Written Submission for the Pre-Budget Consultation in Advance of the 2019 Budget

By the Alberta Chambers of Commerce

The Alberta Chambers of Commerce Recommends the Government of Canada:

1. Considering recent tax changes in the US resulting in increased job growth and investment attraction, including investment from Canada, establish a Royal Commission to undertake a comprehensive review of taxing statutes guided by the principles of simplification, modernization, and reduction of compliance costs to ensure Canada remains a more competitive tax jurisdiction for individuals and business.
2. Ensure policy initiatives do not increase the costs of doing business in Canada and thereby undermine our competitiveness by consulting businesses on policy changes, and undertake a "layered cost assessment" as part of the policy development process.
3. Implement the Standing Senate Committee on Banking, Trade and Commerce's recommendation to fund research into the University of Calgary's proposed Northern Infrastructure Corridor as a priority project through the National Trade Corridors Fund, pursuant to establishing an integrated national TUC network to enable the efficient internal movement of goods and ensure the long-term viability and growth of Canada's export industries.
4. Promote and provide information on alternative infrastructure funding models for Canadian provinces and municipalities, such as public-private partnerships and the Canada Infrastructure Bank.
5. Balance the federal budget by limiting operational expenditure growth by negotiating government labour agreements due for renewal with a target of no operational cost increase, and maintaining a debt-to-GDP ratio below 30% with financial contributions to debt reduction as necessary to sustain that position.

Introduction

Canadian businesses are resilient, but they cannot continue to overcome obstacles resulting from federal policy change or inaction. Competitive pressures within Confederation are persistently emerging while competitive pressures from without continue to grow. The combined impacts to business competitiveness are limiting business's capacity to grow, create jobs, and enhance communities. The Government of Canada cannot create prosperity and economic growth, but it can alleviate internal pressures. Improving the competitiveness of this nation's business environment is job number one for today's elected leaders.

Recommendation #1 - *Considering recent tax changes in the US resulting in increased job growth and investment attraction, including investment from Canada, establish a Royal Commission to undertake a comprehensive review of taxing statutes guided by the principles of simplification, modernization, and reduction of compliance costs to ensure Canada remains a more competitive tax jurisdiction for individuals and business.*

A recent PwC Canada study commissioned by the Business Council of Canada estimated the negative impact of U.S. tax reform on Canada's economy could be 10 times greater than the potential fallout which would have resulted from a NAFTA termination. With the signing of the USMCA deal, we must turn to the issue of tax competitiveness. Significant changes to the United States tax code were implemented at the beginning of 2018 and resulted in an overall drop in the US federal-state corporate income tax rate from 39.1% to 26%, slightly lower than the Canadian federal-provincial rate of about 26.7%.[1] Businesses competing for investment with this new tax regime additionally struggle with the complexity and burden of the Canadian tax system.

Reducing our heavy reliance on economically damaging income and profit taxes, broadening the tax base, creating a more neutral business tax system and reducing compliance costs for taxpayers will enhance Canada's international competitiveness in light of the recent changes in the U.S. tax code. In 2017, the Federal Government proposed tax changes which would have undermined business' ability to plan for the future and grow their businesses. The changes were singular and targeted, failing to look at the entirety of Canada's tax code based on clear, long-standing principles of good tax policy including:

- *Tax Neutrality*: Economic activities should bear similar tax treatment to encourage the best allocation and profitable use of resources in the economy.
- *Tax Equity or Fairness*: A tax system should distribute its burdens fairly. There are two dimensions to equity. The first facet is that people in similar economic circumstances should receive the same tax treatment (horizontal equity). The second aspect is based on the notion that the more an individual earns, the more income tax the individual should pay (vertical equity).
- *Efficiency*: The tax system should minimize adverse effects on taxpayer behaviour that undermine the efficiency of the economy.
- *Simplicity*: The system should be simple, transparent and easy to understand and comply with.
- *Minimize Compliance Costs*: The Income Tax Act continues to become more complex and this complexity creates additional compliance burdens and costs to many privately held companies.

