Pre-Budget Submission

Canadian Chamber of Commerce

Productivity is critical to the performance of Canada's economy , and to our prosperity, because increasing output per worker enables us to raise real wages and living standards. Most advanced economies have experienced a decline in productivity growth over the past decade, but Canada's slow-down is particularly acute, because it has averaged below 1% per annum since 2009, opening up a large gap with our southern neighbor.

More than ever, we have to focus on catalyzing investment and improving our productive capacity. Canada must become an innovation superpower to make sure that new technologies and jobs are created here. We have to increase investment in skills and education to pull more people into better paying jobs. Finally, infrastructure is critical but only if we invest in projects that have high growth multipliers such as digital, energy, and transport.

1. What federal measures would help Canadians to be more productive?

Canada's productivity will depend, in large part, on its ability to find and foster workers with the skills businesses need to succeed. Skills gaps and mismatches are making it impossible to meet the rising needs of some high-value and growth sectors. We need to better align education and skills development with the needs of employers in a knowledge economy.

We recommend that the Government should:

1. Continue to move forward on Labour Market Information (LMI) improvement - Through the Forum of Labour Market Ministers, the Government is establishing an LMI Council which is a great step forward. Now the government must invest in Statistics Canada, to ensure Canada has the most relevant and useful data, and toleverage new technology and new sources of data.
2. Ensure employers have access to the international talent they need by improving Express Entry withhigher service standards such as more detailed feedback on applications and a right of appeal, as well asfaster processing of applications.
3. Building on the Global Skills Strategy (GSS), continue to address the serious processing issues and inflexible features of the Temporary Foreign Worker (TFW) program that are negatively impactingemployers' access to workers. This program should continue to expand in response to labour market shortages across Canada, and the core TFW program should be likewise improved to ensure rapid service and access to labour for all businesses.
4. Increase work-integrated learning by providing incentives for employers to take on more students during post-secondary studies, at all levels of higher education and in every field of academic study.Initial steps to find work placements from Budget 2017 are a positive

development, and these should continue to expand so that students in all fields of study and in all forms of post-secondary education have access to work placements.

5. Expand ESDC's Youth Employment Strategy in order to ensure that youth are equipped with the digital skills they need for the future of work. Acquisition of digital technology skills should be considered an essential employment skill.

2. *What federal measures would help Canadian businesses to be more productive and competitive?*

TAXES

The Government of Canada should be encouraging entrepreneurship and finding ways to help more Canadians start their own business. Unfortunately, the Government is moving in the opposite direction by penalizing entrepreneurs in an effort to reduce tax avoidance. A long list of tax measures are raising the burden on small business owners: Deferring the reductions in the small business tax rate, Tightening the rules around partnerships, taxing work in progress, and now taxing passive income in a corporation, and applying reasonableness tests to salary and dividends paid in family businesses. This raises the administrative burden on new entrepreneurs and discourages them from forming corporations. Overall, High business taxes discourage investment and job creation, which subtracts from the economic stimulus that the government has been striving for.

We recommend that the government look at new ways to improve the tax competitiveness of Canadian business:

1) Cancel efforts to tax passive income inside a corporation. The tax deferral advantage is modest, while the administrative burden in taxing these funds would be enormous. This is not the time to be discouraging Canadians from starting businesses.
2) Allow Canadian entrepreneurs to pay salary and dividends to family members without requiring elaborate reasonableness tests for salary and dividends by CRA, aside from preventing abuses.
3) Continue the planned reductions in the small business tax rates (which were deferred in 2016) and increase the income threshold to $1,000,000 from $500,000 to encourage small companies to continue growing.
4) Allow Canadian business to write off 100% of capital investments in the year they are made for a broad variety of categories (advanced machinery, plant and equipment, computers, telecommunications network equipment, fibre cables, data network infrastructure) to encourage greater private sector investment in technology.
5) Reduce EI premiums to the seven-year break even rate of $1.49. The Canadian Chamber welcomes investments in training but payroll taxes are the worst way to pay for it. EI premiums are a tax on hiring, that make it more expensive to create jobs. If there is a surplus in the EI account, the premiums should be lowered.

INNOVATION:

Canada's public sector expenditure on R&D is among the highest in the world, we have excellent universities and colleges that are doing great research, but we lag in the commercialization of new technologies. As such, Canada's innovation agenda must leverage the private sector and help companies get from idea to product.

1. The Canadian Chamber of Commerce recommends adopting an "innovation box" regime that would reduce the corporate tax rate for income derived from patented inventions and other intellectual property connected to new or improved products, services and related innovative processes that were developed in Canada.

   In contrast with a broad tax credit, such as the scientific research and experimental development tax (SR&ED), which provides general tax relief on R&D activities, instead a business that created a patent or new idea in Canada would see the revenues that arose from that idea taxed at a much lower rate. This would encourage companies to locate intellectual property activity and the new high-value jobs associated with development and innovation in Canada.

