Business Corporations Act* and, as I mentioned, with a recent amendment to *The Municipal Employees' Pension Act*.

Empowering the board to borrow for administration purposes provides a useful tool for the facilitation of financial transactions and basic cash flow management. Borrowing by PEPP does not place a liability on the General Revenue Fund. The liability is held by the pension plan.

Continuing on, not all PEPP members are engaged in active management of their funds held by PEPP. The proposed amendment gives the LGC the power to designate a default fund for PEPP members not actively engaged in selecting their preferred specialty funds. Moreover the proposed amendment would move all funds held by members who had never selected a specialty fund into the PEPP Steps fund as of a date designated by the LGC. The PEPP Steps fund is an appropriate place for such members, as it automatically adjusts the asset mix based on the age of members to optimize the risk and return profile.

Finally, providing authority to the LGC to designate PEPP's default fund ensures that at any point in time the fund that is best suited for this purpose is the one designated by OC [order in council] should the Steps fund no longer be appropriate. All members at any time can move from fund to fund at any time by completing the appropriate forms.

Finally, Bill No. 99 amends the Act to facilitate the movement of members and their funds from other defined contribution pension plans into PEPP. Following the amendment, this can be accomplished by regulation.

Mr. Chair, with those opening comments, I would like to move into the discussion of the appropriate clauses of the bill.

The Chair: — Thank you, Minister. Mr. Nilson.

Mr. Nilson: — Thank you and good afternoon, Mr. Chair, and good afternoon, Minister, and officials.

The first change that you talk about relates to the majority vote, and I know it relates also to some of the other pension changes. But have there been any particular problems in this plan around the present rules of basically unanimity in decision making?

Hon. Mr. Krawetz: — Thank you for that question. I'll turn it over to Mr. Smith for a comment because that would be more in line with his knowledge.

Mr. Smith: — Mr. Chairman, the requirement to have unanimous decisions lengthens the decision-making process. Have there been specific issues in the past? No. The board makes strategic decisions, and if there was one member of the

board who was opposed to, for example, hiring investment manager XYZ, it would delay the process until unanimity could be obtained. So there hasn't been specific problems that have resulted in a long duration, but it can lengthen the process. So a simple majority makes it a lot quicker and more efficient.

Mr. Nilson: — Okay. And just as good a quality decisions are arrived at as well if you'd used that system. Is that correct?

Mr. Smith: — Yes. We, with global pension consultants, make recommendations to the board, so the analysis is also a part of the board's decision-making process. So all of the information is totally transparent, and so the efficiency is still there in terms of decision making. All of the information does not change.

Mr. Nilson: — The issue of liability of board members for decisions, I see that that's specifically spelled out here so that if you're not part of the decision, there's no liability on you. Are there any instances where any board members have had to have their insurance cover their liability, or is this just a very, very conservative precautionary clause?

Mr. Smith: — It's a precautionary clause. We've never had a lawsuit against the public employees pension plan or the public employees pension plan board.

Mr. Nilson: — Okay. Well that's good to hear. But no, sometimes when you see something like this in legislation, it's anticipation of problems that are going to arise, and so that's why I asked that specific question.

The next area that you're changing relates to the borrowing power of the board. I guess it begs the question, do you have any borrowing power right now?

Mr. Smith: — No. The legislation is silent. Mr. Chairman, *The Income Tax Act*, about 10 per cent of *The Income Tax Act* and regulations relates to pension plans and deferred retirement savings. *The Income Tax Act* allows pension plans to borrow for short-term purposes. And the amendment Act follows word for word from the requirements that are in *The Income Tax Act* for pension plans to borrow, and it's only for operational purposes and for very short terms.

An example I could use is that if a lot of, a significant number of baby boomers decided to move their money out of the public employees pension plan, into the millions of dollars, we may have a liquidity problem for a very short term. When we sell equities or bonds, we get the cash three days later, and so if there was a lot of boomers decided today they wanted to move their money to an insurance company, we may be short of cash. So for a very short time frame, because we won't get their money for three days, we could use this provision to borrow. We don't see that we would use this very often. It's just another tool for the administration of the pension plan.

Mr. Nilson: — Okay. And I note very clearly that its maximum borrowing time is 90 days, so it is clearly short-term borrowing. But I appreciate that explanation. So I think it helps people understand that this is clearly an administrative power that's going to be used in the short-term way.

