

National Association of Computer Consulting Businesses 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?

The NACCB represents over 75 member firms in Canada, whose prime focus is to provide contingent IT resources to virtually every sector of the Canadian economy. In turn, these 75+ firms act on behalf of over 25,000 independent technology businesses. Revenue for the sector is in excess of \$2.5 billion dollars. Technology is playing an every-increasing importance in the Canadian economy. IT is cross-sectorial, more so than any other discipline, and impacts all areas of the economy. Common to all sectors, and thus critical to opportunity for Canada, is the availability of talent and the investment in new business. The two are inseparable. There are two specific measures that we will focus on in our presentation to this committee:

- Outdated rules that govern the classification of independent IT workers.
- Specific measures by the CRA to apply areas of the tax act that are detrimental to small service businesses.

1) Current rules that the CRA uses to attempt to distinguish between what is a business and what is an employee are drastically outdated. Most were written in the late 70s and early 80s. The reality is that the nature of work has changed so much recently that these rules might as well be a hundred years old. The vast majority of businesses start with one or two people. Indeed, the most valuable company in the world started out with two guys in a garage. Using arcane rules to distinguish between the two is no longer acceptable.

2) CRA efforts to apply Section 125(7) of The Income Tax Act to Small Services Businesses (SSBs) is problematic. In attempting to use financially focused data to determine the impact of designating a business vs. a Personal Services Business, a full scope of tax implication must be undertaken.

- Small businesses and their owners contribute Sales Tax, Corporate Tax AND Personal Tax. CRA's failure to include the Owner's Personal tax obligation in its presentation to the Standing Committee on Finance is an omission we find completely inexplicable. As such, all tax comparisons provided in the CRA document materially misrepresent the relative tax contribution made by these small businesses.
- Personal Services Businesses earn a business premium of roughly 40% vs. their 'employment' value. This reflects compensation for risk, flexibility and value capture for untaxed employee benefits (pension, paid vacation, etc).

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?

A recent US study suggested that by 2020 approximately 1/2 the US work force would be independent in some way. Knowing that Canadian trends often mirror those of the US, it is critical to understand this as we contemplate job creation. Long gone are the days of investing in manufacturing as a means to create jobs. We must instead invest in people. This investment comes in many forms; providing "digital economy" training for workers whose skills are tied to the old economy; encouraging our youth to pursue math, science, and business-oriented skills sets so as to ensure their employability in the future

economy; up-to-date tax policy that both fosters business growth and allows Canadians to market their skills globally. Specific to the latter point, as the US study suggests, more and more people will want to pursue roles where they can work independently and offer their services globally. As has already been mentioned, outdated tax rules will act as a hindrance to these individuals, running the risk of them pursuing their careers elsewhere. Conversely, Canadian companies want access to these highly skilled resources. Making it difficult for them to operate in Canada will have the effect of forcing Canadian companies to off-shore their work. We strongly recommend that Government adapt guidelines for SSBs that are in keeping with the times and adjust tax policy accordingly.

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?

Demographic change is without doubt the single greatest challenge facing the Canadian economy in the years to come. The mathematics are obvious-more people leaving the workforce than entering. Workers all across the entire spectrum also have a different view to work and careers. New entrants no longer expect "the gold watch". Boomers expect to live longer, need to earn more to support retirement, but don't want the traditional 9:00-5:00. The result is a dramatic increase in the numbers of people who will want to work independently. The point has been made with respect to the need to create a favourable climate to foster such a dynamic. It must also be pointed out the value this creates in a world where competition for talent will become more fierce. Independent Contractors can impact many different companies and areas of government. Their talents are acquired when needed, they then move on to have impact elsewhere. There are areas of Government where as much as 40% of the workforce is due to retire in the next 5 years-this is huge. A significant part of the government's talent strategy needs to be the increased utilization of contingent work. This will not only allow Government to compete for resources, but will also afford significant cost savings as it will not need to replace all of these retiring workers with new employees. A recent Spanish study suggested that Spain could address a significant portion of its debt issue by increasing its utilization of contingent workers to fill the void of retirees. Government needs to foster a climate where these talents can flourish, not allow Section 125(7) of the Income Tax Act to smother it

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?

Small services businesses (SSB) are a critical element of Canada's knowledge economy. They fulfill a variety of roles in Canada's economy by providing organizations an efficient market based mechanism to access scarce or emerging skills. Canadian organizations use this channel to overcome skills shortages and access the critical skill sets required for their growth, effective operation and competitiveness. Work in the SSB sector also provides significant benefits to individual workers. SSB workers;

- Demand and receive the full market value of their skills (representing approximately a 40% premium to their employee value).
- Enjoy the flexibility to accept projects from a variety of firms, providing for the cross pollination of best practices and access to unique skill development opportunities (further enhancing their market value).
- Directly benefit from the quality of their work through expanded engagements or new business opportunities from satisfied clients.

Expansion of an economy is heavily dependent on the ability to expand the labour force. As mentioned previously, this will become increasingly more difficult in Canada due to demographic changes. Part of our growth strategy will be dependent on capturing the global demand for higher paying roles. Encouraging the creation of these SSBs will ensure Canada's

competitiveness in this space. An increasing number of roles in the Digital Economy are characteristic of independence, working remotely, and collaborating with groups that do not fit the traditional definition of a "company". We must understand this and foster a climate to allow this type of work to grow.

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?

There is much debate in Canada with respect to providing opportunities for those in remote areas, those who are disenfranchised, First Nations communities who struggle with job growth, etc. It is not the purview of the NACCB to try and solve these complex issues. We do, however, understand the value and relevance of small service businesses. They create opportunity for people individually. These individual opportunities grow into companies that hire other people. In a Digital Economy world, geography becomes less relevant. If a resource sitting in a foreign country can provide value to a Canadian company, then that same resource could exist in a remote Canadian town, in a First Nations community, or wherever. Government can play a role by both providing the climate for acquisition of appropriate skill sets, but also by ensuring an ideal tax climate in which to operate. We cannot legitimately expect to build factories in remote areas; it is increasingly difficult for manufacturing centers in Canada to compete globally. We must instead invest in people, and give them a climate in which they can flourish. The NACCB ultimately recommends a dialogue that involves Ministry of Finance officials, officials from CRA, and associations such as ourselves. The goals would be to redefine the rules that determine a small business, and particularly a small service business. To also change the tax laws so as to both encourage investment and at the same time maximize Government revenues. In doing so, we could collectively ensure job creation in all areas of the economy, including those areas that are currently most challenged.