INPUT FROM THE CPQ

FOR THE 2019 FEDERAL BUDGET

August 2018

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Introduction and background information

The CPQ believes it is essential that the 2019 budget provide for maintaining a truly competitive business environment in Canada as a way to guarantee greater prosperity and a better quality of life for Canadians. This is even more true in today's difficult and uncertain global environment, which is being fuelled in particular by our main trading and economic partner. The challenges of the global context are in addition to those associated with the digital revolution and the aging population, which is particularly pronounced in Quebec.

That competitive environment can be achieved through a dynamic, diversified and innovative economy, favourable taxation for private investment, policies that promote the development of workforce skills, and quality infrastructure, including digital infrastructure.

Taxation

Corporate income taxes

In the current context, the competitiveness of Canadian businesses is highly dependent on their tax competitiveness, which has been seriously eroded by major tax reform in the United States.

We must bear in mind that the corporate tax rate in the United States was drastically reduced in 2018, from an average rate of 39% to the current rate of 26%. This eliminated the tax advantage for Canadian businesses, which had served to offset other weaknesses. Furthermore, the tax rate can be as low as 16% for American exporting companies.[1] This puts our companies at a significant disadvantage, not only when they seek to export to the United States or elsewhere, but also within the Canadian market. The CPQ is therefore calling on governments, and particularly the federal government, to reduce the corporate tax rate to as close as possible to 16%, at least for exporting companies and those facing American competition, in order to ensure some tax competitiveness. We cannot lose sight of the fact that our companies are subject to other obligations that are more burdensome than those in the United States, including carbon taxes and environmental and regulatory requirements related to standards and labour relations.

Other changes to the tax system are also needed to encourage investment, including accelerated depreciation on equipment acquisitions. The CPQ is also asking the government to study the implications for Canadian businesses of the new American BEAT provisions,[2] and to propose the necessary corrective measures to avoid the double taxation of certain corporate income. Finally, the CPQ calls for the revision of Part VI.1 of the *Income Tax Act*, which applies to dividends paid on certain classes of shares, in order to adapt it to the changes that have taken place over the past decades and ensure that corporate debt or equity financing is treated fairly from a tax standpoint.

[1] If the 37.5% deduction under the *Foreign-Derived Intangible Income* (FDII) is included.

[2] *Base Erosion Anti-Abuse Tax.*

The new financial regulatory requirements also provide strong incentive for the elimination, or at least reduction, of the capital tax on financial institutions.

Tax fairness for cross-border trade (e-commerce, environmental and other taxes)

The government should also commit to a new GST registration system that would ensure fairness in the collection of this tax by non-resident suppliers of goods or services in Canada. Quebec has committed to implementing such a system, and several countries have already taken action in this regard.

Furthermore, an environmentally conscious government should ensure that all environment-related fees – such as eco-charges – are also collected, along with sales taxes.

Business transfers

The federal government should amend the *Income Tax Act* to ensure that the conditions for business transfers are fair, whether those transfers involve family members or potential unrelated purchasers. These amendments are all the more important at a time when many companies are expected to change hands in the coming years. The federal government should reach an agreement with the Government of Quebec to harmonize tax regulations in this regard.

Canada's business environment and support services for companies

Innovation

The federal government also has other tax tools that it can optimize to further contribute to the competitiveness of our businesses, to innovation and its commercialization, and to reducing the environmental footprint. The R&D tax credit is one such tool. The CPQ proposes that this tax credit be made refundable for large corporations. The federal government could follow the example of France and make new tax credits refundable if they have not been used after two years. Tax credits can also be expanded to provide the necessary incentives for R&D in the environment, clean technologies and renewable energy.

Furthermore, assistance for energy-efficient renovations would help achieve environmental objectives for reducing greenhouse gas emissions from buildings and stimulate increased renovation spending, thus benefiting regional economies, in addition to combating tax evasion.

Finally, the government should consider the Infrastructure Bank of Canada and public procurement in general as vectors for innovation. Contracting clients can act as stimulators by allowing their projects to become technological showcases. On this front, we should seek inspiration from best practices around the world, and reconsider the systematic application of the lowest-bidder policy.

In addition to tax measures, the government should invest in programs and initiatives that have a structuring and leveraging effect, and vigorously pursue the implementation of its innovation and economic development agenda by strengthening connections and synergies among the various actors, including the public and private sectors, large and small enterprises and the business and education communities.

The government should also seek above all to "do no harm," i.e., it should consider the negative collateral impacts of certain regulations with otherwise laudable objectives. Examples include the proposed new federal drug pricing regulations, and the process surrounding the reform of that regime, which could have significant adverse effects. Indeed, while the CPQ fully agrees with the objective of protecting Canadians from excessive drug prices, it warns the government about the impact of the proposed changes on research, innovation and investment in Canada, as well as on access to new drugs. Given the importance of the issue, the CPQ strongly recommends that before moving ahead, the government take the time to work with all the key players to ensure that there will be no harmful side effects that run counter to the actual objectives.

