Confédération
CSN des syndicats nationaux

Pre-Budget Consultation Brief in

Preparation for Budget 2019

Submitted by

the Confédération des syndicats nationaux

to the

Standing Committee on Finance

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Confédération des syndicats nationaux
1601 De Lorimier Avenue
Montréal, Quebec H2K 4M5
Tel.: 514-598-2271
www.csn.qc.ca

Recommendations

1. Introduce measures to protect the tax base

    - Revise the capital gains inclusion rate
    - Tighten stock option deductions
    - Reduce tax breaks for oil and gas companies
    - Replace research and development tax credits with direct government assistance.

2. Close the loophole that allows companies to transfer dividends back to Canada from tax havens completely tax free.

3. Review the Employment Insurance Program and find a lasting solution to the "black hole" experienced by seasonal workers.

4. Revise government assistance to the steel and aluminum sectors as necessary to ensure that Canadian companies in these sectors can withstand US tariffs.

5. In response to US tax reforms, implement the following measures so as to remain competitive:

    - Continue to be a welcoming place for immigrants
    - Adopt measures to foster increased participation of underrepresented groups in the labour force
    - Invest more in labour force training and education
    - Provide adequate funding to the public health system.

6. Stop encouraging increased production of petroleum products from the oil sands.

7. Recognize the Davie shipyard in the National Shipbuilding Strategy.

8. Implement support measures for print media.

The Confédération des syndicats nationaux (CSN) comprises nearly 1,500 unions representing some 300,000 workers, primarily in the province of Quebec.

In anticipation of the forthcoming federal budget, the CSN would like to present certain and recommendations.

Public finance

The CSN welcomed the government's tax reforms aimed at making personal income tax more progressive.

The CSN also agrees with the tightening of tax rules governing Canadian small businesses, even though the government did not go as far as it had originally announced.

The CSN wishes to suggest a few additional measures that would protect the tax base:

- Revise the capital gains inclusion rate
- Tighten stock option deductions
- Reduce tax breaks for oil and gas companies
- Replace research and development tax credits with direct government assistance.

Concerning the fight against tax havens, the federal government must close the loophole that allows companies to transfer dividends back to Canada from tax havens completely tax free. To that end, the regulations governing tax information exchange agreements (TIEAs) and tax treaties must be amended.

Employment Insurance Program

The CSN believes that a great deal remains to be done in order to make the Employment Insurance Program responsive to the realities of the working world. In particular, the government must find a lasting solution to the "black hole" experienced by seasonal workers.

The measures announced in Budget 2018 are clearly insufficient. Moreover, income support is contingent on participation in training that local employment centres (CLEs) are not ready to dispense – not to mention the fact that the need for additional training of seasonal employees is far from generalized. The only real solution would be to amend the Employment Insurance Program to take into account the realities of seasonal work.

Trade relations between Canada and the United States

Canada and Quebec are being hit hard by the application of US tariffs on a growing number of products (calendered paper, lumber, newsprint, Bombardier C-Series aircraft, steel and aluminum), as well as the threat of tariffs on automobiles and auto parts.

These countervailing duties and antidumping measures are clearly designed to pressure Canada and Mexico within the context of the ongoing renegotiation of the North American Free Trade Agreement (NAFTA).

Following unsuccessful attempts to have the United States see reason when it came to its 25% and 10% tariffs on steel and aluminum respectively, Canada had to resort to imposing tariffs on $16.6 billion worth of goods from the US, including steel, aluminum and many other products.

The CSN feels that the Canadian government had no choice but to respond to the US tariffs, matching the responses of Mexico, China and the European Union. The American arguments justifying tariffs on Canadian steel and aluminum exports are clearly fallacious.

The CSN applauds the $2 billion in measures announced by the government to protect Canada's steel, aluminum and manufacturing industries and workers. The decision to extend work-sharing agreements under the Employment Insurance Program by 38 weeks is also a good initiative, as is the decision to strengthen job training programs for workers affected by American protectionist measures. These aid measures should be revised as necessary to guarantee that Canadian companies in these sectors can withstand US attacks and continue to grow despite the tariffs imposed by the United States.

US tax reforms

In addition to the challenge presented by trade relations with the United States, Canada also needs to remain competitive in the face of recent US tax reforms.

The US cut its corporate tax rate from 35% to 21%. Taking into account local and State taxes, corporate taxes for US companies are now comparable to those enjoyed by Canadian companies.

