



**GREATER CHARLOTTETOWN AREA
CHAMBER OF COMMERCE**

**Building the Regional Advantage: Greater Charlottetown Area Chamber of
Commerce Written Submission for the Pre-Budget Consultations in Advance of the
2019 Budget**

Submitted to House of Commons Standing Committee on Finance

August 2018

RECCOMENDATIONS

The Greater Charlottetown Area Chamber of Commerce puts forth the following recommendations to the House of Commons Standing Committee on Finance to be considered in the development of the 2019 federal budget:

Recommendation 1: *Respond to the realities of the changing tax landscape in the United States by reinstating Canada's business tax advantage and removing undue regulatory burdens on businesses of all sizes.*

Recommendation 2: *First explore incentives to reduce carbon emissions before implementing the federal carbon pricing backstop policy.*

Recommendation 3: *If it is deemed necessary to implement a carbon pricing structure, that it be done in a manner that is revenue neutral for business, that is, a tax shift rather than a tax increase.*

Recommendation 4: *Enhance the proposal to impose an income "reasonableness test" on small family-run businesses to recognize family members can contribute to and support family businesses without being directly involved.*

Recommendation 5: *Alongside modernizing NAFTA, Canada must diversify its trading relationships through agreements like CETA and CPTPP and relieve the regulatory burden on Canadian businesses.*

Recommendation 6: *Transition the Atlantic Immigration Pilot to a permanent immigration program in Atlantic Canada.*

Recommendation 7: *Continue funding support for the PEI Network and PEI Connectors programs with the goal of integrating and retaining newcomers and recent graduates to the province.*

Recommendation 8: *Examine all federal programming directed at the transition of school to work to ensure the level of funding and program designs are meeting current labour market challenges and needs, as well as those expected for the short-term future.*

Recommendation 9: *Annually target for balanced (or conditions permitting, surplus) budgets subject to recessionary conditions indicating a requirement for deficit spending to stimulate economic activity.*

INTRODUCTION

The Greater Charlottetown Area Chamber of Commerce (GCACC) appreciates the opportunity to provide input to the Standing Committee on Finance in advance of the 2019 federal budget. The global economic system is based on the principle of competition. Private sector businesses constantly look for ways to differentiate themselves from others who offer similar products and/or services. Successful businesses are often the ones that take advantage of their unique selling features to expand their markets and hopefully, their profits. One can apply this same principal to the economic competitiveness of the Canadian economy.

The competitiveness of Canadian businesses is eroding and the cost and complexity of doing business in Canada is rising. Drastic cuts in United States corporate taxes, the uncertain fate of the North American Free Trade Agreement (NAFTA); protectionist trade policies from the United States, increased international competition for skilled labour; and an aging population have made businesses both regionally and nationally vulnerable to uncertainty and risk at levels higher than in a very long time. Now is the time to protect and improve Canadian business competitiveness.

In this submission, the GCACC speaks to five key areas that if supported, can build the competitive advantage of the Atlantic region and country as a whole:

1. Canadian tax competitiveness
2. NAFTA negotiations and protecting Canadian competitiveness
3. Supporting Regional population growth
4. Addressing skills shortages
5. Fiscal responsibility

CANADIAN TAX COMPETITIVENESS

The cost of doing business in Canada is rising. Chamber members are worried about the growing burden posed by fees, taxes and regulations on the private sector. The ability to grow their businesses within Canada and/or compete for investment and customers from abroad is becoming increasingly hindered by cumulative impact of these environmental factors. This concern has become even more substantial as the United States administration moves to instate protectionist policies and dramatically cut both regulation and business taxes in their country.

UNITED STATES CORPORATE TAX RATES

The Chamber welcomed the federal government's move to lower the small business tax, however, more must be done to reduce the tax burden if Canadian businesses are to remain competitive with the United States. In January 2018, the United States cut their corporate tax rate from 35 per cent to 21 per cent. Taking into account state income taxes, the new U.S. corporate income-tax rate will be 26 per cent, not much higher than the world average

of 24.7 per cent. This is almost a point lower than Canada's rate, considerably eroding Canada's favourable corporate tax advantage and giving the U.S. an edge.¹

The Chamber acknowledges taxation raises revenue for governments to deliver programs and services, but there are economic and behavioural costs associated with taxation. An uncompetitive tax environment discourages businesses from investing or expanding, or worse, encourages them to relocate to more favorable tax environments. It is important that Canada responds in a way that favours Canadian businesses of all sizes.

