



Pre-budget Consultations in Advance of the 2019 Budget

by Chartered Professional Accountants of Canada

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Recommendations for ensuring Canada's competitiveness

1. That, as the government assesses the potential impacts of U.S. tax reforms, it considers the following measures so that Canada maintains its competitive tax advantage:
 - a. Review personal and corporate income tax rates to ensure that Canada is attracting and retaining top talent and business investment, driving job creation and overall economic growth.
 - b. Determine if a deduction for capital expenditures or accelerated capital cost allowance deductions would be beneficial for investments in capital property – to offset any negative effects of the new business incentives adopted in the U.S.
2. That the government commits to a comprehensive review of Canada's tax system, building on the recommendations advanced by the Advisory Council on Economic Growth.
3. That the government commits to further improve Canada's regulatory competitiveness and efficiency.
4. That the government revisits, amends and better promotes the financial incentives available to Canadians and employers for upskilling and re-skilling.
5. That, with a view to ensuring sustainable economic growth, the government:
 - a. Remains committed to the strategy outlined in the Pan-Canadian Framework on Clean Growth and Climate Change.
 - b. Develops a national adaptation plan to coordinate the climate change adaptation efforts of all levels of government and the private sector.
 - c. Develops a comprehensive Canadian action plan outlining the partnerships, policy, regulation and standards needed for sustainable finance in Canada.

[Chartered Professional Accountants of Canada \(CPA Canada\)](#) is pleased to present its 2019 federal budget recommendations to the House of Commons Standing Committee on Finance, with measures for the government to ensure Canada's competitiveness and a growing economy. CPA Canada is one of the largest and most respected national accounting organizations in the world, representing more than 210,000 Canadian chartered professional accountants (CPAs) at home and abroad. Collectively, CPA Canada and the profession enable, champion and safeguard the Canadian ideal of good business that values inclusion, sustainable growth and social development in cultivating a healthy and thriving economy.

A world-class tax system

The tax system is fundamental to creating a competitive environment – to attracting and retaining the best and brightest, driving business investment decisions, unleashing innovations and nurturing the next generation of leaders. In short, the tax system is crucial to the government's commitment to deliver inclusive economic growth that supports every Canadian, including middle class families.

There is widespread concern that the tax reform measures adopted by the U.S. administration pose a serious competitive threat to Canada, eroding any tax advantage previously held by this country. In discussions, leading professional accountants have observed increased enquiries from clients about relocating operations, restructuring businesses or reinvesting in the U.S.¹ In the *CPA Canada Business Monitor (Q2 2018)* survey, more than two-thirds (68%) of CPA business leaders view Canada as a less competitive place to invest and do business versus the United States, compared to one year ago. The overall tax burden in Canada is cited as the factor having the greatest impact on Canada's level of business competitiveness.

Canada's corporate income tax rate is now higher than the U.S. and the OECD average – and if planned changes proceed in France, Canada will lag behind the U.K., the U.S. and France in terms of G7 countries. According to a recent statement by the [International Monetary Fund \(IMF\)](#), *"it is time for a careful rethink of corporate taxation to improve efficiency and preserve Canada's position in a rapidly changing international tax environment."*

Furthermore, Canada's top combined **personal income tax rate** is above 50 per cent in seven provinces and is one of the highest among the 35 OECD countries. The federal government, along with its provincial and territorial counterparts should consider lowering the rate for the highest tax bracket or – failing that – consider increasing the threshold for the top rate so that Canada is a preferred destination for talent and investment.

As Finance Canada conducts its analysis of U.S. federal tax reforms, CPA Canada also recommends that it consider if a **deduction for capital expenditures or accelerated capital cost allowance deductions** would be beneficial for investments in capital property - helping to drive growth and maintain competitiveness.

¹ CPA Canada Tax Advisory Board and Finance Canada meeting, June 1, 2018

In addition to these **specific considerations**, CPA Canada continues to believe that the government must take a longer-term approach to Canada's tax system to ensure it is functioning as intended. **We strongly recommend the government undertake a comprehensive review of Canada's tax system – led by an independent expert panel – that aims to reduce complexities, address inefficiencies, improve fairness for all Canadians, and ensure economic competitiveness.** [Simplicity, fairness, efficiency](#) and [competitiveness](#) are among the most basic principles of a good tax system.

In support of CPA Canada's recommendation, there is a growing consensus that a tax review needs to be a priority for the federal government. The [Advisory Council on Economic Growth](#) has called for an independent tax review, focused on specific areas and measures to boost growth and innovation. National organizations – such as the [Business Council of Canada](#), the [Canadian Chamber of Commerce](#), the [Canadian Manufacturers and Exporters](#) and the [Coalition for Small Business Tax Fairness](#) (representing over 70 organizations) – have all put forward a case for comprehensive tax reform. Both finance committees in the [House of Commons](#) and the [Senate](#) have made recommendations in past reports that range from tax simplification to tax reform. Most recently, the [IMF](#) stated that Canada needs to undertake a holistic review of its tax system, and that U.S. tax reform increases the urgency of moving ahead with the review.

