



Chartered Professional Accountants of Canada

Remarks to the Standing Senate Committee on National Finance on Bill C-74, *Budget Implementation Act, 2018, No. 1.*

May 8, 2018

Check Against Delivery

Thank you Mr. Chair and Members of the Committee.

My name is Bruce Ball, Vice President of Tax at Chartered Professional Accountants of Canada, known as CPA Canada.

CPA Canada is one of the largest national accounting organizations in the world, representing more than 210,000 members. Created through the unification of three legacy accounting designations, CPA Canada is celebrating five years of serving the profession, advocating for the public interest and supporting the setting of accounting, auditing and assurance standards.

Before I address some of the tax measures contained in Bill C-74, allow me to acknowledge the excellent work of this committee, specifically in relation to the December 2017 Report titled *“Fair, Simple and Competitive Taxation: The Way Forward for Canada.”* As this committee recognizes – taxation is an essential matter to every Canadian. CPA Canada applauds your commitment to good tax policy and fully supports the recommendations you have put forward.

It is from this perspective – the importance of good public policy and acting on behalf of the public interest – that CPA Canada speaks to the tax measures proposed in the Budget Implementation Act.

My comments will focus on three important points:

1. The outstanding issues that remain with the private corporation tax measures,
2. the impact of the recent U.S. tax changes on Canada's competitiveness, and
3. the need to review Canada's tax system to address these and other matters related to competitiveness, simplicity, fairness and efficiency.

Private corporation tax measures

As you are well aware, the Finance Minister's initial proposals to change tax provisions for Canadian Controlled Private Corporations were met with considerable criticism. The minister and his department have listened and

acted. The provisions laid out in Budget 2018 and Bill C-74 are much improved. However, there are still aspects in need of further improvement.

In particular, the new legislation around the tax on split income is complex, difficult to read and interpret, and challenging for business owners and tax practitioners to apply.

A general exemption for spouses would go a long way toward simplifying the measures and is highly recommended. The Joint Committee on Taxation of the Canadian Bar Association and CPA Canada also made suggestions to further clarify the rules that should be considered. The Joint Committee's suggestions are rather technical so I won't go into the details here. But I would be happy to address them during questions.

Though not yet legislated, the changes to taxation of split income are set to take effect January 1, 2018. We would suggest deferring the changes to January 2019 in order to allow more time for consultation and further refinements to the legislation.

Canada's competitiveness

On the matter of those U.S. tax reforms – no matter what we may think about them – they are a game-changer for Canada.

Budget 2018 announced that Finance Canada would conduct a detailed analysis of the U.S. federal tax reforms and this is good news. But this process must have a sense of urgency to it. Canada's competitiveness depends on it.

In the most recent CPA Canada Business Monitor survey, two-thirds (67 per cent) of Canadian business leaders report Canada is now a less competitive place to invest and do business in versus the United States, compared to one year ago.

It is true that competitiveness can be affected by a number of different factors. However, there is no question that the tax system as a whole is fundamental to creating a competitive business environment. And, there

can be no doubt that the U.S. tax reform proposals represent a real threat to Canada's tax advantage.

Comprehensive tax review

This brings me to my final point. To ensure Canada has the most competitive, fair, simple and efficient tax system possible, it is time for a comprehensive review of the tax system, led by an independent expert panel. You may have heard me make that argument before. But each time I appear before a parliamentary committee, the rationale becomes stronger and more urgent.

Tax reform will involve broad consultation. And it will involve looking at the tax system more holistically, not just from the perspective of business competitiveness. But the process will be worth it. It will lead to a better, more long-term approach to fixing Canada's tax problems.

While the U.S. tax changes demonstrate the need to address Canada's tax system, the controversy over the proposed CCPC tax changes illustrates why a holistic approach is preferable to incremental changes.

The Advisory Council on Economic Growth also recommends addressing competitiveness challenges in Canada's tax system. If we want a tax system that fosters our long-term competitiveness, supports inclusive growth and benefits all Canadians, then a review of the entire Canadian tax system is the first crucial step.

Thank you very much for the opportunity to appear before the committee today. I look forward to answering your questions.