Now the next amendments relate to designating funds for PEPP

members. I'm assuming this wasn't an issue before when you only had one fund. And so now when you've created, I think it's seven funds, it's important to have this designation. Perhaps you can explain what's going to happen for those civil servants watching this, questioning, who have had a hard time deciding which fund to choose. And I assume you're going to choose for them.

[15:15]

Mr. Smith: — Yes. A long history, Mr. Chairman: from 1977 until 1998 there was only the balanced fund. So in 1998, there was a short-term bond fund that was added, so there was two choices. So in 2007, we ended up with seven choices.

So from 1977 until 2007, when a lot of choice was introduced, members stayed in the balanced fund. And so we have 52,000 people in the pension plan. Two metrics: about 74 per cent of the assets of the pension plan are still in the balanced fund, and about 54 per cent of the membership has not made an investment choice. So from 1977 until today, 54 per cent of the members, about 28,000 people, have not made a choice as to which fund they want to be in.

Historically we've had two default funds, the balanced fund from 1977 until '98. From 2007 until today, by policy, the board has put people, new employees, into PEPP Steps. So we have two default funds, and so this amendment Act is to clarify there's going to be one default, and that's PEPP Steps. And the 28,000 people who have not made a decision about which investment fund they want to be in will be moved into PEPP Steps.

The balanced fund is not appropriate for, in theory it's not appropriate in terms of investment risk for a 20-year-old and a 65-year-old. The theory is you should take investment risk, reduce investment risk for equities as you age. And so we have a lot of people in the balanced fund, some people in PEPP Steps.

This will clarify that PEPP Steps is the default fund, and people will be moved into the default fund. PEPP Steps is the most appropriate fund for people who are not engaged because it will change the investment risk of their assets as they age from under age 30 to retirement, and beyond retirement to a fund that has less equity.

So it's a process. In 2011, the board spent a whole year developing a strategic direction for the plan. The board, in February of 2012, recommended 10 changes. This is the last change. The first change in 2012 was to change the PEPP Steps program by 10 years. It started out for people who were under age 20, and then there's 11 more steps. Now it's for people under age 30, plus 11 more steps. And there was eight other changes.

This is the last change of a three-year strategic plan that was created over the calendar year 2011. And we'll position the plan so that any new employee and those who haven't made a decision will be in PEPP Steps. Everyone always will have the right to choose the investment fund that they want to be in.

We provide information to the plan members so that they can

define their investment risk tolerance, but the public employees pension plan is not the only asset that individuals have. So when they're picking one of the seven choices, they can decide what to do with the pension plan and we can have very interesting answers. We can have 64-year-olds in the most aggressive fund because they may have assets elsewhere that are less risky. In total, they're in the right position. So a lot more flexibility, a lot more appropriate changes so that the people who are unengaged will have the best, optimal result when they retire.

Mr. Nilson: — Okay. And I think I understand what you've explained. But practically then if somebody is in a situation where they haven't made a choice, once this legislation is put through, they'll be moved into PEPP Steps. And it will depend on their age where they fit onto the whole ladder of choices.

So I assume that you will be spending some time advising people about this legislative change because I think a lot of people sort of think the word balance or balanced fund is the place they want to be or that's where they should be. What you're saying with this legislation is, we're changing where you are into another spot unless you specifically make a choice. So for example, if I'm 40 years old and have had 15 years in the civil service, what happens to me?

Mr. Smith: — Mr. Chairman, if you haven't made a choice, you would move into PEPP Steps. And you'll be able to make a decision before you're moved into PEPP Steps to choose another fund, to make a decision, or if you moved into PEPP Steps, the next day you can also make a decision to pick any one of the choices.

So yes, Mr. Chairman, we will be communicating and communicating what is going to happen. And you have choices to make before you're moved into PEPP Steps, and you have a choice to make if you don't want to stay in PEPP Steps after you become a member in the PEPP Steps fund.

Mr. Nilson: — But there is no choice to sit where you are unless you've already chosen PEPP Steps.

Mr. Smith: — Well no. Yes you can; you can choose, Mr. Chairman, you can choose before the move to stay where you are.

Mr. Nilson: — Oh okay. So stay in the balanced fund if you wish.

Mr. Smith: — Yes because you will have made a decision before we move you. The move only applies to people who have not made a decision.

Mr. Nilson: — Okay.