[1] O'Riordan, Fred, Mintz, Jack. (2018). *How US tax reform will affect Canada's competitiveness*. EY Tax Services. Retrieved July 18, 2018 from https://www.ey.com/ca/en/services/tax/how-us-tax-reform-will-affect-canada-competitiveness

Canada has much to gain in optimizing the tax system with transparency and simplification to promote employment, productivity, and investments, ultimately leading to higher living standards for citizens. A Royal Commission, free of political interference, should be undertaken to conduct a comprehensive review of taxing statutes guided by these principles and an aim at restoring Canada's competitiveness.

Recommendation #2 - *Ensure policy initiatives do not increase the costs of doing business in Canada and thereby undermine our competitiveness by consulting businesses on policy changes, and undertake a "layered cost assessment" as part of the policy development process.*

In the last three years, the proportion of capital investment in the economy is at a 40-year low. Layering costs, at all levels of government, are hampering the competitiveness of Canadian business. Analysis by the Edmonton Chamber of Commerce illustrates the large costs facing businesses from all levels of government. Using KPMG's 2014 Alternatives data, the Edmonton Chamber estimates Edmonton manufacturing and corporate services sector businesses will see their costs increase by $336,000 between 2014 and 2018 due to policies implemented at the federal and provincial level. [2]

Cost increases that reduce business competitiveness have come from several measures in the last year. The expansion of the Canada Pension Plan will require businesses to make greater contribution beginning in 2019, while recent changes to Canada's employment insurance system could also result in greater premium costs.

73% of businesses surveyed by the Calgary Chamber indicated that their costs will increase due to the implementation of federally mandated carbon pricing, only 21% of those businesses plan on passing the carbon costs to their customers[3]. With the recent economic downturn, many small and medium-sized businesses do not believe that their customers can, or are willing to pay higher prices. Therefore, they are reluctant, or unable, to pass the cost increases on to their customers. Many business owners – along with their workers and investors – have had no choice but to "eat" a large portion of the costs. In many circumstances, the higher costs paid by the business means there are less available funds to reinvest in wage, job, or business growth.

A price on carbon may be the most cost-effective way to reduce GHG emissions. However, carbon pricing has been put in during tough economic times, is creating market distortions, and is being layered on top of other regulations and interventions including new methane standards and a mandated coal phase-out.

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[2] Edmonton Chamber of Commerce Calculations in "Considering the Cumulative Effect of Cost Increases from all Levels of Government," Alberta Chambers of Commerce Policy Book 2015-17 Policy Book, https://chambermaster.blob.core.windows.net/userfiles/UserFiles/chambers/2087/CMS/2017_Policies/2015-17-Policy-Book.pdf. Data retrieved from KPMG, "Competitive Alternatives," https://www.competitivealternatives.com/default.aspx.

[3] Calgary Chamber of Commerce. (December 14, 2017). The Layered Costs of Government Policies. Retrieved January 12,2018 from https://www.calgarychamber.com/sites/default/files/user/files/Layered%20cost%20assessment%20doc_0.pdf

Recommendation #3 - *Implement the Standing Senate Committee on Banking, Trade and Commerce's recommendation to fund research into the University of Calgary's proposed Northern Infrastructure Corridor as a priority project through the National Trade Corridors Fund, pursuant to establishing an integrated national TUC network to enable the efficient internal movement of goods and ensure the long-term viability and growth of Canada's export industries.*

Canadians are receiving less than they should for our natural resource products. This is most acute with our oil, with Alberta's products being sold at an average of $40 less per barrel in recent months. These prices are a bad deal for business, and a poor and negligent outcome for Canadians.

Obstacles facing improved market access investment attraction are acute, and mounting, exemplified by the Federal Court of Appeal's August decision to overturn the National Energy Board's approval of the Trans Mountain Pipeline Expansion Project. The project's delay directly impacts the well-being of thousands of Canadians who would have been employed in the project's construction. The systemic impacts are undermining opportunities for long term prosperity by all Canadians.

Our industry is in dire need of constructive changes to Canada's regulatory system and a streamlined pathway to develop trade-enabling infrastructure. The passing of Bill C-48 and the proposed Bill C-69 directly contravene the efforts needed to bolster investor confidence. Improved competitiveness, future development, and broadly shared economic growth will be determined by a commitment to the continual improvement of transportation, movement of goods, communications and energy infrastructure.

