Pre-budget Consultations in Advance of the 2020 Federal Budget

by Chartered Professional Accountants of Canada

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Executive Summary

Each year the House of Commons Standing Committee on Finance invites Canadians to share their input concerning the next federal budget. As the committee notes, the pre-budget consultations process is a vital means by which Canadians can contribute to the development of federal budgetary policies and measures. The recommendations put forward by CPA Canada in the following brief have been developed in response to this year’s theme, as proposed by the Committee, which is “Climate Emergency: The Required Transition to a Low Carbon Economy”.

Recommendations

*CPA Canada recommendations for accelerating Canada’s transition to a low-carbon, climate resilient and globally competitive economy*

That the government:

1. Implement the recommendations of the Expert Panel on Sustainable Finance that are within federal jurisdiction, and encourage and support other jurisdictions and the private sector to do the same. Specifically:
   A. Map Canada’s long-term path to a low-carbon, climate-resilient economy in order to maintain forward momentum and provide policy certainty to Canadian business.
   B. Establish a Canadian centre for climate information to improve the availability and reliability of climate data to facilitate business decision-making.

2. Remain committed to the priorities identified in the Digital Charter, including the review and modernization of related legislation.

3. Undertake to do the following in response to the tax challenges of the digitalization of the economy:
   A. Change the GST rules so that non-resident vendors collect the tax on intangible property and services.
   B. Remain committed to and actively contribute to the OECD process to develop an agreed-upon, principles-based global framework for tax in a digitalized world.

4. Launch a comprehensive review of Canada’s tax system, led by an independent expert panel.

5. Work with provinces and territories to strengthen Canada’s anti-money laundering regime, including through consistent beneficial ownership requirements and a new national framework around whistleblowing in the private and public sectors.

6. Evaluate the various programs and initiatives to promote skills training to ensure they are achieving results and preparing Canadians with the skills needed for a cleaner, digital and globally integrated economy.
Introduction

Chartered Professional Accountants of Canada (CPA Canada) is pleased to present its 2020 federal budget recommendations to the House of Commons Standing Committee on Finance, with measures to accelerate Canada’s transition to a low-carbon, climate resilient economy, which is consistent with the committee’s theme this year. CPA Canada is one of the largest national accounting organizations in the world, representing more than 217,000 members. CPA Canada acts in the public interest by contributing to effective public policy and by focusing on building new business models and accounting best practices that shape the pillars supporting strong economies, capital markets and business practices in an ever-changing global environment.

CPA Canada views climate change as a key business issue and has been addressing it for more than two decades. Canadians are looking to leaders in the public and private sector to confront climate change and the other drivers of change with solutions that protect their economic prosperity and quality of life. We believe that businesses must balance their economic aspirations with consideration for their environmental and societal impacts. Failure to adequately transition to a low-carbon, climate-resilient economy – by either political or business leaders – will further erode public trust in the institutions that underpin our society. That is why climate change must be addressed by both government and business, in partnership.

The economy must become cleaner

“The relationship between the economy and the environment is at a vital inflection point. As more climate change impacts materialize and international activity to reduce greenhouse gas emissions mounts, Canada’s aspirations for a thriving economy, workforce and environment must become one and the same.”- Expert Panel on Sustainable Finance (“expert panel”)

These words introduce the final report of the expert panel and capture the challenge issued by the House of Commons Standing Committee on Finance in these pre-budget consultations. Namely, that the environmental impacts of climate change lead to economic opportunities and challenges that, if addressed properly, will result in a healthier environment, society and economy.

The expert panel has delivered a thoughtful and comprehensive report that the federal government and the 43rd Parliament should consider deeply. CPA Canada is in broad agreement with the expert panel’s recommendations and we propose that the government move to implement those recommendations that are within its jurisdiction. As the expert panel frequently notes, collaboration between different levels of government and the private sector are required to advance some of the recommendations and, as such, we suggest that the government encourage and support other jurisdictions and the private sector to take similar actions.

First among the expert panel’s recommendations is to map Canada’s long-term path to a low-emissions, climate smart economy, noting that a “longer-term horizon (is) needed to mobilize investment.” This is a matter of great concern to CPA Canada. Not only is this long-term path necessary to ensure Canada remain committed to its climate objectives, but it is needed to instill business confidence. With commitments to the Pan-Canadian Framework on Clean Growth and Climate Change wavering, businesses are unsure about how Canada’s climate policy framework will evolve in the coming years. Predictability and certainty are the factors that give business the confidence to make investments. As
proposed by the expert panel, Canada needs to map – and commit to – a long-term path in order to maintain forward momentum in addressing climate policy objectives and to entrench the policy certainty that business and investors require.

One recommendation of the expert panel that is wholly within federal jurisdiction, and which can be acted upon without delay, is to establish what it terms a Canadian Centre for Climate Information and Analytics.\(^1\) Businesses rely on sound data and reliable information in order to arrive at business and investment decisions. The federal government is best placed to collect and make available scientific climate change data from various sources and to provide tools and analysis that assist businesses and investors to understand the meaning and implications of that data. By facilitating more informed business decisions, a Canadian centre for climate information and analytics would accelerate private sector transition to a low-carbon, climate-resilient economy.

