Standing Committee on Finance (FINA)

Pre-budget consultations 2012

The Canadian Institute of Chartered Accountants

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

Strong fiscal management of government finances remains crucial to achieving a sustained economic recovery and enhancing economic growth. We applaud the federal government for its plans to balance the budget over time through expenditure controls, rather than increasing the overall tax burden on Canadians and encourage the government to continue this approach. Easing the personal income tax burden will help Canadians prosper in this current economic climate and is essential to attracting and retaining talent in a global marketplace. Steps should be taken to increase current tax thresholds bringing them more in line with those of our global competitors, and the two highest rates of personal income taxation should be examined, both the income levels at which they apply, and the rates. In addition, there is a need to examine the appropriate mix of personal income taxes and consumption taxes. Compared to other OECD countries, Canada obtains a significantly higher proportion of tax revenues from taxes on personal income than from consumption taxes. To improve Canada's tax competitiveness, we recommend that the government consider changing the revenue mix to bring it closer to OECD averages. For Canada to stay competitive and create employment opportunities for an educated workforce, it is essential that the scientific research and experimental development (SR&ED) tax incentive program be improved. The focus should be on encouraging companies that promote growth in SR&ED irrespective of the size of the company. Rather than funding innovation through direct investments, the existing SR&ED program should be enhanced: amendments related to reducing the general SR&ED tax credit rate and excluding capital expenditures should be repealed or deferred until a later date. The SR&ED investment tax credit should be made partially refundable for all businesses. This is particularly important to U.S.-based multinational enterprises for which the interplay of the Canadian and U.S. tax regimes makes a non-refundable credit less relevant, if at all. An innovation-friendly industry strategy could be further supported through tax incentives for financing such endeavours, with priority given to an angel tax credit for investments in innovative start-up companies, which would have the greatest impact in stimulating economic growth.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

The CICA supports the federal government's focus on promoting job creation in Canada by enhancing internal and international trade – and more specifically, negotiations that have been undertaken towards reaching a Comprehensive Economic Trade Agreement between Canada and the European Union (EU). In 2010, the EU's services import market totaled $1.4 trillion. Current EU trade barriers which exist for Canadian services include citizenship or residency requirements, lack of temporary entry rules, and ownership and investment restrictions. Much like our growth in services under NAFTA, trade barriers would be reduced under a Canada-EU trade agreement and would greatly expand market access for services. In this regard, we look forward to a successful conclusion to current negotiations regarding Canadian services, including those provided by professional accountants. The CICA also supports the federal government's entry into talks aimed at reaching a Trans-Pacific Partnership agreement and the opportunity these discussions hold for expanding trade in the services sector, which would further contribute to job creation in Canada. Maintaining low corporate tax rates in Canada also plays an important role in attracting new investment and creating jobs. We fully support the reductions made to the general corporate income tax rate over the past few years, and applaud the government for having fulfilled the commitment to lowering the rate to 15 per cent this year. Research shows that this initiative, taken together with planned reductions in provincial corporate taxes, will reduce Canada's effective tax rate on new investments to below the 2010 OECD average by 2013. This represents tremendous progress and is crucial to our ongoing economic recovery. As noted earlier, the SR&ED tax incentive program plays an important role in creating jobs. We believe the SR&ED program should be enhanced by making the investment tax credits partially refundable for all businesses, regardless of size – a move that would encourage more corporations to conduct research and development in Canada – and by extension, create more jobs.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