To create a world-class tax system, the government should focus on these four priority areas as part of a comprehensive review:

- a. **Broaden the tax base** by continuing to eliminate inefficient or poorly targeted tax preferences. Much unfinished business remains from the 2016-17 Tax Expenditure Review and those findings should be made public. For purposes of revenue-neutrality, the additional revenue from a broader tax base could be used to reduce tax rates generally.
- b. **Consider changing the income tax/consumption tax mix** to bring it closer to OECD averages to improve Canada's tax competitiveness. An increased reliance on consumption taxes could also provide additional fiscal room to lower personal and corporate taxes.
- c. **Address issues involving the taxation of the digital economy** to level the playing field for Canadians vs. non-residents and ensure that digital business activities are taxed in a fair and growth-friendly way.
- d. **Bring the use of digital technology in tax compliance to the next level** by further improving standardization and automation, promoting greater efficiency and elevating the customer experience.

Regulatory competitiveness and efficiency

While the tax reforms recently implemented in the U.S. draw much attention, of similar importance to Canada's relative competitiveness is America's effort to streamline its regulatory burden. America's adoption of a regulatory budget approach, including a two-for-one rule, will reduce the regulatory burden and simplify the compliance processes faced by U.S. businesses.

Here at home, while there has been some [progress](#), regulation remains a challenge for Canadian business. According to a [World Economic Forum](#) survey, "inefficient government bureaucracy" is the most problematic factor for doing business in Canada. For example, a [study](#) by the International

Federation of Accountants on regulatory divergence in the financial sector globally found the cost to be between five and 10 per cent of annual turnover, with Canadian respondents at the higher end.

As the government examines Canada's competitiveness, **CPA Canada encourages an emphasis on improving Canada's regulatory competitiveness and efficiency.** In particular, the government should consider broadening the scope of the Red Tape Reduction Act to include regulatory requirements. As outlined in a recent report by the [Canadian Chamber of Commerce](#), measures should be considered to improve stakeholder input and the confidence of the business community in the regulatory process. Federal leadership is also required to address duplicative or overlapping regulatory requirements between different jurisdictions. Such leadership could potentially allow for more harmonization of rules and administration of these regulatory requirements.

In addition, CPA Canada believes the *Advisory Council on Economic Growth* makes constructive recommendations for improving the agility of Canada's regulatory system and the government should give serious consideration to the [council's ideas](#).

Innovative skills for work

Through the implementation of the government's Innovation and Skills Plan and other new initiatives, Canadians will learn about the innovative skills required for work. There is no doubt the nature of work is evolving -- whether through the rise of precarious employment (as noted in CPA Canada's [report](#)) or via shifts in the digital, cognitive and technical skills expected of workers. Nearly half of Canadian jobs will be affected by automation by 2030, according to the [Advisory Council on Economic Growth](#). Advanced economies are heading toward a re-skilling imperative, according to a World Economic Forum [report](#). The shift toward a more innovative and digital economy will require the continual upskilling and periodic re-skilling of working Canadians.

The challenge is: how will government seriously encourage Canadian workers and employers to pursue upskilling or re-skilling for that work?

Short of a national co-ordinated skills strategy, **CPA Canada recommends the government revisits, amends and better promotes the financial incentives available to Canadians and employers for upskilling and re-skilling.** To balance the public cost of the incentives, we urge the government to adopt a co-funding approach as [proposed](#) by the Advisory Council. Improving access to existing supports could result from revisiting the Canada Job Grants in concert with provincial/territorial governments (as [suggested](#) for Ontario, for example), building on the pilot project offering Canada Student Grants to adult learners and better promoting the incentives for upskilling.

Sustainable economic growth

Business values certainty. Canadian businesses also understand that protecting our environment and enriching our quality of life is good business strategy. The Pan-Canadian Framework on Clean Growth and Climate Change is important because it is a plan to meet Canada's international obligations that can provide business with the certainty and predictability that is needed to foster investment and competitiveness.

That certainty is becoming clouded as political discourse returns to debates that should have been settled, one way or another, a decade ago. Meanwhile, our competitors move on. The U.K., other European countries and some American states are moving forward with legislative commitments to meet climate-related goals.

Canadian governments need to focus on the future and **must remain committed to the federal/provincial/territorial strategy outlined in the Pan-Canadian Framework on Clean Growth and Climate Change**. To plunge backward at this point into reflection and uncertainty will risk Canada's ability to meet its environmental goals and will harm the country's business competitiveness.

One of the four pillars that comprise the Pan-Canadian Framework is adaptation and climate resilience. Canada's [auditors general](#) illustrated two important gaps in Canada's climate change adaptation efforts: a lack of coordination between different government jurisdictions, and no consideration of the private sector.

CPA Canada recommends that the government develops a [national adaptation plan](#) to coordinate the climate change adaptation efforts of all levels of government and the private sector. In developing that plan, the business community should be consulted early and throughout the process.

A number of countries are reforming their financial markets to shift flows of capital in support of climate change and sustainable development agendas. For example, the European Commission has adopted an [action plan on sustainable finance](#). **CPA Canada encourages the government to develop a comprehensive Canadian action plan for sustainable finance, outlining the partnerships, policy, regulation and standards needed to accelerate Canada's shift towards a sustainable economy.** This initiative would incorporate forthcoming advice from the [Expert Panel on Sustainable Finance](#).

Responsible fiscal management

Finally, CPA Canada believes it would be prudent for the government to address Canada's persistent deficit situation by establishing a target date for a return to balanced budgets.

Canada needs a plan for fiscal stability – which focuses on balanced budgets over the medium term to guide the government in its financial planning, increase business confidence, enhance growth opportunities and Canada's competitiveness.