

## Standing Committee on Finance (FINA)

### Pre-budget consultations 2012

## Procom Consultants Group Ltd.

### 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?*

My name is Frank McCrea and it my privilege to be able to make this submission to your committee. In respect of your format and limit of 350 words per section, I will make it in 5 parts. My credentials are as follows: 1. BSc in Computer Science, University of Western Ontario '69 (first graduating class) 2. Worked as a Computer Developer employee across a range of industries including Retail, Financial Services and the Ontario Government 3. I formed my own incorporated service delivery company, now known as Procom in 1978. From its humble beginnings with myself as the sole employee for 4 years, Procom today a. Employs over 200 core employees and several thousand more individuals on contract assignments at client organizations. b. Has 10 offices across Canada (coast to coast) with 4 office in the US. c. Is the largest supplier of IT resources to each of the five major Canadian banks, three of the major auto firms and is a supplier to a significant number of major Canadian corporations. d. Was recognized by Deloitte as being one of Canada's 50 Best Managed companies for each of the past 6 years. e. Was ranked by the Financial Post as one of Canada's 500 largest corporations in each of the last 2 years (# 421 in 2011). 4. I was recognized by Ernst and Young as Ontario's Entrepreneur of the Year in Services in 2000. 5. I founded the National Association of Computer Consulting Businesses and am now its retired Chairman. It is with this background that I wish to address the Committee and speak about the permanent and lasting damage I see to the Canadian Economy from Canada Revenue Agency's efforts to broadly apply Section 125(7) of the Income Tax Act (Personal Services Businesses) for the first time since its creation in 1981. My work has created hundreds, if not thousands of Canadian jobs, and I can say unequivocally that I would not have survived my start as a small business if subjected to the PSB provisions currently being applied by CRA.

#### 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 nature of work is changing dramatically. In a recent conversation with the President of a US corporation, I learned that his company had outsourced different types of jobs to four different international locations. One is in the Philippines where they have 3,000 telephone support persons. Over the next two years, his company plans on moving a further 3,000 to 6,000 support jobs offshore. The only challenge lies in finding a suitable location to move those jobs to. The firm is evaluating two offshore locations and is basing its decision on the quality of spoken English and fully costed pay rates ranging between \$6.00 and \$16.00 per hour. Their only concern is the risk associated with having all the jobs in one location. In a separate conversation with persons having some insight into Canada's auto union and the current labour discussions, there is a concern that at least one company is seriously considering an exit from Canada, taking all their jobs to the US or Mexico where they have negotiated significantly lower wage rates for net new employees. Welcome to the Global economy. One of the

unfortunate aspects of off-shoring is that the first jobs that get sent off-shore are at the entry level positions. These positions are a critical entry point for new graduates and, if retained, would provide a platform for career development into higher value, better rewarding work. A second unfortunate aspect is that when Canadian firms spend funds offshore, not only do they build the offshore economy, they deny the government the ability to tax them, each time they change hands within our economy thereby denying significant tax. On a positive note, I have managed my company through many economic downturns. In each and everyone my company has thrived and most commonly doubled in size. In uncertain economic times, corporations shun the long term commitments to employees in preference to limited commitments to contractors. These contract jobs are high paying quality jobs which span the spectrum of our knowledge based economy. A health contract market supports / enables a health economy.

### **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?*

Over the past 30 years, Canadian companies have relied upon contract labour as a strategy to respond to global competition, skills shortages and changing demographic preferences. Contract Labour allows firms to manage expenses by only incurring the costs of expensive resources when they need them, sometimes in preference to going off-shore. Through contract labour, Canada developed a market for onshore, but outsourced services work, thereby mitigating its' off-shoring job losses relative to the US and Europe. In the United States and Europe we see a different story. Both markets have resisted the trend towards Contract Labour through Bill 1706 (US) and AWR/AWD legislation (Europe) and this reduced the flexibility advantage of their contract labour market. By not having a viable onshore alternative, these policies have exacerbated and accelerated the export of jobs out of the United States/Europe, to more business friendly locations. Conversely, Canada has evolved a relatively beneficent approach to contract labour, with our courts mitigating the damage of similar legislation. The result has been that Canada's almost free market usage of contract labour has grown to a point where virtually every organization, including the federal government relies heavily on it. This free market is extremely good for Canada and our economy. It optimizes the allocation of our scarce resources, making them available at competitive pricing. It also fosters an entrepreneurial spirit across the nation, providing a means for young and old alike to initiate new ventures, form small businesses and explore the opportunities of business development within the new economy. This positive success story for Canada has however started to change. Changes in tax policy has made it financially punitive to work in a Small Services Business, which has some caused workers to exit the space. With the domestic ecosystem shrinking, we expect Clients will expand their use of offshore providers to achieve the required flexibility. These challenges undermine the competitive basis of Canadian Small Services Businesses, a very dangerous move when one considers that according to Statistics Canada data, over 16% of Canadians are considered self employed and 78.8% of small businesses operate in Services industries.

