

Financial Executives International 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?

Noting the ongoing concern over the European debt crisis, its impact on the global economy and the slow domestic economic recovery that prompted the Bank of Canada to reduce its economic forecast for 2012, FEI Canada supports providing a firm foundation for economic stability and growth both by the public and private sectors and offers the following recommendations: **Balance the budget:** The government should retain its objective to balance the budget in the near term. That being said, the goal of balancing the budget should not cause the country to slip into a prolonged recession as it has in Europe. FEI Canada encourages the government to continue its cost review project, particularly by cutting expenses that also reduce government bureaucracy. If it is determined that additional revenues are required, an increase in the rate of Good and Services Tax should be considered as commodity taxes are viewed by economists as the most efficient and progressive form of taxation. **Withholding taxes:** Withholding taxes constitute a barrier to the free flow of capital and discourage investment. FEI Canada believes that Canada should strive to eliminate or phase out withholding taxes on the payment of dividends between Canada and the United States and other major trading partners to encourage investment capital for Canadian businesses. Such a measure is consistent with the removal of withholding tax on interest paid to the United States introduced in prior years. **Tax harmonization:** Harmonization improves the understanding of the Canadian corporate landscape for foreign investors and reduces administration and costs for both government and industry. Harmonization should continue to be encouraged in all areas where there are similar federal and provincial taxes such as income taxes, sales taxes and environmental taxes. **Provincial income tax rates:** Different provincial corporate income tax rates are confusing to foreign investors and encourage what the provinces refer to as provincial income shifting. Much of these concerns would be eliminated if the provinces were encouraged to work towards establishing a common corporate income tax rate. **National regulator:** FEI Canada continues to support the government's efforts to form a national securities regulator.

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?

Innovation plays a significant role in achieving a strong and sustainable economy. The SR&ED program or any innovation program should not discourage smaller Canadian companies from seeking public money to fund their research activities in Canada, but should encourage both domestic and foreign investors to provide capital investment for vital SR&ED or innovation projects performed and realized in Canada. The ownership status (public versus private) should not be a criterion for receiving different tax credit enhancements. FEI Canada recommends that the current SR&ED program should be expanded so that all activities related to development and commercialization of a product or processes are eligible activities. The availability of tax credits for the commercialization and development of products can be

tied to the sale of product from a Canadian company to ensure that the tax credits are recovered through additional tax revenues generated from the sale of the ideas or products. The federal budget of 2012 reduced generally-available SR&ED incentives and replaced them with direct support programs of an uncertain nature and amount were suggested. FEI Canada supports the restoration of SR&ED incentives, in particular those related to capital expenditures and the use of proxy calculations. FEI Canada would welcome clarity related to the grant process announced in last year's budget and would recommend that the government review process not be slow or vague. FEI Canada suggests the introduction of legislation allowing companies engaged in innovation to issue flow-through shares, similar to the flow-through share programs in the oil and gas and mining industries. This concept could be applied to support innovation across all industries. Shortages of skilled trades' people are a growing concern for the Canadian economy. FEI Canada recommends the government develops and launches an awareness campaign informing on skilled labour in demand, on how to obtain the appropriate education and on how to link up with employers within their field of interest. Employment opportunities will be enhanced by the removal of interprovincial barriers that prevent mobility of skilled workers across the country. FEI Canada also supports reducing immigration barriers for foreign trained and educated professionals whose qualifications meet standards.

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?

FEI Canada recommends the government develops a national framework addressing key issues facing the elderly: retirement income, health care and home care. A healthy and vibrant aging population can continue to add to Canadian productivity and overall quality of life by remaining in the work force longer or by undertaking community and volunteer activities. Regarding retirement income planning, FEI Canada recommends:

- The reinstatement of the ability to transfer retiring allowances and severance amounts directly to an registered retirement savings plan (RRSP) possibly based on years of service;
- Transferring registered pension plan (RPP) to an individual's RRSP or spousal RRSP if the individual decides to remain in the work force and does not immediately require the retirement income;
- Allowing senior couples to income split after both have attained the age of 65;
- Allowing family members to contribute to an elder family member's RRSP similar to spousal RRSP plans.