Similarly, we are convinced that the recent *Tobacco Products Regulations (Plain and Standardized Appearance)*, published on 23 June 2018, will have serious repercussions, not only for the tobacco companies themselves – whose product is still legal – but also for federal and provincial governments. These include smuggling and counterfeiting, which have significant legal and tax implications. The regulations also constitute a form of expropriation of intellectual property, and set a dangerous precedent. The CPQ believes that particular attention should be given to the impacts of these regulations, and that they should ultimately be revised. It strikes us as ludicrous that the federal government would try to counter the illicit cannabis trade by legalizing it, and at the same time do everything in its power to harm the legal tobacco trade, thereby creating an illegal market.

Furthermore, once cannabis is legalized, the government should help companies to deal with the new reality, including through prevention and detection. Given that the provinces will bear most of the costs associated with this new market (health, social services, information, police control, etc.), the agreement on the sharing of revenues from this source should be made permanent.

Support for businesses affected by the trade dispute

The Canadian government is working to provide an appropriate response to the trade dispute triggered by the American administration. The reality is that more than one response is required. The government should resist the temptation to over-retaliate, particularly with regard to industrial inputs. Direct financial support measures for sectors affected by tariff increases are obviously necessary and welcome. However, these measures are only short term in scope and will naturally be of limited duration, whereas the situation may persist. We need a more comprehensive approach for our sectors that are already affected, as well as for those that are being threatened. This approach must cover the entire value chain (production, processing, transport and distribution). It should also seek to raise awareness among Canadian companies and provide them with support, primarily in reorganizing their supply chains at the international and national levels, and increasing opportunities for integrating local suppliers. At the same time, companies would benefit from assistance in diversifying their markets and taking advantage of other existing trade agreements, including the Comprehensive Economic and Trade Agreement with the European Union (CETA). We also call on the government to vigorously pursue its efforts with regard to trade agreements, such as the Trans-Pacific Partnership (TPP), and the development of a trade strategy for China.

Workforce

Workforce availability and skills are increasingly a priority issue for employers. Initiatives are required to mobilize and coordinate all stakeholders (government, employers, institutions) in opening new avenues for investment in human capital.

There are a number of possible options for the various clienteles: investments in training people who are receiving Employment Insurance benefits, as well as those who are not eligible for EI or who are currently unemployed; improved processes for recognizing prior learning and skills, and increased cooperation from the business and education communities. With regard to the latter point, the CPQ supports the BHER (Business Higher Education Roundtable) initiative and its demands concerning integrated learning in the workplace, particularly for broadening its scope.

The CPQ is also of the opinion that the introduction of an employment insurance premium credit for expenditures on training – particularly structured training related to new investments – would be a good way for the employment insurance system to help workers meet their training needs and adjust to new labour market requirements, particularly in the context of the digital economy. The government should also contribute 20% to the employment insurance fund, as it did before the *Unemployment Insurance Act* was passed in 1971.

The use of temporary foreign workers is a quick and effective way to meet pressing labour needs, and the government should speed up the admission process for these workers. The processes for immigration applications, including permanent economic immigration, should also be accelerated.

Infrastructure

The CPQ believes that if the various infrastructure investment programs are to contribute effectively to economic development, they must be flexible enough to: respond to the most pressing needs in different regions; address the changing realities of trade and industry; and provide for restoring and developing public transportation and communications infrastructure. Efficient and structuring investments might therefore involve logistical hubs, particularly ports and railways, as well as regional air transport and digital infrastructure (Internet and wireless), especially for the more connected regions.

Furthermore, to improve the competitiveness of the Canadian economy, the government should support the competitiveness of its airports by allowing them to open their capital to private financing and by terminating (or at least capping) rents to Canadian airports, all of which can be done gradually. The same issue needs to be raised with respect to federally regulated port authorities.

Other considerations

Regulatory relief

The CPQ calls on the government to pursue the implementation of regulatory and administrative simplification and streamlining measures, including the *one-for-one rule*. Particular attention must be paid to environmental assessments by ensuring that laws and regulations are applied in a way that facilitates and is consistent with competition, and by eliminating sources of uncertainty and overlap. In that same spirit, there should be serious efforts to adopt a single federal-provincial tax return.

Health transfers

In terms of health transfers, the CPQ reiterates the importance of taking into account not only the population but also the fact that it is aging, particularly in Quebec. The federal government should therefore engage in a careful review of the *Canada Health Act*, in collaboration with the provinces.

Balancing the budget

Finally, the government should present a plan right away for returning to balanced budgets – particularly since Canada is not in a recession – in order to leave future generations a prosperous country in good financial health.