Hon. Mr. Krawetz: — But the other thing I want to point out too, Mr. Nilson, is that even if you're in that situation where you haven't made the choice and then you're moved out of, you can then still request that you move back to the balanced fund. So each employee will still have that decision-making power if they're not happy with the broad decision that was made for everybody who has not responded.

Mr. Nilson: — Do you have an estimate of how much movement there will be as a result of this decision? Because I think you said 28,000 people that haven't made a choice, and so obviously that affects the overall investment plans for the fund if there is substantial movement. So do you have some estimate of that?

Mr. Smith: — If we moved everyone, Mr. Chairman, to PEPP Steps, the asset mix for the total plan would not change that much. We do have 20-year-olds who are not engaged. We have 65-year-olds who aren't engaged. So the total fund may not change that much.

Mr. Nilson: — Okay. But you do end up having everybody making a conscious choice and that's, I don't think, that's not a bad thing. But thank you for that explanation. So a very short line in here, but obviously lots of background to it. And that's important.

Now I think the next question I had is that you're making changes to allow for other pension plans to join the PEPP plan. Is that a correct understanding of what you're doing in this provision so that a whole, say a whole group of employees from a place that hasn't been part of the plan, they would now be able to join all at once. Is that correct?

Mr. Smith: — Correct.

Mr. Nilson: — So can you give an example of somebody who might be a possible prospect or which kind of employer-employee group might be a possible new member in the next two or three years?

Mr. Smith: — We don't have anyone specifically in mind, Mr. Chairman. This provision is a change to the Act to allow other pension plans to join. In the past, we have had organizations like Saskatchewan Research Council who have asked about joining the plan, and the legislation is silent. And so without this change, we can't accommodate any transfer of a pension plan in total into the public employees plan. There is a different method of doing that, and each individual would have to agree to move their individual pension asset into the plan, which is very administratively difficult. So this provision would allow a complete pension plan to join.

So we're not out marketing; we don't intend to market. If individual plans approach us, this would facilitate another plan joining the public employees pension plan. And I think one of the conditions the board would be looking at is to make sure that it adds to the efficiency of scale; it doesn't cost the existing plan members increased administration costs or increased investment costs. It should be a net gain to both the public employees plan and another pension plan, if they desire to join.

Hon. Mr. Krawetz: — I know you understand this, Mr. Nilson, but for those not watching, I want to make it clear that Brian is pointing out that these potential plans are all defined contribution plans. So there's no liability, there's no . . . You know, there's a benefit, there may be a benefit to joining a broader plan, but they're not the defined benefit plans. So I want to make sure that people understand that this is like plans, defined contribution and, as Brian has indicated, the positive results that may happen. But again, we don't have any such ask

of us right now.

Mr. Nilson: — Is there anything in these legislative changes that would affect the ability of an individual to move their pension funds into the plan when they join the civil service?

Mr. Smith: — No, Mr. Chairman. Individuals do have the right to move RRSPs [registered retirement savings plan] into the pension plan, commuted values from other pension plans into the public employees plan, and that will continue into the future.

Mr. Nilson: — Well I don't think I have any more questions on this legislation. And it's interesting how many concepts can be included in a very short bill. So thank you very much for your work.

The Chair: — Thank you, Mr. Nilson. Any other comments or questions? Seeing none, clause 1, short title, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

[Clause 1 agreed to.]

[Clauses 2 to 8 inclusive agreed to.]

The Chair: — Her Majesty, by and with the advice and consent of the Legislative Assembly of Saskatchewan, enacts as follows: *The Public Employees Pension Plan Amendment Act, 2013*. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. I would ask a member to move that we report Bill No. 99, *The Public Employees Pension Plan Amendment Act, 2013* without amendment. Mr. Parent has so moved. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

You don't need any change of officials or you did them, Minister?

Hon. Mr. Krawetz: — We're all set to go.

The Chair: — We will now consider Bill No. 134, *The Financial Administration Amendment Act, 2014*. We will start with clause 1, short title.

**Bill No. 134 — *The Financial Administration
Amendment Act, 2014***

Clause 1

The Chair: — Mr. Minister, if you have any opening remarks, you may proceed.

Hon. Mr. Krawetz: — Thank you, Mr. Chair, and a few opening remarks again. Besides my deputy minister on my left,

Clare Isman, I'm joined here at the front with the Provincial Comptroller, Terry Paton; and behind me seated, right behind me, is Chris Bayda who's the executive director of financial management branch.