Recommendation 1: *Respond to the realities of the changing tax landscape in the United States by reinstating Canada's business tax advantage and removing undue regulatory burdens on businesses of all sizes.*

CARBON PRICING

Further impeding on Canada's tax competitiveness is the proposed price on carbon. Recent media reports in Prince Edward Island (P.E.I.) suggests the possibility of the federal government implementing the carbon pricing backstop policy. If this were to happen, the Chamber reiterates its position on carbon pricing as presented to the provincial government:

If it is deemed necessary to implement a carbon pricing structure, the Chamber urges government to do so in a way that is revenue neutral, that is, a tax shift, rather than a tax increase. If this additional revenue is not offset by other tax reductions for local businesses, the relative burden of P.E.I.'s tax regime may have a negative impact on the economic development of the province.

The Chamber however, would encourage both the federal and provincial governments to first consider solutions to reduce emissions in a way that is not punitive to businesses and consumers. At 1.8 megatonnes, P.E.I.'s carbon footprint is 0.25 per cent of the national amount of 704 megatonnes². As a province, P.E.I. prides itself on its clean energy sector and leading the way nationally in environmental stewardship. The Chamber is confident in Island businesses' ability to care for the environment without punitive tax measures.

Recommendation 2: *First explore incentives to reduce carbon emissions before implementing the federal carbon pricing backstop policy.*

Recommendation 3: *If it is deemed necessary to implement a carbon pricing structure, that it be done in a manner that is revenue neutral for business, that is, a tax shift rather than a tax increase.*

UNFAIR FEDERAL TAX CHANGES

In the fall of 2017, the GCACC joined forces with Chambers across the nation to oppose the federal government's unfair tax changes. The Chamber wishes to thank Finance Committee Chair, and Island representative, Wayne Easter, for standing with businesses during this time of uncertainty.

¹ <https://business.financialpost.com/opinion/jack-mintz-trumps-tax-tsunami-is-about-to-wallop-canadian-jobs-and-investment>

² <https://www.ec.gc.ca/indicateurs-indicators/default.asp?lang=en&n=18F3BB9C-1&wbdisable=true>

The Chamber welcomes the retraction of proposed changes related to the lifetime capital gains exemptions and conversion of capital gains into dividends. However, members remain concerned with the invasive and impractical “reasonableness test” designed to determine if a family member is deserving of the appropriate income from businesses. Members still feel this measure does not consider the many ways family members contribute to a small business and indirect contributions need to be considered.

Recommendation 4: *Enhance the proposal to impose an income “reasonableness test” on small family-run businesses to recognize family members can contribute to and support family businesses without being directly involved.*

NAFTA NEGOTIATIONS AND PROTECTING CANADIAN COMPETITIVENESS

Prince Edward Island companies are exporting more than ever before. 2017 was the first time exports to the United States exceeded \$1 billion in the province. Statistics Canada reports P.E.I. generated \$1.38 billion in exports in 2017, an increase of 4.6 per cent over 2016.³

Accompanying the rise of exports to the United States, however, is an uncertainty from Chamber members surrounding the fate of NAFTA. The GCACC affirms the Canadian Chamber’s position which supports the federal government’s efforts to have the U.S.’s unjustified tariffs on Canadian steel and aluminum products lifted.

While regrettable that the negotiation with such an important ally and trading partner has reached this point, the retaliatory tariffs are necessary to defend Canadian business and encourage the U.S. government to reverse its unwarranted tariffs. In the wake of these events, it is important to emphasize that, now more than ever, Canada’s business competitiveness must be a top priority.

Recommendation 5: *Alongside modernizing NAFTA, Canada must diversify its trading relationships through agreements like CETA and CPTPP and relieve the regulatory burden on Canadian businesses.*

SUPPORTING REGIONAL POPULATION GROWTH

With a population estimated at 152,021⁴, P.E.I. is the leader in Atlantic Canada in population growth. This is mainly to do with the province’s success in attracting international immigrants and through the federally initiated Atlantic Growth Strategy.

³ <https://www.princeedwardisland.ca/en/news/island-companies-exporting-more-ever>

⁴ https://www.princeedwardisland.ca/sites/default/files/publications/pt_pop_rep_1.pdf

While positive strides have been made to reverse demographic trends of concern, as Table 1 indicates, demographic challenges remain in the province and cannot be ignored. Without continued positive net migration to the Province, either from other provinces or internationally, population growth will stagnate with consequences on labour supply, economic growth, competitiveness, and growing the tax base to support an aging population.