### **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?*

The contract labour market is effectively a free market mechanism for allocating scarce skills to organizations that need them. It is a critical relief mechanism for skills shortages and a vital source of labour productivity by quickly matching skilled workers to companies in need. At the heart of this

market stands a community of small entrepreneurial businesses that are built around an owner/operator who delivers services on a contract basis (this is also the genesis of my organization, Procom). These businesses are critical to the growth and prosperity of Canada's economy. Should the viability of these businesses be interrupted, the most likely outcome is that their work will be redirected to off-shore providers, residing outside of Canada's tax base. The two primary challenges facing this community are, 1. Income Tax Act (ITA) Section 125(7) This section was added to the ITA in 1981 to frustrate individuals who might restructure their employment from one of FTE to one of contractor. It was associated with Ralph Sazio of the Hamilton Tiger Cats in a 1969 assessment. The strategy responded to excessively high income tax rates then in place. Recently the CRA has launched a number of tax assessments applying Section 125(7) of the Income Tax Act in an effort to define small businesses providing services as Personal Services Businesses. In the near term, this would trigger tax penalties as existing tax filings, based on normal small business requirements are thrown out. Longer term it will destroy the owner's ability to build business capital inside the corporation, thereby handicapping their growth prospects. 2. Gaps in current labour protections There is an undeniable demographic and economic trend towards contract labour. This stands at odds with Canadian Labour policy, where most protections are based on an individual's employment standing. As work increasingly becomes delivered through contract mechanisms, Canada must develop labour policy that: - Provides enhanced protections to all types of workers in lower income, more vulnerable positions, while also - Recognizing and encouraging free markets for high income, independent positions.

## **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?*

My entire career has been rooted in industry, building a business that has grown and prospered with Canada's shift to a knowledge driven economy, based on services businesses. For the most part, the legislative environment has been positive, and small services businesses in Canada have flourished. Today, over 79% of Canadian small businesses work in Services industries. In the high value Professional, Scientific and Technical (PST) Category, Small Business employs 93,782 individuals. The PST Category also comprises the largest proportion of 'High Growth Firms, at 7.2%, driving Canadian employment growth and technology innovation. With the 2010 launch of the Personal Service Business audits, I became attuned to how fragile this success has been. Since then, I have met with Politicians, Senior Policy Staff and CRA representatives. I now recognize that the economic contribution of small services business is not fully appreciated. Nor is staffing recognized as its own industry as are Banking, Oil & Gas, Resources, Telecommunications, etc. Europe and the United States provide first hand evidence of how bad policy can kill this sector. I suggest similar policies on Canada would be likewise disastrous. With the application of PSB legislation, I see the beginning of such a change. It is this light, that I ask the Committee to reevaluate its understanding of the small services business industry and the PSB issue specifically. This is a vibrant free market industry that is a critical part of Canada's economy. It does not require government spending or largesse to thrive, simply smart policy that is designed to encourage free market forces while balancing protection of lower income individuals. As such I respectfully recommend, 1. Suspend CRA's enforcement of the PSB legislation (Do no harm in the short term). 2. Identify the Small Services Business Industry as an area of importance for Canada and develop effective tools to measure it. 3. Recognize the staffing industry and consider it within Canada's Digital Strategy. 4. Review Canada's tax and labour policy with a goal of encouraging these small business entrepreneurs and supporting Canada's platform to become a premier global centre for knowledge driven services work.