Mr. Chair, Bill No. 134 is a very short bill. It's a one pager with three relevant sections, and the three sections will do a couple of things. First of all it will repeal section 15 and it will amend sections 17 and 18 of the Act to remove the requirement for the financial statements of the General Revenue Fund to be prepared and included in the public accounts. And it will remove the requirement for the Provincial Auditor to audit and issue a report on the General Revenue Fund financial statements.

Mr. Chair, the amendments support the government's decision to change the focus of the province's budget and financial statements to a summary basis. Presenting the budget and financial statements on a summary basis captures the complete picture of the Government of Saskatchewan's finances and the total cost of providing programs and services to the people of Saskatchewan.

Mr. Chair, the amendments are consistent with the recommendations made in the Provincial Auditor's April 30th, 2013 special report entitled *The Need to Change — Modernizing Government Budgeting and Financial Reporting in Saskatchewan*.

The Provincial Auditor supports these changes. The amendments will come into force on Royal Assent but are retroactive and will be deemed to have been in force on and from April 1st, 2013. Those are my concluding opening remarks.

The Chair: — Thank you, Mr. Minister. Mr. Nilson.

Mr. Nilson: — Thank you, Mr. Chair. I'll start off by saying that we very much appreciate that the government has taken these steps to move to the summary financial statements. And we understand that this is a process and that this is in some ways the first step and that's why it looks fairly simple. But I think that clearly we'll all be looking at and trying to understand how this is done in Saskatchewan. But I think it will, as the auditor said in the report, modernize Saskatchewan government budgeting.

I don't have a lot of questions about this, other than to try to figure out how some kinds of reporting might change. And so one of the issues is how the debt that's sort of in long-term contracts, and what I'm thinking about, for example, is SaskPower's debt to Northland Power where they have basically paid so much a year or a month for the power, which also includes the building of the plant, and it's I think over 25 or 30 years. So how will the reporting of that change with this new system?

[15:30]

Hon. Mr. Krawetz: — For an example like that, Mr. Nilson, there won't be any change in terms of the reporting at summaries. SaskPower consolidates all of their outstanding accounts, and that's how it will be reported in summaries. So

when we receive, when the Provincial Comptroller — and I'm going to ask Terry to expand on that — when we receive those numbers from SaskPower, that's already taking that into consideration. Terry, if you might.

Mr. Paton: — Mr. Nilson, I'm not sure exactly how SaskPower accounts for the transaction that you've talked about. But what we will be doing is fully consolidating all the operations of SaskPower and SaskTel and SaskEnergy and all the other entities. So those types of transactions will be fully disclosed, exactly the way they have been in past years.

Mr. Nilson: — Okay. And my understanding now is that they show a certain amount each year, which is an expense. And I guess my question is, will there be notes that say this is part of a, you know, 25- or 30-year deal and that actually has a lot of debt in it?

Mr. Paton: — I believe that that type of disclosure will be . . . already is provided in SaskTel or SaskPower's financial statements. And all those significant notes do carry forward to the summary statements.

Mr. Nilson: — Okay. Well thank you for that. And as it relates to the P3 [public-private partnership] financing that's going ahead, how will that be reported? Will there be any change in this new system, or will it be the same?

Mr. Paton: — P3 and P3 accounting is something that's fairly new for the province. And what we will be doing is we'll be recording the province's full share of the asset on all P3 construction and the full liability for those amounts. So all the liabilities and all the assets will be recorded in the summary financial statements for P3 operations.

Mr. Nilson: — Okay, thank you. Another new form of debt which we heard about today but which I think a number of us have been following for a few years is called the social impact bonds or social contract bonds. They have a couple of different names. How will those be accounted for in the government accounting?

Mr. Paton: — Again that's something that is fairly new. I believe the announcement came out today, and I haven't seen all the full details on that announcement. What we will be doing is, when it becomes obvious or apparent that government is responsible for some portion of those bonds, we'll be recording the liability accordingly and expensing that. I know that there's certain conditions that have to be met by those activities before it becomes a liability of the government, but when it does they'll be fully funded.

Mr. Nilson: — Okay. And one of the challenges I know worldwide as it relates to these particular bonds is, who does the assessment as to whether you're successful in your social goal? And I didn't necessarily hear today who was going to be doing that assessment on this particular one. But I know that that is the sticking point in New York state, in New South Wales, and in England, where they get one group that says, oh this is exactly what's happened as far as the social results are there, and then another group which is probably equally prestigious, if you're going to use that term, comes up with a different perspective. And so I guess I'm concerned that this be

looked at very carefully right from the start.

