

Certified General Accountants Association of Canada

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?

CGA-Canada strongly believes that the key to sustained economic recovery and enhanced economic growth lies in the government's commitment to tax reform and red tape reduction. Therefore, CGA-Canada makes the following two key recommendations: 1. Modernize Canada's tax system – make it simple, transparent and more efficient • Introduce and pass a technical tax bill to deal with unlegislated tax proposals • Implement a "sunset provision" to prevent future legislative backlogs • Appoint an independent panel of experts to recommend steps to reform Canada's tax system (i) 2. Implement permanent solutions to tackle red tape and regulatory inefficiencies • Announce an action plan to implement the recommendations of the Red Tape Reduction Commission • Convene a conference of Federal-Provincial-Territorial-Municipal leaders to agree on a strategy to reduce red tape (ii) Canada's tax system is among the most complicated in the world – a serious barrier to business, investment, job creation, competitiveness, economic growth and to the free flow of capital between economies. In addition, Canada's tax system has not kept pace with rapidly evolving social and economic realities, including significant demographic shifts, changes to the workplace and family composition. Some of Canada's trading partners – including Australia, the U.K. and the U.S. – are taking steps to modernize their tax regimes. Canada cannot afford to fall behind and risk becoming a less attractive place to do business (iii). Canada needs a 21st century tax system – a simple, fair, efficient and transparent tax system with low, internationally competitive tax rates (iv). In terms of federal regulatory requirements on small and medium-sized enterprises (SMEs), there is much unfinished business. A recent World Economic Forum report on global competitiveness identified "inefficient government bureaucracy" as Canada's most serious challenge for doing business (v). The federal government must take immediate and effective action to reduce the red tape burden. It should also demonstrate leadership by working with leaders at the provincial, territorial and municipal levels to establish a pan-Canadian approach to address the cumulative effects of regulatory burden. This would help SMEs grow, prosper and create jobs without being impeded by duplicative and redundant red tape. -----

----- (i) For further information, consult previous pre-budget submissions to the House of Commons Standing Committee on Finance on CGA-Canada's website at http://www.cga-canada.org/en-ca/ResearchAndAdvocacy/FederalBudget/Pages/_ca_fb_index.aspx. (ii) See CGA-Canada's submission to the Red Tape Reduction Commission, March 2011 at http://www.cga-canada.org/en-CA/DiscussionPapers/ca_rep_submission_red_tape_reduction_commission_2011.pdf. (iii) See CGA-Canada's Issue in Focus, The Need for Tax Simplification – A Challenge and an Opportunity, August 2011 at http://www.cga-canada.org/en-ca/ResearchReports/ca_rep_2011-08_tax_simplification.pdf. (iv) A national survey concerning Canadians' views on taxes and tax credits, commissioned by CGA-Canada and conducted by Nanos Research in June 2012, identified these key findings: - The majority of Canadians (81%) consider fairness to be the most important attribute of a tax system. - Three-quarters of Canadians (74%) consider having an "efficient tax system" to be important. - Most Canadians (62%) consider it important to have a "simple tax system". - Most Canadians (58%) also recognize the importance of having a "tax system which makes Canada competitive". (National random telephone survey of 1,201 Canadians aged 18 and over, conducted between May 26th and 31st, 2012.

Accurate to within ± 2.8 percentage points, 19 times out of 20.) (v) World Economic Forum, The Global Competitiveness Report 2011-2012, page 140. See: http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf.

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?

CGA-Canada recommends the following actions to promote job creation in Canada and maximize the opportunities from enhanced internal and international trade: 1. Promote diversified international trade by advancing Canada's Global Commerce Strategy • Conclude negotiations with the European Union, India, and the Trans-Pacific Partnership • Pursue other potential trade agreements with an emphasis on concluding an agreement with Japan, completing exploratory discussions with China and advancing the proposed plurilateral agreement on trade in services • Ensure an efficient domestic market by working with the provinces and territories to improve interprovincial trade and labour mobility 2. Address labour market gaps through immigration and skills training • Continue immigration reforms by focusing on the availability of accurate, helpful pre-arrival information and the cooperation of various stakeholder groups • Make it easier for international students to obtain permanent residency in Canada and to obtain temporary work permits while studying in Canada (i) • Address the issue of academic mobility to encourage life-long adult learning and facilitate mobility (ii) 3. Modernize Canada's tax system to ensure it provides the best environment for businesses to grow and succeed The government has demonstrated an impressive commitment to international trade that will help create the climate for long-term economic growth and resulting job creation. In that spirit, we encourage the government to exercise similar leadership on internal trade as it hosts the next Committee on Internal Trade meeting. Recent progress on immigration reform has also been welcome. We strongly urge the government to maintain support for the Foreign Credential Referral Office and the Canadian Immigrant Integration Program so they may maintain and expand their pre-arrival counseling and outreach to domestic stakeholders. As Canada's tax system has evolved incrementally over the past four decades (iii), it is no longer clear whether it functions as efficiently as it could or provides the right incentives to encourage sound business decisions. Canada's tax system needs an extensive review (iv) to ensure that it supports the growth of business and the creation of jobs. -----