One of the key challenges associated with an aging population is the adequacy of retirement savings. Given that financial capabilities vary widely among Canadians, we must ensure that people have the skills and knowledge to save for their retirement. The CICA is an active participant in improving financial literacy, helping Canadians take control of their finances and make better decisions through free home and workplace-based educational tools, community workshops by volunteer CAs and awareness campaigns. We support the Task Force on Financial Literacy's recommendations and acknowledge the approval of M-269 by the House of Commons. This motion calls for a comprehensive website to help educate Canadians on financial issues, for financial institutions to disclose contributions to financial literacy, and for the Financial Consumer Agency of Canada to help develop school-based initiatives to teach money management skills. We urge the government to ensure its commitment of $3 million for financial literacy in the 2013 budget. Understanding the imperative for balanced budgets, we believe that the government should also provide further incentives to save for retirement by reducing or eliminating the income tax on personal savings, increasing the limit on TFSA contributions and continuing to review the limit for RRSP contributions. Skilled professionals are vital to Canada's future and we welcome the federal government's efforts to helping internationally trained professions contribute to their full potential as quickly as possible. We are pleased to have the financial support of the federal government for our initiatives to create online assessment tools that will validate foreign education and work experience and recommend that the federal government continue funding such programs. As part of this work, we are also establishing customized bridging programs to help internationally-trained accountants complete any additional courses and examinations required to become a Chartered Accountant in Canada. This initiative builds on the profession's long history of assessing the qualification processes of international accounting bodies. The CICA has Mutual Recognition Agreements with 14 such bodies, and recently negotiated memoranda of understanding with the Institute of Chartered Accountants of India and the Institute of Chartered Accountants of Pakistan.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Reducing complexity in Canada's domestic tax regime is crucial to easing the regulatory burden placed on Canadian businesses and attracting investment. Simplifying our tax system would make the country more competitive and allow both individuals and business to prosper. According to The Global Competitiveness Report 2010 – 2011 issued by the World Economic Forum, tax regulations are among the top four most problematic factors cited by business executives for doing business in Canada. Many aspects of Canada's tax system have become much too complex. We recommend that the government establish a national consultation process to examine tax simplification measures such as: • Greater federal-provincial tax harmonization across all tax systems; • A formal loss transfer system for the taxation of corporate groups; • Extending the personal income tax filing date for individuals and their spouses with income from trusts or partnerships to June 15; • Reducing the burden of complying with withholding tax requirements for fees paid to non-residents for services rendered in Canada by shifting more of the compliance to the non-resident; • Eliminating or significantly limiting the application of the Alternative Minimum Tax; • Reviewing tax thresholds in general and adjusting them to reflect inflation; • Increasing the $10 million capital limit for the small business deduction, or eliminating it entirely; • Providing the CRA with more authority to waive or reduce tax penalties and interest; • Continuing with the adoption of policies recommended in the Advisory Panel on Canada's System of International Taxation. Lessening the regulatory burden placed on Canadian businesses is also crucial. Businesses must submit the same or similar information in multiple reporting formats to numerous government departments and agencies. The duplication of effort that results places a considerable compliance burden on companies. We therefore recommend that all federal government departments and agencies adopt Standard Business Reporting, and specifically, eXtensible Business Reporting Language (XBRL), for use by businesses for all of their government filings. This would reduce compliance costs for business, and would enhance the efficiency and accuracy of the government's data collection, thereby resulting in cost savings.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

In order to stay competitive and attract and retain human capital, Canada must stay attuned to the personal income tax burden placed on Canadians. Rather than continue to introduce personal income tax credits that only add complexity to the tax system, we believe broad-based tax reductions – such as increasing tax thresholds and lowering the rates of taxation – represent a more meaningful approach to providing personal income tax relief and should be examined. As noted earlier, steps must also be taken to keep corporate tax rates low, reduce complexity in the tax system and lessen the regulatory burden placed on businesses. The manufacturing sector in Canada has been particularly hard hit by the global recession and the substantial decline in demand for Canadian exports, and requires support to be competitive. One way that government can assist is to encourage investment in productivity improvements. We acknowledge the government's support in this regard, and the announcement in the 2011 budget that the accelerated capital cost allowance (CCA) treatment for investment in machinery and equipment in the manufacturing and processing sector would be extended for an additional two years, for eligible assets. In order to further boost investment in Canada, we believe the government should also adjust capital cost allowance (CCA) rates on a continuous basis – for all classes of equipment

– so that they correspond to the true economic life of the asset. Ongoing adjustment of CCA rates would encourage manufacturers to have the most modern, productivity-enhancing equipment, and thus enhance their competitiveness in a global economy.