2. Provide additional capital to Aboriginal Financial institutions - Despite AFIs' demonstrated success, the federal government has not provided capital injections since 2011. Over the preceding decade, the federal government provided an average of $4.1 million a year in capital contributions to the AFI network. The lack of new loan capital has constrained AFIs' ability to provide capital to Indigenous entrepreneurs

3. Build a highly competitive venture capital industry that can provide the equity and expertise to create world-leading technology companies.

   a) Make British Columbia's investment tax credit a national program

   British Columbia has a successful, tested program that gives investors a 30% refundable tax credit for investments of up to $200,000 in eligible businesses, a maximum tax credit of $60,000 per investor. A study at UBC showed that for every $1 in provincial tax credits issued, the companies ended up paying $2.92 in Canadian taxes (sales taxes, income taxes and corporate taxes).

   The federal government should establish a 15% refundable tax credit on eligible start-ups that would be matched by the provinces. A country-wide 30% tax credit would grow the community of angel investors to incent them to do more.

   b) Provide a tax exemption on the capital gains from venture capital

   The capital gains in tax-free savings accounts (TFSAs) are exempt from taxation, a helpful boost to retirement savings. By providing a similar treatment for venture capital, the government would make Canada a very attractive destination for investors. Because so many venture capital investments fail to make any profits, it is critical that the successful ones have the large returns that can justify investing in venture capital funds.

c) Increase government investment in venture capital

The federal government's Venture Capital Action Plan (VCAP) has been very successful because government investment must be matched by private sector funding. The government should double the size of the VCAP to $800 million and consider placing a 6% cap on the return on government investment in order to boost the returns received by private sector venture capital investors. This improves the return of private sector investments while leveraging up the funding for entrepreneurs.

d) Invest in incubators

Business incubators support start-ups and new companies by providing resources and services, such as mentorship, funding, networking, training and office space, to accelerate their development.The governments should invest in incubators as a key part of bringing together start-ups, mature companies and post-secondary institutions. These can help foster "business clusters" which accelerate learning and innovation.

4. Create a Sovereign Patent Pool

Japan, South Korea and France have all created government-run funds to intervene in the patent landscape by acquiring, licensing and even occasionally enforcing patents. Canadian business – over 98% are SMEs – often don't have the patent portfolios or the financial resources to license them, so they cannot deploy certain technologies and are at greater risk of patent infringement litigation.The sovereign patent fund model can make technologies available and help commercialize Canada's IP.

3. Security Innovations and Certification

Encourage the protection of Canada's innovation in a digital marketplace through the Support/endorsement of an industry-led certification and incentivizing industry to incorporate security features through tax credits and targeted funding.

TRADE

As part of a small, open economy, Canada's ability to grow depends on international trade. Exports, imports and foreign investment create and sustainjobs in our communities, stimulate competition and innovation and give families affordable choicesin the marketplace.

The Government should:

1) Press ahead with the Comprehensive Economic and Trade Agreement (CETA). As it must be ratified by the 27 EU member states, Canada should mobilize resources to educate Europeans on the benefits of trade with Canada. We should also begin negotiating a trade agreement with the United Kingdom and continue to discuss the merits of the Trans-Pacific Partnership.
2) Improve the flexibility of the CanExport Program – Several of the requirements of "one new market only per project application" and the "applicants can only have one active CanExport project at any given time" restricts the program's usefulness to SMEs. If there were more flexibility, and if a Canadian company could access the $50,000 in funding for a variety of "approved market activities", it would increase the ability to apply the program more efficiently to their business and export markets.

INFRASTRUCTURE

The federal government has made a historic commitment through deficit financing to double federal infrastructure investments to nearly $120 billion over the next decade. While the proposed commitment of $60 billion in new funding for green, social, transit investments over the next decade ($20 billion each) is needed, the federal plan lacks balance.

Trade-enabling infrastructure – that which enables the movement of products, services and people through Canada and to key markets around the world accounts for a very small (13%) part of infrastructure spending.

The Canadian Chamber strongly recommends that trade-enabling infrastructure be made an equal priority alongside green, social and transit Infrastructure in Phase 2 of the federal infrastructure plan.

The Canadian Chamber also recommends that the federal government renew its commitment to trade corridors as was done previously thought the federal Asia Pacific Gateway and Corridor Initiative (APGCI) and the Gateways and Border Crossings Fund (GBCF). Programs like these help coordinate investment from the private sector and other levels of government in Canada's trade corridors to help Canadian businesses better connect to global supply chains.

There is an opportunity for the next decade of infrastructure investment in Canada to be truly nation changing by unleashing the private sector and targeting specific economic problems through public investment. The Chamber has published a report which examines the effects of various deficiencies in infrastructure, ranging from traffic in major cities to access to broadband internet, improving the Ontario-Québec trade corridor with the U.S., lack of new pipelines and the unexplored potential of Canada's North http://chamber.ca/publications/reports/