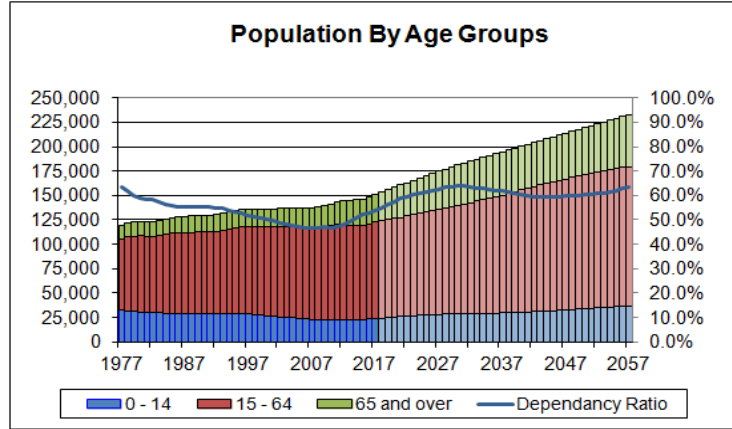


Table 1 – PEI population demographics by age group⁵

The Chamber suggests addressing aging-population challenges by improving the retention of local youth and international students. The recent expansion of the *Study and Stay*⁶ program into all four Atlantic Provinces is a positive step toward improving retention rates of this demographic.

The Atlantic Immigration Pilot program, aimed at increasing population growth and retention of immigrants and international students is also key to addressing skill shortages in the region. The Chamber welcomes news that P.E.I. has utilized its full allotment for 2018, and now has access to the 500 additional spaces recently announced. Given its marked success, and the need, the Chamber would encourage government to consider making the Atlantic Immigration Pilot permanent.

The Chamber acknowledges the community's role in supporting newcomer retention. In March 2018, with the support of the Immigration Refugees and Citizenship Canada and provincial Department of Economic Development and Tourism, the Chamber launched the *PEI Network*⁷ program, an informal networking program connecting business and community leaders with PEI's top new talent including new grads, and new Islanders. The Chamber, with the support of Immigration Refugees and Citizenship Canada and the provincial Department of Economic Development and Tourism, also offers the *PEI Connectors*⁸ program, aimed at supporting entrepreneurial immigrants.

Recommendation 6: *Transition the Atlantic Immigration Pilot to a permanent immigration program in Atlantic Canada.*

Recommendation 7: *Continue funding support for the PEI Network and PEI Connectors programs with the goal of integrating and retaining newcomers and recent graduates to the province.*

⁵ Department of Workforce and Advanced Learning, Government of Prince Edward Island

⁶ https://www.canada.ca/en/atlantic-canada-opportunities/news/2018/02/study_and_stay_program.html

⁷ <http://www.peinetwork.ca/>

⁸ <http://peiconnectors.ca/>

ADDRESSING SKILLS SHORTAGES

The next twenty years will see a continued exit of baby boomers from the workforce. This exit will create a strain on national finances in the form of reduced income tax revenue and an increasing expense in the health care system. As the Canadian workforce shrinks, demand will rise, and employers will have increasing challenges attracting and retaining the workers they need, when they need them.

Table 2 highlights examples of projected job vacancies in P.E.I. within the next five years. These vacancies are significant in relation to the population base of 152,000.

The exodus of baby boomers from the workforce will also the needed shift toward the use of automation. The OECD estimates that, due to technological change, 9 per cent of jobs in Canada are at risk of elimination, and 32 per cent of

Canadians are at risk of having their employment substantially altered.⁹ During the era of transition, it is critical government consider the changing employment landscape, and ensure youth of today are equipped with the skills they need to be successful in the future.

| Position Title | Increase in Job Vacancies (2017-2021) |
|--|---------------------------------------|
| Nurse aides, orderlies & patient service associates | 169 |
| Truck Drivers | 133 |
| Carpenters | 106 |
| Aircraft assemblers and aircraft assembly inspectors | 105 |
| Welders and related machine operators | 88 |
| Computer Programmers | 78 |
| Chemical technologists and technicians | 68 |

Table 2 – Projected Job Vacancies in P.E.I.

Recommendation 8: *Examine all federal programming directed at the transition of school to work to ensure the level of funding and program designs are meeting current labour market challenges and needs, as well as those expected for the short-term future.*

FISCAL RESPONSIBILITY

The Chamber registers its concern with the Budget 2018 projected deficit of over \$18 billion and the lack of any plan to move to a balanced budget. The budget did not give enough consideration to how initiatives will be paid for, nor does it put Canada in a position to appropriately respond to a possible downturn in the economy. Today, there is little discretionary room left for the federal government to increase spending in the face of an economic downturn without significantly increasing its fiscal deficit and, in turn, generating higher interest costs at the expense of real economic stimulus.

Recommendation 9: *Annually target for balanced (or conditions permitting, surplus) budgets subject to recessionary conditions indicating a requirement for deficit spending to stimulate economic activity.*

⁹ Canadian Chamber of Commerce, Skills for an Automated Future, March 2018

CONCLUSION

The Greater Charlottetown Area Chamber of Commerce wishes to thank the committee for considering its recommendations. The Chamber welcomes further discussion on these topics, should the committee have any questions, comments, or observations.