CPQ'S COMMENTS

FOR THE 2020 FEDERAL BUDGET

AUGUST 2019

LIST OF RECOMMENDATIONS

Recommendation 1: That the government ensure the tax competitiveness of Canadian businesses, for both large businesses and SMEs.

Recommendation 2: That the government restore tax fairness for electronic commerce and for business transfer.

Recommendation 3: That the government strengthen tax credit for R&D to support innovation for commercialization and for reducing the environmental footprint.

Recommendation 4: The transition to a low-carbon economy requires, among other things, investments in sustainable mobility (public transportation, transportation of people and goods), as well as investments to enable the energy transition (electrification, clean energy, renewable energy, non-traditional renewable energy, etc.)

Recommendation 5: Concerning carbon tax, the CPQ supports governments putting a price on carbon, but while ensuring that the tax effect be offset by an equivalent reduction for payers

Recommendation 6: The government must view government contracts as drivers of innovations.

Recommendation 7: The government must use all the tools at its disposal to facilitate greater workforce availability and qualifications.

Recommendation 8: That the government support innovation in health to meet the growing needs, especially for long-term care.

Recommendation 9: Regarding a national pharmacare program, efforts should focus on expensive treatment and patients who currently lack access to pharmacare. The government should also clearly identify funding sources.

Recommendation 10: That the government promptly put forward a plan to return to a balanced budget.

BACKGROUND

The CPQ still feels that it is of the utmost importance for Canada's Budget 2020 to help maintain a highly competitive business environment in the country to ensure greater prosperity and a better quality of life for Canadians.

To accelerate the transition to a low-carbon economy, we need a strategic approach that will maximize the benefits of and the return on public and private investment.

A number of challenges must be overcome: a more difficult and uncertain global context, the digital revolution, climate change, and the especially pronounced population aging in Quebec.

Population aging, with its impacts both on the workforce and economic activity and on health care needs, is a reality to which we must pay special attention. Concerning the productivity of our businesses, it is fundamental to strengthen the conditions favourable to a growth in the productivity and competitiveness of our businesses. That growth is even more urgent in the current context of labour shortage.

Taxation

Corporate tax

One of the considerations that affects the competitiveness of Canadian businesses is their tax competitiveness, especially since our businesses are subject to other obligations that are greater than those in the U.S., such as environmental regulatory obligations or obligations in terms of labour relations and standards. However, the impact of the U.S. tax reform has not been completely offset, despite the government's efforts. The already proposed depreciation measures are welcome, but there is more work to be done in that area. The substantial tax advantage Canada had over the U.S. prior to the tax reform has decreased considerably. In fact, Canada's advantage in terms of METR has gone from 14 percentage points in 2017 to 6 percentage points in 2019. In addition, despite its importance to investment incentives, it should be noted that, for businesses that do not invest during a year, or that are not eligible for accelerated depreciation measures, the statutory tax rate remains more relevant, and Canada is less competitive in terms of that measure.

Other changes to the tax system are also necessary to avoid the double taxation of certain corporate revenues and to ensure some tax fairness in equity or debt financing.

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

The government should also become involved in the implementation of a new GST registration system to ensure tax fairness in the collection of that tax by non-resident providers of products or services. It should be noted that Quebec has already become involved in the implementation of such a system. A number of countries have done the same.

In addition, an environmentally conscious movement should ensure that all environmental fees, such as the environmental handling fee, are also collected just like sales taxes.

Business transfer

The federal government should amend the *Income Tax Act* to make business transfers to a family member fair, compared with a transfer to a potential unrelated purchaser. Those amendments are even more important in a context where a number of businesses are set to change hands in the coming years. The federal government should come to an agreement with the Government of Quebec so that the tax legislation in this area would be harmonized.

Canada's business environment and support for businesses

The federal government has access to other tax tools whose use it can optimize to contribute more to the competitiveness of our businesses, innovation, commercialization, and reduction of the environmental footprint. The tax credit for R&D is one of those tools. The CPQ suggests making that tax credit refundable for large businesses. The federal government could draw inspiration from Quebec or even France. Those tax credits could also be strengthened to provide the necessary incentives for R&D in environment, in clean technology and in renewable energy.

Moreover, measures to support energy efficient retrofits would help reach greenhouse gas emission reduction targets for buildings, an increase in retrofit spending with a positive impact on the economy of various regions, in addition to combatting tax evasion.