In June 2017, The Standing Senate Committee on Banking, Trade and Commerce published a report "National Corridor: Enhancing and Facilitating Commerce and Internal Trade" after studying and consulting on the topic. The report highlights significant challenges Canada faces in optimizing trade opportunities and long-term economic development: limited access to tidewater to export goods, a lack of ports and routes in Canada's North and regulatory approval processes that are a significant impediment to development, particularly for large projects that cross provincial boundaries.[4]

One of the key recommendations of the Senate Committee was to fund research being conducted by the University of Calgary School of Public Policy and the Centre for Interuniversity Research and Analysis of Organizations (CIRANO) proposing the development of a Northern Corridor right-of-way in Canada's north and near-north reaching all three Canadian coasts. The proposed 7,000 km Transportation/ Utility Corridor (TUC) right-of-way could accommodate road, rail, pipeline, electrical transmission and communication infrastructure, enhancing opportunities for geographically distributed economic development and access to new markets.[5]

The business community believes the federal government can provide strong leadership by acquiring all the right-of-ways needed for this kind of farsighted planning and infrastructure investment. Such action will provide certainty in the midst of regulatory transition and enable Canadians' long-term prosperity

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[4] Standing Senate Committee on Banking, Trade and Commerce. (June 2017). *National Corridor: Enhancing and Facilitating Commerce and internal Trade.* Retrieved July 18, 2018 from https://sencanada.ca/content/sen/committee/421/BANC/reports/CorridorStudy(Final-Printing)_e.pdf

[5] Fellows, G. Kent and Sulzenko, Andrei. (May 2016). *Planning for Infrastructure to Realize Canada's Potential: the Corridor Concept.* University of Calgary: School of Public Policy Research Papers, Volume 9, Issue 22. Retrieved July 18, 2018 from https://www.policyschool.ca/wp-content/uploads/2016/06/northern-corridor-sulzenko-fellows.pdf

Recommendation #4 - *Promote and provide information on alternative infrastructure funding models for Canadian provinces and municipalities, such as public-private partnerships and the Canada Infrastructure Bank.*

The development of the Canadian Infrastructure Bank (CIB) is a positive development for all orders of government. The CIB will attract institutional investors, such as international pension funds, to provide a new stream of revenue to draw on for investments in public infrastructure. Alternate infrastructure funding models, like the CIB and public-private partnerships (P3s), will become increasingly important as they can provide opportunities to replace aging infrastructure without increasing levels of public debt across Canada and enhance the ability for every level of government to develop trade-enabling infrastructure which will decrease the costs and increase opportunities to export goods to market.

Recommendation #5 - *Balance the federal budget by limiting operational expenditure growth by negotiating government labour agreements due for renewal with a target of no operational cost increase, and maintaining a debt-to-GDP ratio below 30% with financial contributions to debt reduction as necessary to sustain that position*.

Most recent projections indicate Canada's deficit will be nearly $20 billion for the 2017-18 year, and the federal government anticipates deficit spending past 2023. In the last year despite strong economic growth and windfall revenues beyond those anticipated in the 2017 Budget, the Government has chosen to increase spending rather than reduce the deficit. During the same period, headlines across major news publications pointed to new Organization of Economic Cooperation and Development analysis which indicated that Canadians' financial well-being is vulnerable because of high levels of household debt and that these debt levels are a risk to economic growth.[6]

The parallel between the two spending trends is important because leadership starts at the top. Fiscal restraint is the appropriate behaviour for elected government leaders to model. Avoiding inter-generational debt to steward optimism and opportunities for future generations makes sense, while increasing the long-term debt burden on Canada's economy will not encourage growth in either investment or trade, and will ultimately serve to deter investments needed to facilitate our prosperity. Alberta business wants to see a path to balance that accurately reflects the governments stated priorities in words and deed.

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[6] Deen, Mark. (November 23, 2017). *Canadians are the most indebted in the world, OECD says, as it warns on rising debt risk*. Article from the Financial Post website. Retrieved July 18, 2018 from http://business.financialpost.com/personal-finance/debt/canadians-are-the-most-indebted-in-the-world-oecd-says-as-it-warns-on-rising-debt-risk