• After review with the medical community, expanding the list of expenses qualifying for medical tax credits and therefore for reimbursements from corporate health spending account plans costs that support healthy living and effective illness management such as consultation costs with a nutritionist, dietician or weight loss clinic, pharmacist and other health care practitioners currently recognized as medical practitioners in the Income and Excise Tax Acts;

- Allowing corporations a tax deduction for any membership to a health club or sporting facility to a maximum of \$1,000 to encourage employees to become active. Because of the potential for the perception of abuse, golf fees should remain excluded from the above;
- Allowing local sporting organizations to be eligible to register for charitable purposes to encourage donations to sporting organizations to reduce the cost of programs to all Canadians;
- Allow companies to pay employees a tax-free amount up to a maximum (say \$25,000) to cover the cost of treating a life threatening disease not covered by a provincial health care program;
- Maintaining government support of the Canadian Mental Health Commission;
- Consider increasing the "sin taxes" to help fund short-term deficits caused during the implementation of these programs.

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?

Review of the Income Tax Act: FEI Canada recommends the establishment of a task force to undertake a comprehensive review of the Federal Income Tax Act to reduce complexity, in particular, those aspects of the Act which (a) do not lead to economic efficiency, growth and/or increased competitiveness, (b) create excessive compliance costs vis-à-vis their policy objectives (the proliferation of CCA classes, e.g.), (c) are inconsistent with the characteristics of a simple tax system, and/or (d) result in unnecessary duplication. Loss transfer system: Implement some form of tax loss utilization system that transitions towards the filing of one consolidated tax return to further reduce tax administration. For further details, please see FEI Canada's comments on which can be found at <http://www.feicanada.org/page/news/comment>. Mandatory settlement process: FEI Canada recommends legislation that would allow and require a mandatory process to encourage settlement as part of the field audit. Mandatory settlement meetings currently are undertaken at the tax court level with the view of settling cases out of court. Encouraging the settlement of an issue at the field audit level will reduce the number of files that filter through the objection and appeals process over a number of years and will save resources for both the government and taxpayers (especially for smaller taxpayers where financial resources are scarce). The Canada Revenue Agency ("CRA") currently reports the statistic "Tax Earned by Audit" or TEBA for its measure of audit effectiveness. This reporting method should be changed to one that supports the settlement rather than only the reassessment of audit issues. GST/HST consolidated filing: Corporate groups should be permitted to report GST/HST on a consolidated basis. Consolidated reporting may be limited to those companies engaged exclusively in commercial activities. Consolidated reporting would substantially reduce the number of returns that need to be processed by the CRA. Further, consolidated reporting elections would identify related parties to tax auditors eliminating the multiple audits of companies within the same corporate group. This measure would not result in any lost revenue to the CRA and reduce costs of administering the GST/HST system.

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?

With the rapidly changing environment, Canada must be flexible to change and support the retraining of its citizens as economic activity shifts from one sector to another and as citizens move into and out of the workforce. In this regard, the federal government must encourage the provinces to support the elimination of inter-provincial trade barriers to allow and encourage Canadians to seek employment throughout Canada as economic activity shifts from one province to another. About FEI Canada (www.feicanada.org) Financial Executives International Canada (FEI Canada) is an all-industry professional association for senior financial executives. With eleven chapters across Canada and more than 1,800 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The Issues and Policy Advisory Committee (IPAC) is one of two national advocacy committees of FEI Canada. IPAC is comprised of more than 40 senior financial executives representing a broad cross-section of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of topics of interest to Canadian business and governmental agencies. The current composition of IPAC is formulated to address the following areas: governance and risk, treasury and capital markets, taxation, pensions,

private company issues and information technology. In addition to advocacy, IPAC is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving these areas.