Finally, the government should view government contracts in general and the Canada Infrastructure Bank as opportunities to support innovation. The government can use clients as enablers by giving their projects an opportunity to become technological showcases. In that respect, the systematic application of the lowest bidder policy should be challenged.

Aside from tax measures, the government should invest in programs and initiatives that exert structural leverage by energetically pursuing the implementation of its innovation and development program.

The government should pay special attention to our strategic sectors that are competing globally in a more difficult context, such as the aerospace sector, the forestry sector, and the aluminum and steel sector.

Workforce

The availability and qualifications of the workforce are two issues employers are increasingly prioritizing. In that respect, the CPQ is calling for facilitating measures for training aimed at all stakeholders. For example, the CPQ would have liked EI contribution credits to be given to all employers who provide training. If adopted, the Canada training benefit proposed in the latest budget should take into account employers' operational needs and challenges in its design and its application.

The government must also once again start contributing to the employment insurance fund at 20%, as it did before the Unemployment Insurance Act was passed in 1971.

The CPQ is asking for the implementation of measures for businesses of all sizes to help them benefit from the full potential of workers who are currently available, but whose access to the labour market is more difficult, and to support organizations like the CPQ in providing employers with assistance. Extending the working life of employees should also be encouraged through various incentives, including for employers. Consideration should also be given to the age of retirement.

Finally, the government should facilitate and accelerate the landing process for temporary foreign workers and permanent economic immigration applications.

Infrastructure

The transition to a low-carbon economy requires, among other things, investments in sustainable mobility (public transportation, transportation of people and goods). Those investments also contribute to economic productivity. It is fundamental to also focus on the energy transition (electrification, clean energy, etc.).

The CPQ also feels that, for investments in infrastructure to contribute effectively to economic development, different programs must have the flexibility required to meet the most urgent needs of various regions, as well as to address the changing trade and industry realities. Investments in logistic hubs, especially when it comes to ports, in regional air transportation, and in rail transportation within large cities and intercity and examples of effective and formative investment. Investment in digital infrastructure (Internet and wireless) in the regions is also a crucial aspect of their development.

We also dislike that the development of satisfactory agreements in infrastructure always takes longer with Quebec than with other provinces.

The government should also make its airports more competitive by giving them more flexibility in funding to meet the current and anticipated demand without necessarily having to unduly increase passengers' costs. The rent Canadian airports are required to pay should also be considered, among other issues.

The environment and climate change

In the transition to a low-carbon economy, the CPQ feels that priority sectors should be identified, and targets should be established to support economic stakeholders and to maximize returns on public and private investments in this area.

Moreover, as previously noted, investments in sustainable mobility are crucial. The necessary infrastructure must be available to enable behavioural changes, like those that support public transportation. In addition, investments are required in in non-traditional renewable energy such as biomass, biomethanization, hydrogen, and in our waste disposal.

With respect to the carbon tax, the CPQ is in favour of governments putting a price on carbon while ensuring its neutrality in terms of taxation, and it believes that the federal government's proposal would enable Quebec to be competitive in Canada.

Health sector

Given the population aging, the health system is subject to more pressure, including in long-term care. To help address this problem, the government must help unlock the potential of innovation in health and maximize the contribution of all stakeholders. In addition, federal government should quickly undertake a thorough consideration on the *Canada Health Act* in collaboration with the provinces.

Health transfers

Concerning health transfers, the CPQ notes the importance of considering not only the population, but also its aging, as in Quebec's specific case.

Pharmacare

While believing that all Canadians must have access to pharmacare and affordable prescription medication, the CPQ is warning of the impact of certain changes proposed to research, innovation and investment in Canada, as well as on access to innovative drugs. Instead of using a single-payer universal approach, the CPQ proposes focusing on the issue of expensive treatments (such as medication for orphan diseases and chronic diseases) and of patients who currently have no access to pharmacare. The funding of a potential national pharmacare system and the taxes that will be increased or added must be identified.

Regulatory relief

The CPQ invites the government to continue implementing measures of relief and regulatory and administrative simplification, including the *one-for-one* rule in regulation. Special attention must be paid to environmental assessments by ensuring the enforcement of facilitating environmental laws and regulations that are consistent with the competition. All sources of instability and uncertainty must be eliminated. However, Bill C-69 is going in the opposite direction.

Fiscal restraint

Finally, the government should immediately put forward a plan to return to a balanced budget, especially since Canada is not in a recession, in order to leave future generations a prosperous and financially healthy country.