CHARTERED PROFESSIONAL ACCOUNTANTS CANADA
COMPTABLES PROFESSIONNELS AGRÉÉS CANADA

2016 Pre-budget Consultation

A Submission to the House of Commons Standing Committee on Finance

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Executive Summary

Chartered Professional Accountants of Canada (CPA Canada) is pleased to share its priorities and recommendations for the 2016 federal budget with the new Government of Canada.

We acknowledge that since our initial pre-budget submission in August 2015, global economic conditions have deteriorated – and, as a result, Canada and other countries face significant challenges. The price of oil has plummeted; business investment is down; the Canadian dollar remains low; and our economic and fiscal outlook is weaker.

While balancing the budget is always preferable to running a deficit, it is understandable for the federal government to consider short-term stimulus solutions to help grow the economy, especially during times of lingering economic uncertainty and fragility. However, the government's agenda for economic growth must go hand-in-hand with a fiscal plan that is both prudent and responsible. This means:

- If there is a deficit as a result of stimulus measures such as infrastructure spending, these investments must be strategic, targeted to core public infrastructure, and focused on enhancing Canada's long-term competitiveness and productivity.

- If there are deficits ahead, the government must honour its commitment to keep the debt-to-GDP ratio on a downward track, and strive to meet the challenge to balance the books by 2019-20.

For our economy and Canadians to truly prosper, there are other key measures that can be taken in addition to stimulus solutions to spark business, improve productivity, create jobs and economic growth.

Taxation

To improve Canada's tax system, the federal government should act on tax-related recommendations advanced by the House of Commons Standing Committee on Finance in its 2011 to 2014 pre-budget consultation reports. These recommendations focus on the need to simplify the *Income Tax Act*, and have called for a national consultation process to accomplish this important task.

There has not been a thorough review of Canada's tax system since the Royal Commission on Taxation in 1966. Tax reform is needed to ensure a fairer and less complex system, contribute to economic growth, provide an internationally competitive tax system that benefits Canadian individuals and Canadian businesses, and attracts foreign investment.

With a four-year mandate ahead, now is the time for the federal government to address pressing issues such as tax reform.

CPA Canada urges the federal government to take the following actions:

- Prior to any tax measures being introduced or changed, undertake a comprehensive review of Canada's tax system to reduce its complexities and inefficiencies.

- Appoint an independent expert panel to provide advice on short and long term options to streamline and modernize the tax system.

- Consider creating a permanent independent tax simplification office (as in the U.K.) to review existing and proposed measures.

- Ensure provincial and territorial governments are involved in any reform process to facilitate a coordinated approach that benefits all Canadians and recognizes there is only one taxpayer.

As part of a national tax reform initiative, easing the personal income tax burden will help Canadians prosper and is essential to attracting and retaining talent in a global marketplace. Rather than introducing personal income tax credits that add complexity to the system, broad-based tax reductions — such as increasing tax thresholds and lowering tax rates — represent a more meaningful approach to providing personal income tax relief.

We recommend that the federal government:

- Review all personal income tax credits and retain only those tax-based expenditures that have proven to be the most effective and efficient according to established systematic criteria, including costs and benefits.

- Ensure tax-based expenditures are subject to proper parliamentary oversight by providing comprehensive and consolidated information to parliamentarians, and tabling the annual Tax Expenditures and Evaluations report in Parliament — as recommended by Canada's Auditor General.

- When economic conditions allow, introduce a multi-year plan to deliver broad-based personal income tax reductions and, if needed, offset the resulting loss of tax revenue by increasing consumption taxes to align with Canada's major trading partners.

Maintaining low corporate tax rates plays an important role in attracting new investment and creating jobs. While we fully support the reductions made to the general corporate income tax rate over the past few years, it is essential to keep corporate tax rates low to maintain Canada's competitive edge, and to benchmark Canada's rates against the OECD average.

We recommend that the federal government enhance the efficiency, productivity and international competitiveness of Canadian businesses by:

- Simplifying the withholding tax waiver process under regulation 105.

- Further streamlining foreign asset reporting by extending the current filing deadline and excluding the reporting of foreign securities held in accounts with registered Canadian securities dealers.

- Streamlining the number of capital cost allowance (CCA) classes and adjusting the CCA rates for all classes of equipment so that they correspond to the true economic life of the assets.

Ensuring that everyone pays their fair share helps to keep taxes low, maintains confidence in the tax system, and makes Canada an attractive place to work, invest and do business. CPA Canada supports the fight against corporate tax evasion and believes that Canada must continue to be an active participant in the OECD Base Erosion and Profit Shifting (BEPS) initiative by adopting tax policies that are consistent with those made by our major trading partners, while ensuring these policies do not harm the global competitiveness of Canada or Canadian multi-nationals.

CPA Canada is committed to working with the Government of Canada to address international tax evasion and strengthen the integrity of the Canadian tax system.

Jobs

Canada's prosperity is also closely linked to creating jobs, growing trade opportunities and expanding markets. OECD analysis demonstrates that "liberalized trade is an engine for job creation in all countries, especially as the world moves from economic crisis to recovery."[1]

Canada's long term economic success depends on the ability of its businesses and labour force to take advantage of new opportunities in global markets. The ability to access new opportunities must also extend to Canada's internal market, ensuring that Canada functions as an efficient economic union. We support the federal government's international trade efforts, and are also encouraged by its commitment to work with the provinces and territories to negotiate a renewed internal trade agreement.