Hon. Mr. Krawetz: — Yes, absolutely, Mr. Nilson. I think in this instance the agreement has all of those concerns built in and the guidelines, the objectives are all clear in the agreement which I'm sure you'll see over the next short little while as this gets released. But those are built right into the agreement. Conditions have to be met and if the agreement conditions are met, then there is payment. So it's not a matter of, you know, somebody, an outsider doing the evaluation. It's a joint evaluation of the different bodies that have been involved in this bond.

Mr. Nilson: — Okay. Well that's a little different than most of them. Most of them have an outside evaluator. And so I guess I'll be looking forward to seeing the information, but most of them will refer to a totally independent institute to assess that.

Hon. Mr. Krawetz: — No, I'm pretty confident, again I say pretty confident, that it's contained within Social Services. And within that agreement, it's not going to be somebody that's determining whether or not those conditions are met.

Mr. Nilson: — Okay. Well that's one where I think for the . . . You know, we're talking here about financial administration, the accounting side. That's one of the fuzzy areas when you use that type of borrowing. And so I think we'll recommend that we all take a good hard look at that. Well I don't have any further questions. I'm assuming that there may be some more legislation in the fall that will further add parts to this summary financial reporting, and I look forward to seeing that when it comes. So thank you.

Hon. Mr. Krawetz: — Thank you very much.

The Chair: — Seeing no other questions, we will now begin voting. Clause 1, short title, is that agreed?

Some Hon. Members: — Agreed.

[Clause 1 agreed to.]

[Clauses 2 to 6 inclusive agreed to.]

The Chair: — Her Majesty, by and with the advice and consent of the Legislative Assembly of Saskatchewan, enacts as follows: *The Financial Administration Amendment Act, 2014*. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. I would ask a member to move that we report Bill No. 134, *The Financial Administration Amendment Act, 2014* without amendment. Mr. Moe has so moved. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

We will now consider Bill 135, *The Income Tax Amendment Act, 2014*.

Bill No. 135 — *The Income Tax Amendment Act, 2014***Clause 1**

The Chair: — Mr. Minister, if you have any opening remarks, you may proceed.

Hon. Mr. Krawetz: — Thank you very much, Mr. Chair. Mr. Chair, joining me now at the front, very knowledgeable on this Act, is Arun Srinivas. Arun is the executive director of taxation and intergovernmental affairs.

Mr. Chair, and committee members, *The Income Tax Act, 2000* implements the income tax initiatives that were announced in the government's 2014-15 budget on March 19th of this year. As I noted in my second reading speech, the 2013-14 federal budget included two taxation initiatives that impact Saskatchewan's income taxes.

The first federal initiative was the announcement that the special tax reduction for credit unions would be phased out over five years starting in 2013. As committee members will know, Saskatchewan income tax legislation provides a parallel special tax reduction for provincial tax purposes. Our government has decided to not follow the federal measure and instead retain, for provincial tax purposes, the special income tax reduction for credit unions.

The second initiative that was announced in last year's federal budget was a change to the taxation of dividend income. That federal change reduces the gross-up factor that applies to non-eligible dividends. This federal change will automatically apply for provincial tax purposes and would result in an unintended increase in provincial tax on this type of dividend income. To prevent this unintended tax increase, our government is adjusting Saskatchewan's dividend tax credit.

Mr. Chair, this bill also contains some technical amendments. The first is a one-year extension of the corporate tax incentive for the development of new multi-unit residential rental projects, which effectively applies the provincial small-business tax rate to rental income earned on these projects. This bill also includes legislative clarification of the wind-down and the elimination of the royalty tax rebate program, which was announced in the 2006-2007 budget.

And finally this bill includes a technical amendment to adopt a federal rule that prevents the issuance of an income tax refund or benefit payment to a taxpayer who is delinquent in filing any type of tax return. Those are my comments, Mr. Chair.

The Chair: — Thank you, Mr. Minister. Mr. Nilson.