The US reforms also seek to stimulate investment by shifting from a global tax system to a territorial tax system under which US companies will have to transfer the profits of their international subsidiaries back to the US, where they will be taxed at a lower rate. The Trump government hopes that transferring these profits back home will lead to additional investment and higher salaries. However, when the US granted a similar tax break in 2004, companies used 79% and 15% respectively of the funds thus made available to buy back stock and pay dividends. There was no increase in investment.

The US reforms will also include substantial temporary reductions in personal income tax, expiring in 2025. This reduction is biased in favour of higher income earners, since the middle class will be receiving an average of $900 in tax breaks while the highest tax bracket will be getting $13,000.

Overall, this program of tax reforms will cost the US government $1.5 billion over 10 years. It should provide a mild stimulus to the US economy in the short term, but not enough of a stimulus to cover the cost of the reforms. Without substantial budget cuts, the debt-to-GDP ratio is expected to increase from the present 106% to 114% in 2027. Thus the maintainability of the Trump government's tax cuts remains questionable.

Employer associations are currently pressuring the Canadian government to reduce corporate and personal income tax rates in order to keep the Canadian economy competitive. However, it is far from certain that simply emulating US policy will be the right approach for Canada. Taxation is only one of the determinants of economic and investment growth. Here are some of the measures Canada should put forward to ensure its continued economic and social development:

- Considering its ageing population, Canada should continue to be a welcoming place for immigrants. Immigration is one possible solution to the scarcity or shortage of workers in certain fields.
- In order to thwart the economic impact of population ageing, Canada should adopt measures to foster increased participation of underrepresented groups in the labour force. These groups include low-income and unskilled workers, older workers, women with children, and Indigenous people.
- Canada should invest more in labour force training and education in order to adapt to the requirements of the 4th industrial revolution.
- Canada's public health system, which is an asset to the Canadian population and to Canada's business community, should be adequately funded. It is important to bear in mind that about 20% of health expenditures in the US are borne by employers, whereas this cost is only at 4% for Canadian companies.

Transition to a low-GHG economy

The CSN feels that the federal government's decision to buy the Trans Mountain pipeline from Kinder Morgan Canada is incompatible with the pledges it made at the Paris Climate Conference (COP 21) to fight climate change and reduce greenhouse gas (GHG) emissions.

The decision is indefensible, as it seeks to promote increased production of oil from oil sands – one of the hydrocarbons producing the most GHGs.

The purchase is also questionable from an economic standpoint, since it involves the transfer of public funds to an oil company, whereas substantial investment is needed to develop the renewable energy sector.

Lastly, this decision flies in the face of opposition from the government of British Columbia and from a number of civil society groups. With this action, the federal government is ignoring public health and safety issues, the rights of First Nations, the will of the Canadian people to move toward a carbon-free economy, etc.

Davie shipyard

The Harper government ignored Quebec when it awarded $35 billion in contracts to build vessels for the Royal Canadian Navy and the coast Guard, even though the Davie shipyard in Lévis was fully qualified to obtain a share of those contracts.

Despite the Harper government's blind eye, the Lévis shipyard, which is still the largest in Canada, managed to revive its activities. Since 2013, the Davie shipyard has built the *Cecon Pride*, an offshore vessel used by the oil and gas industry. It has also built ferries for the Société des Traversiers du Québec (STQ) and successfully converted the container ship *Astérix* into a supply ship for the Royal Canadian Navy (a contract worth $700 million).

Upon completion of the supply ship contract, the Davie shipyard had to lay off workers and its continued existence was once again threatened. Following a mobilization of all stakeholders, the Trudeau government agreed to award new contracts to the Davie shipyard for the acquisition and conversion of three medium-sized commercial icebreakers. However, this is a short-term solution, particularly given the government's refusal to award Davie the contract for the largest icebreaker.

To ensure the continued existence of the Davie shipyard, the Trudeau government should stop making the same mistake as the previous government and recognize once and for all the Davie shipyard in the National Shipbuilding Strategy (NSS).

Support to print media

Print media are experiencing a crisis that is impacting our democratic life. There is a need for a new funding model, based on an equitable sharing of the advertising revenue that is currently going to Web giants. In the short term, measures are needed to ensure the continued operation of our print media outlets. Together with the Fédération nationale des communications (FNC-CSN), the CSN is requesting the following: access to the Canada Periodical Fund for daily newspapers, tax credits equivalent to 30% of salary expenditures for print media, and the establishment of a fund for the continued existence of information production.