The federal government should:

- Continue to negotiate trade agreements that eliminate barriers to the free movement of goods, services, capital and labour — *both internationally and within Canada*.

1 See OECD at http://www.oecd.org/tad/tradeandjobs.htm

- Develop policies, programs and resources that assist small and medium size enterprises to identify, assess, and capitalize on opportunities to do business in international markets.

- Ensure that trade agreements address the barriers faced by professional service providers who wish to work in foreign markets, such as citizenship or residency requirements, restrictive temporary entry rules, and ownership and investment restrictions.

Canada's labour market is challenged by a number of factors, such as demographic changes, skills mismatches, difficulties integrating new Canadians, and poor labour market information. Internationally trained professionals are vital to Canada's economic competitiveness and our future. Together, governments, regulatory bodies and other stakeholders must continue to make a concerted effort to help internationally trained professionals integrate into the workforce and contribute to their full potential as quickly as possible.

We recommend that the federal government:

- Assist professional bodies and other stakeholders to provide clear, relevant pre-arrival information, appropriate bridging programs, and community resources to smooth integration into the workplace.

- Invest in making Canada's labour market information system more accurate, timely and reflective of localized market trends to facilitate better informed decisions.

Productivity

Turning to Canada's regulatory regime, unnecessary red tape places a burden on business, reduces productivity, and stifles competition and growth. CPA Canada stands behind the Red Tape Reduction Action Plan, and urges the government to continue to release its Annual Scorecard Report to demonstrate progress made in reducing red tape. We also recommend expanding the scope of the plan and consider applying the One-for-One Rule to regulations related to tax or tax administration — to account for the red tape burden and administrative costs that new tax laws impose on taxpayers, tax professionals and businesses.

Standardized business reporting (SBR) is another important area to help reduce red tape and compliance costs, enhance the efficiency and accuracy of information collected, and provide cost savings — numerous countries have already adopted SBR. It truly enables governments to implement a "tell us once" policy. The federal government should:

- Adopt SBR — using eXtensible Business Reporting Language (XBRL) — across government departments and agencies, for use by businesses for all government filings. As a first step, the government should undertake a cross-departmental study and develop a detailed and phased-in implementation plan.

CPA Canada was pleased that the House of Commons Standing Committee on Finance, in December 2014, recommended that the federal government consider exploring the feasibility of a "patent box." A patent box — which rewards innovative companies through a lower tax rate on profits earned from the exploitation of patents in Canada — will foster productivity as companies increase their research, development and exploitation of innovation in Canada, creating a ripple effect of high-value employment opportunities. We recommend that the federal government:

- Implement a patent box to incent R&D in Canada and encourage Canadian businesses to develop, commercialize and retain patents in Canada.

Furthermore, the SR&ED Program should be enhanced by making the tax credit partially refundable for all businesses, regardless of size, and by repealing the exclusion of capital expenditures as eligible expenses. Consideration should also be provided to introducing an angel tax credit for innovative start-up companies. Both of these measures would improve Canadian business innovation and help stimulate growth.

CPA Canada's analysis shows that factors affecting productivity extend beyond innovation. Those factors include the size and export orientation of firms; investment in intangible capital; sectors and regional affiliations; and forms of ownership. We encourage the government to supplement core measures fostering productivity with additional incentives to help firms grow, adopt efficient economies of scale, compete in foreign markets and invest in intangible capital.

Finally, we are encouraged by the federal government's commitment to financial literacy, including the recently announced National Strategy for Financial Literacy.

Understanding the fundamentals of financial management has a measurable impact on the choices people make at all stages of their lives. Improved financial literacy translates into better-informed financial decisions, which lead to increased savings and lower indebtedness. In addition, research has found that an employee who is financially prepared is more engaged and productive in the workplace, which contributes to a better bottom line for businesses, and bodes well for our country's economy.[2] There is a strong connection between financial literacy and productivity, prosperity and growth.

With Canadians having high levels of household debt, low personal savings rates, and with Canada's aging demographics, financial literacy is a significant national issue. We must ensure that Canadians — especially those most vulnerable — have the skills, knowledge, information and resources they need to make wise decisions regarding their long-term financial security. To strengthen the financial literacy of Canadians, the federal government should:

- Continue the effort to implement the National Strategy for Financial Literacy by meeting the goals and priorities outlined in the plan. The public, private and non-profit sectors must be collectively involved in helping to meet the strategy's objective to assist Canadians in making informed financial decisions and becoming better money managers.

- Continue to adequately fund the Financial Consumer Agency of Canada to ensure it can play a leadership role in improving Canadians' financial literacy, and coordinating the efforts of various stakeholder organizations.

CPA Canada is privileged to be an active participant in improving financial literacy by being a member of the National Steering Committee on Financial Literacy, and through our award-winning national Financial Literacy Program — an outreach initiative with 11,000 volunteers — and our many publications to help Canadians deal with money management issues.

2 Manulife/Ipsos Reid, Health and Wealth Wellness Study 2014. (http://events.snwebcastcenter.com/manulife-gsrs/Prod/Client/HealthAndWealth/links/HW-BROCHURE-8PP-final.pdf)

CPA Canada thanks the House of Commons Standing Committee on Finance for the opportunity to provide the accounting profession's views and recommendations on priorities relating to taxation, jobs and productivity for the 2016 federal budget.

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