----- (i) See Getting on the Same Page: Report on the CGA-Canada Summit on Skills and Learning, Organized by the Public Policy Forum, May 28, 2008, http://www.cga-canada.org/en-ca/ResearchReports/ca_rep_2008-05_skills_and_learning.pdf. (ii) Ibid. (iii) See CGA-Canada's Issue in Focus, The Need for Tax Simplification – A Challenge and an Opportunity, August 2011 at http://www.cga-canada.org/en-ca/ResearchReports/ca_rep_2011-08_tax_simplification.pdf. (iv) See CGA-Canada's response to Question 1 of this submission for more detail.

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?

Canada's aging population presents significant challenges to the country's economy, labour market and fiscal situation. CGA-Canada recommends that government: 1. Invest in education, skills and training • Promote a "stay in school" message and work with the provinces to ensure youth have the essential literacy and numeracy skills to be adaptable to constant change • Take immediate steps to address the education gap that exists between First Nations people living on reserves and the Canadian population

as a whole (i) •Charge the House of Commons Human Resources Committee with studying Canada’s mixed performance in workplace training (ii) and government’s role 2. Ensure that public pension and retirement savings programs support individuals to remain in the workforce longer 3. Modernize Canada’s tax system to protect government revenues Canada’s demographic squeeze is already being compounded by a skills gap (iii). While the causes and solutions may not be well understood yet, certain first steps are apparent. First, regardless of their chosen career path, young people need to acquire the essential skills to be adaptable in a constantly changing labour market (iv). This means a high level of communication skills, literacy and numeracy that can only be attained by completing secondary school and preferably achieving some level of tertiary education. Second, Canada must enact strategies to integrate underrepresented groups of the population into the workforce. In particular, it is critical that Canada provide equal education opportunities to Aboriginal youth, a problem that has been well documented by many, including the Auditor General. Third, evidence appears to show that employers and employees may be underinvesting in training. Further study is needed, as well as investigation, into governments’ role. Refinements are needed to public pension and retirement savings programs to ensure that Canadians can choose the optimal age to leave the workforce, that incentives reward later retirement, and that workers can transition into retirement in phases. Canada’s aging demographics are creating a “looming fiscal squeeze” (v) that will impact all levels of government, as well as the taxpayer’s pocketbook. This is the most compelling argument for reform of Canada’s tax system to ensure that it is fair, efficient and competitive (vi).

 -----(i) June 2011 Status Report of the Auditor General of Canada, Chapter 4 – Programs for First Nations on Reserves, and also November 2004 Report of the Auditor General of Canada, Chapter 5 – Indian and Northern Affairs Canada – Education Program and Post-Secondary Student Support. (ii) Various reports and statistics cited in Getting on the Same Page: Report on the CGA-Canada Summit on Skills and Learning, organized by the Public Policy Forum, May 28, 2008. See also Canadian Council on Learning, What is the Future of Learning in Canada?, October 2011, <http://www.ccl-cca.ca/pdfs/CEOCorner/2010-10-11WhatistheFutureofLearninginCanada.pdf>. (iii) The Canadian Chamber of Commerce, Top 10 Barriers to Competitiveness, 2012, www.ChamberTop10.ca. (iv) Getting on the Same Page: Report on the CGA-Canada Summit on Skills and Learning (Annex 3 – Background Paper), organized by the Public Policy Forum, May 28, 2008, http://www.cga-canada.org/en-ca/ResearchReports/ca_rep_CGA-PPF_Roundtable_Backgrounder.pdf. (v) Ragan, Christopher, Canada’s Looming Fiscal Squeeze, Macdonald-Laurier Institute, Revised version, March 2012, <http://people.mcgill.ca/files/christopher.ragan/FSRevised.pdf> (vi) For more detail, see CGA-Canada’s response to Question 1 in this submission.

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?