Mr. Nilson: — Thank you, Mr. Chair. And I want to thank the minister for taking the position that the provincial government has about the credit unions. I think obviously the government . . . We agree with the government's perspective that credit unions are an extremely important part of our provincial finance system and that this particular provision that the federal government has introduced is not one that makes sense in Saskatchewan. But practically, as I understand it here, the proposal is to continue it for one more year. Is that correct? Will this have to be done again next year or will the rules stay in

place for the long term?

Mr. Srinivas: — Thank you, Mr. Chair. No, the amendment is now in legislation. And what the amendment does is adopt the portion of the federal legislation that sets the rules for the special reduction for credit unions, and does not adopt the portion of the federal legislation that phases out the federal reduction. So as long as we haven't adopted that provision, then there's no phase-out of the provincial . . . [inaudible].

Mr. Nilson: — Okay. So basically there's no change until there's some other policy decision made at a later date?

Mr. Srinivas: — Correct.

Mr. Nilson: — Okay. Well thank you very much for that and I know that credit unions across the province are appreciative of that as well.

The next provision around the taxation of dividend income, is it possible for you to give a simple example of what you're talking about here? I think I understand it but I've had to dig back I don't know how many years since I took advanced tax in law school. It's a long time. But I think it would be helpful for the record just to understand what it is that is being done here.

Mr. Srinivas: — All right. I'll try my best to make it simple. I'm not sure I'll succeed. So with respect to income earned at the corporate level, we have a corporate tax structure that taxes that income before the dividend is paid out. So the taxes are paid first at the corporate level then the residual income is paid to the shareholders. Those shareholders have to include that dividend income as taxable income for personal income taxes.

In order to avoid the double taxation of that income, what we do is, in the hands of the dividend recipient, we gross up the income to reflect the original amount of income that was at the corporate level. We tax that full amount at the personal income tax rates of the individual and then we offer a dividend tax credit to reflect the amount of tax that was paid at the corporate level.

So the net result should be the amount of tax that is paid, combined at the corporate and personal level is equivalent to the amount of tax that would have been paid if all of the income were earned at the personal level. And it should be roughly equivalent to any other form of income that the individual might have received, for example, employment income. So roughly the same level of taxation applies to the corporate income as it would to employment income.

Mr. Nilson: — Well thank you for that explanation, and I think the public will thank you too in the sense that the whole purpose here is to make sure that there's no disadvantage to how your income is delivered to you, and also no advantage, I mean, so that the people can't put their income into dividends as opposed to taxing it in the corporation. So okay, well thank you for that explanation.

The next provision here is, you know, you say are technical amendments, but one of them is this special MURB [multiple unit residential building] or multi-unit residential rental project incentive. Is this a one-year provision in the provincial budget

or is it two years? Because I think it looks like it was introduced two years ago. So does that mean that it's going to maybe continue for even more years after this? Or perhaps you can explain.

[15:45]

Mr. Srinivas: — Thank you, Mr. Chair. Yes, again this initiative was announced in the 2012-13 budget, and it had a specific time frame. It was announced in 2012-13, and it was to sunset effective December 31st, 2013. We've now decided, the government's decided to extend the sunset date by one year, so it will extend to December 31st, 2014. And that's to allow developers and investors additional opportunity to take advantage of the program.

With our announcement in the 2012-13 budget, there hasn't to date been the take-up that was originally anticipated, and we think that's because a number of developers already had their building plans in place for the upcoming building season. So in order to give them one more building season to take advantage of the program, we've extended it by one year.

Mr. Nilson: — Do you have any idea how many units are included in this provision at this point?

Hon. Mr. Krawetz: — I think, Mr. Nilson, I can answer that. The Sask Housing and Ministry of Social Services is administering that. So we understand that there are some, but I can't speak definitely to what number of units would be. We wanted to ensure that, and again we heard from developers that they needed . . . not that they needed extra time. It was that some weren't aware of what was possible in terms of applying. So we made this decision, as Arun has indicated, back in 2013 that we would extend it for one more year. And that's why the Act now needs to be revised to grant that one year that was already decided upon a long time ago.

Mr. Nilson: — So is there a possibility that might be extended another year if the results start coming in and they're positive, or maybe ended if they're negative?

Hon. Mr. Krawetz: — Well as the bill indicates, I mean this provision is sunsetted. It will end unless we make that change. And you know, we're seeing changes in terms of number of housing starts across the province. We're seeing developers . . . The vacancy rates are changing somewhat. This is part of a strategy and whether or not the analysis by, again by the housing corporation, will be done. And they may conclude that sufficient progress has been made or they may conclude that they still wish to have this as an incentive. But that remains to be developed. This is a finite ending date.