Cleaner and digital

Data is at the forefront of another disruptive influence – the increasing digitization of global economies. Technological advancements such as blockchain, artificial intelligence and data analytics are revolutionizing business, impacting the labour market and raising a variety of ethical and privacy concerns. How we respond to those concerns will impact our economy and Canadians’ level of trust in our society and our institutions.

The government has done much to support innovation and encourage growth of the digital economy in recent years, most recently with the release of Canada’s Digital Charter. Professional accountants have always gathered, reported on, analyzed and protected data. As the type of data they work with evolves and the amount of data increases exponentially, the profession is transforming to ensure CPAs are comfortable in a digital, data-driven world. We need government to keep pace in shaping the regulatory environment, so CPA Canada encourages the government to remain committed to the priorities identified in the Digital Charter, including reform of key legislation.

The digital economy impacts another shared interest of government and the accounting profession – taxation. The value of companies is increasingly in their intangible assets, and the products and services offered are increasingly digital. But the tax system has not kept up and this is leading to leakages in government revenue sources\(^2\), uneven playing fields for businesses, and concerns about fairness that erode public trust.

The fair taxation of digital services is a global challenge and best addressed in a globally-consistent manner. The Organisation for Economic Co-operation and Development (OECD) is leading the work concerning the tax challenges of the digitalization of the economy. Consistent with the OECD’s “destination principle”\(^3\) and the need for fairness, the federal government should change the GST rules so that non-resident vendors collect the tax on intangible property and services. Furthermore, Canada should remain committed to and actively contribute to the OECD process to develop an agreed-upon, principles-based global framework for tax in a digitalized world.

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\(^1\) Final report of the Expert Panel on Sustainable Finance, page 14.


\(^3\) The destination principle ensures that the net tax burden on imports is equal to the net tax burden on the same supplies in the domestic market. See International VAT/GST Guidelines, OECD, p. 22.
Cleaner, digital and globally integrated

If Canada’s economy is to become cleaner and low-carbon, digital and data-driven, and more globally integrated and competitive, Canada’s tax system is not up to the job. These were not the underlying economic trends in the 1960s when Canada’s tax system was last reviewed. If Canada is to move to a low-carbon, climate-resilient economy, for example, the tax system should support and encourage that transition. We have allowed our tax system to grow untended to the point that it is inefficient for today’s economy, much less tomorrow’s.

*A comprehensive review of Canada’s tax system is long overdue.* The process should be led by an independent expert panel and guided by the principles of fairness, simplicity, efficiency and competitiveness to ensure that Canada’s tax system meets the needs of the future economy.

Canadians need to be able to trust that the tax system efficiently provides the benefits they require, that it supports economic growth and job creation, and that it is fair to all Canadians. Notably, 81 per cent of Canadians see a comprehensive tax review as a priority for the federal government, according to a recent Nanos research poll. Of those, 35 per cent say it should be a high priority.

Public trust is also being challenged by another complex issue: money laundering. The laundering of the proceeds of crime in Canada has impacts on the real estate market, on tax revenues, and on the integrity of our financial system and markets. **More action to strengthen Canada’s anti-money laundering regime is required** to counter this criminal conduct and to ensure our economy and society is protected for the benefit of all Canadians.

CPA Canada urges the government to **bolster federal-provincial-territorial coordination and action** to ensure corporate statutes or other relevant legislation are amended to support increased corporate transparency through consistent beneficial ownership information requirements. Additionally, we recommend the development of **a national framework around whistleblowing in the private and public sectors** to combat potential corruption including through AML, featuring secure channels for whistleblowers to report potential misconduct without fear of reprisal or recrimination.

One of the reasons people sometimes feel threatened by change is the uncertainty it may create around their own jobs and future prospects. That is why ensuring Canadians have the skills needed for the evolving new economy remains such an important issue, especially as Canada’s energy industry transitions to a cleaner future and big data disrupts more occupations and workplaces.

The government has made skills a key focus of its work over the past few years and deserves credit for that. As a next step, we recommend that the government **evaluate the various skills programs in place to ensure they are achieving results and preparing Canadians with the right skills**. Clear, measurable objectives should be in place for each program and evaluations should be conducted on a regular basis. This is particularly important for programs such as the new Canada Training Benefit, which requires the support and participation of employers.

Finally, some Canadians see climate change as a threat for a different reason – they see it as a threat to the financial system. The Bank of Canada has identified climate change as one of five systemic risks to both the economy and the financial system and is conducting research to better understand those risks. Meanwhile, the Expert Panel on Sustainable Finance has estimated that an investment of more than $2
trillion may be necessary in Canada in the next decade to meet the Paris Agreement commitments. To meet both the size of the investment and the risk to the economy, the government needs to have its fiscal house in order. Once again, CPA Canada recommends the government balance the budget in the medium term to provide the fiscal stability needed to address the challenges and opportunities of a changing climate and sustainable future.

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