Despite some of the most generous research and development (R&D) tax incentives in the world, Canada continues to lag behind other countries in business R&D expenditures – a significant factor that contributes to Canada’s weak productivity growth (i). To strengthen productivity, CGA-Canada submits the federal government should demonstrate leadership through the following: Commit to a national strategy on entrepreneurship. Elements of the strategy could include: •Increasing financing opportunities to help entrepreneurs and businesses start-up and expand •Keeping tax rates internationally competitive •Ensuring tax policies are growth-oriented, support investment and boost innovation •Finding permanent solutions to addressing red tape, including streamlining multijurisdictional requirements •Providing increased support and incentives for applied/commercialized R&D •Encouraging investment in machinery and equipment – a key driver of

productivity (ii) Small and medium-sized enterprises (SMEs) play a big role in Canada’s economy – in terms of job creation, economic growth and long-term sustainability. While the entrepreneurial spirit is alive and well and the SME sector remains strong, economic conditions are uncertain and fragile. This is why government – at all levels – must put the needs of SMEs first, and assist this sector by improving the climate in which it operates. Given that access to financing is a key issue affecting businesses and entrepreneurship, the government should encourage alternative methods of finance, including angel investment and venture capital. Moreover, in this globally interdependent world, there is a need to look at innovative options – as others are doing through “crowdfunding” (iii) for example. While the reduction of corporate tax rates is beneficial – as lower rates attract investment, facilitate compliance and reduce the potential of aggressive tax planning – our members advise that tax complexity is the number one concern. The federal government must appoint an independent panel of experts to recommend steps to simplify Canada’s tax system. Moreover, governments must continue their efforts to harmonize regulations and reduce red tape. An action plan to implement the Red Tape Reduction Commission’s recommendations would bring measurable results. By prioritizing SMEs and harnessing their potential, Canada is well-poised to advance the level of entrepreneurial activity, innovation and productivity in this country (iv). ----- (i) Review of Federal Support to Research and Development, Expert Panel Consultation Paper, December 2010, page 1, [http://rd-review.ca/eic/site/033.nsf/vwapj/Consultation-Paper.pdf/\\$file/Consultation-Paper.pdf](http://rd-review.ca/eic/site/033.nsf/vwapj/Consultation-Paper.pdf/$file/Consultation-Paper.pdf) (ii) For further information, consult CGA-Canada’s Issue in Focus, Investment in Machinery and Equipment is Essential to Canada’s Future, April 2012 at http://www.cga-canada.org/en-ca/MediaCentre/ResourceLibrary/AreasOfExpertise/Pages/ca_backgrounder_ict.aspx (iii) Definition of crowdfunding, Financial Times Lexicon, <http://lexicon.ft.com/Term?term=crowdfunding>. See also The new thundering herd, The Economist, June 16, 2012, <http://www.economist.com/node/21556973> and Crowdfunding: Social Networking for Start-Ups, Statements, CGA Ontario, July/August 2012, <http://www.cgamedia.org/DigitalPublications/StmtsJulyAugust12/index.html#?page=8>. (iv) For further information, consult Laying the Foundation for a National Entrepreneurship Strategy: The CGA Entrepreneurship Report, October 2010 at http://www.cga-canada.org/en-ca/ResearchReports/ca_rep_2010-10_entrepreneurship.pdf.

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?

While Canada emerged from the global economic crisis in a stable position relative to many other countries, Canada still faces tremendous challenges – including slower economic growth, a deficit situation over the medium-term and a growing debt, for example. CGA-Canada makes the following observations: 1. Make tax reform a top priority 2. Keep an eye on Canada’s fiscal fundamentals 3. Enable government processes to be more open and transparent. CGA-Canada submits that many of Canada’s challenges can be addressed through tax reform. Comprehensive and effective tax reform – as opposed to targeted tax relief measures – is needed (i), and is a “good fit” with this government’s plan for jobs, growth and long-term prosperity. The tax system is a key driver to investment, entrepreneurship, job creation, productivity, innovation, economic growth and Canada’s overall success. Done properly – as a revenue-neutral initiative coordinated by all levels of government – tax simplification could yield substantial benefits for the public and private sectors and individual taxpayers. In terms of Canada’s fiscal strengths, it is important to recall that Canada has performed relatively well in the midst of global financial and economic turbulence on account of many successive years of prudent fiscal management that began in the mid-1990s. In short, sound fiscal and monetary policies – including stable public finances – are crucial to economic growth and prosperity. Last but not least, public institutions –

including governments – around the world are being challenged by their citizens at present for falling short of fulfilling important principles such as accountability, integrity and trust. Canadian democratic institutions and processes have not been immune from such criticism. The current federal government must make a greater effort to ensure that openness, transparency, accountability and inclusiveness remain the hallmarks of Canadian democratic processes. This means that parliamentarians and other designated officers (such as the Parliamentary Budget Officer) should have all the tools and information needed to best do their job; that there is increased collaboration between all levels of government; and that governments engage with the public at a substantive level and work with community groups to better the lives of all Canadians. ----- (i) A national survey concerning Canadians' views on taxes and tax credits, commissioned by CGA-Canada and conducted by Nanos Research, found that nearly two-thirds of Canadians (64%) preferred lower overall tax rates to special tax credits. This may be partly explained by the fact that more than half of Canadians (54%) perceived tax credits as failing to positively change people's behaviour. (National random telephone survey of 1,201 Canadians aged 18 and over, conducted between May 26th and 31st, 2012. Accurate to within ± 2.8 percentage points, 19 times out of 20.)