Mr. Nilson: — Okay. And at the present time I don't think there is a federal plan at all as it relates to this type of incentive for . . . And so the last one I think ended maybe 30 years ago. But there's still fallout in the legal community on various lawsuits and things around them. But anyway, I just . . . I don't think this one will create those kind of problems but . . .

Hon. Mr. Krawetz: — Just to confirm, my official has indicated that to our knowledge there is no federal program, as you've stated.

Mr. Nilson: — Yes, okay. So then the next provision basically relates to removing some clauses in our legislation relating to royalty wrap-up. When was the last sort of royalty in that old system used, and this clause used? Is it like last year or two or three years ago or are there some just being wound up now?

Mr. Srinivas: — Yes, thank you. The announcement in the 2006 budget was that no new rebate amounts would be earned after December 31st, 2006, and commencing January 1st, 2007 there would be a seven-year carry forward period. So 2012, or sorry, '07, '08, '09, '10, '11, '12; 2013 was the last year that there was . . . anything could be carried forward. So that taxation year now, the 2013 taxation year, has passed and Canada Revenue Agency has actually asked us for the legislative clarification of the announcement that was made in the 2006-07 budget.

Mr. Nilson: — Okay. Well that's that seven-year carry forward. That explains it quite clearly what's gone on there, so thank you for that.

And then the final provision here is one of these provisions that seems innocuous enough until somebody gets caught in it and wants to challenge it. And that's the fact of basically preventing the issuance of tax refunds where somebody's delinquent in filing any type of . . . is it tax return or tax form? And that's what . . . is it just not filing the annual return you are supposed to file or could it be all the various tax forms as well?

Mr. Srinivas: — Thank you. It's any of the tax forms that you are supposed to file. Whether you are an individual and you're to file your individual tax return, or if you're a business and you're supposed to file your GST [goods and services tax] return, any type of return that you are required to submit under either the federal or the provincial Act, if you have not filed that return as required, then you will not be eligible for the benefit payment or tax refund.

Mr. Nilson: — Okay. And so this particular provision pool applies to the provincial portion of the refund which then in turn must match a federal provision that's already in place. Is that correct?

Mr. Srinivas: — That's right. In fact, a federal provision was put in place effective April 1st, 2007. Canada Revenue Agency has realized that our legislation didn't adopt that provision at that time and have asked us to put that in place.

They have been administering our Act in conjunction with the administration of their Act, because there really isn't a separate provincial tax return. It's part of the federal tax return. So just to ensure that our Act is in conformance with their Act, they've asked us to include this, and it's been administered this way since 2007.

Mr. Nilson: — Okay. Well that sounds like a good idea to do it that way. But clearly they don't want to have a challenge, because there are people that watch for those kinds of little glitches and start litigation to get their money that they should've received earlier.

Well, Mr. Chair, I have no further questions about this legislation, and I thank the minister and the staff for the good

explanations on these sometimes rather esoteric areas. So thank you.

The Chair: — Well thank you. Clause 1, short title, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

[Clause 1 agreed to.]

[Clauses 2 to 11 inclusive agreed to.]

The Chair: — Her Majesty, by and with the advice and consent of the Legislative Assembly of Saskatchewan, enacts as follows: *The Income Tax Amendment Act, 2014*. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. I would ask a member to move that we report Bill No. 135, *The Income Tax Amendment Act, 2014* without amendment. Mr. Hickie has so moved. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. Thank you.

The business being done now before the committee, before I ask for a motion for adjournment, I will ask if anybody wants to make any closing remarks. Mr. Minister.

Hon. Mr. Krawetz: — Thank you very much, Mr. Chair. Mr. Chair, I want to extend my thanks to Mr. Nilson for asking questions of clarification. I think this is helpful to not only committee members but people who will read *Hansard* and be able to understand a little bit about what has changed. And a special thank you again to my officials who have answered the questions on my behalf. Great answers, and I really appreciate the work that the officials have done in preparing to explain the three pieces of legislation that you have passed today. Thank you.

The Chair: — Thank you, Mr. Minister. Business now being done before this committee, I will ask a member to move adjournment. Mr. Bjornerud has moved this committee now adjourn. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. This committee now stands adjourned until the call of the Chair. Thank you.

[The committee adjourned at 15:54.]