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August 4, 2017

The Honourable Bill Morneau, Minister of Finance
Department of Finance Canada
90 Elgin Street Ottawa,
Ontario K1A 0G5

Dear Minister Morneau,

Re: 2018 Federal Pre-Budget Submission

The Calgary Chamber exists to help make businesses more successful, and in doing so make Calgary the best place in the country to live, work, and grow a business. It's a job we've been proud to do for over 125 years. Through those years, the Chamber and its members have helped build an incredibly entrepreneurial, innovative, and world-beating city – all out of a dusty prairie.

Today, the Chamber represents over 1,600 businesses and over 400,000 employees, and our focus remains unwavering: to make the business community more successful.

Through the 2018 Budget, the Government of Canada has an opportunity to improve the **productivity** and **competitiveness** of Canada's workforce and business community. Our recommendations focus on policy changes that can be implemented quickly, have a real benefit for Canadian businesses, and can address Canada's budget deficit by broadening the tax base, while costing little in terms of program spending.

Through consultations with Calgary's business community, the Chamber has identified five ways for the federal government to improve Canada's productivity and competitiveness, including:

1. Offering a more competitive tax jurisdiction;

2. Improving workforce skills and participation;

3. Incenting technological innovation;

4. Encouraging capital investment for business growth; and

5. Addressing domestic and international trade and labour restrictions.

The Chamber applauds the Government of Canada's efforts to improve international market access through the Comprehensive Economic and Trade Agreement (CETA) with the European Union, and addressing domestic barriers through the Canadian Free Trade Agreement (CFTA). The federal government should continue to address trade barriers abroad, while working with businesses to resolve domestic restrictions through the CFTA.

The remainder of our submission focuses on the other four areas that are critical to improving productivity and competitiveness.

1. Offer a Competitive Tax Jurisdiction

Issue: Canada is not the most competitive tax jurisdiction. We have gone from having the 19th-highest tax burden on investments by medium-sized and large corporations in 2012, to the 14th-highest among 34 OECD countries in 2014. Efforts to improve the competitiveness of Canada's tax system can be made to reduce the overall burden of corporate taxes, reduce complexity, and address barriers that discourage business growth.

Background: Corporate taxes impose the highest economic burden compared to all other taxes in Canada. The Chamber firmly believes that the right way to raise revenue and encourage economic growth is through lowering rates and broadening the tax base.

In a 2014 survey by Ivy Business School and KPMG, medium-sized businesses cited the review and audit process as creating considerable complexity and costs for their companies. Businesses reported time costs from complying with the onerous laws, and difficulties with appealing decisions. Furthermore, many small and medium-sized enterprises make more than thirty tax remittances each year, resulting in large penalties due to errors.

The Government of Canada needs to ensure that the tax system does not discourage businesses from expanding production.

The Chamber recommends the government:

- Reduce the small business tax rate from 10.5 percent to 9 percent by 2019, in line with the Liberal Party of Canada's campaign platform. The federal government should also look to increase the small business limit from $500,000 to $1,000,000.

2. Improve Workforce Skills and Participation

Issue: Despite having a highly educated workforce, Canada's productivity levels remain lacklustre. After consulting with Calgary's business community, two reasons for the lack of productivity growth were identified: an underrepresentation of groups in the workforce, and a "skills gap."

Background: Canada's highly skilled workforce is a great advantage for business. Canada leads our peers in the population aged 25-to-64 in terms of tertiary education. Furthermore, Canadian students' science, math, and reading scores consistently rank in the top five among OECD nations.

Despite having a highly educated workforce, Canada appears to have a labour productivity problem. Canada's productivity gap with the United States and other leading peers has widened in almost every province over the past two decades.

As Canada's population continues to age and workforce growth slows, tapping into additional segments of the labour force needs to be a priority. Canadians who have post-secondary diplomas, certificates or degrees have a 90 percent participation rate in the work force, while those that do not, participate at a rate of 78 percent. Raising the participation rate of lower educated Canadians could add $38 billion to Canada's Gross Domestic Product (GDP).

Indigenous communities, which tend to have lower literacy and numeracy skills, represent a source of untapped labour potential. In addition to the social benefits, bringing the participation rates of Indigenous peoples up to those of other Canadians could contribute an additional $7 billion to our national GDP.

New technologies help workers improve productivity and increase earnings, while helping businesses reduce their costs and become more competitive. However, technological change can – at least in the short run – reduce job opportunities for Canadians. Estimates suggest that nearly half of all Canadian jobs may be at risk of being affected by automation over the next twenty years. Technological change will likely impact income levels differently, as high-skilled, higher wage jobs have a lower risk of being negatively affected by automation and computerisation.

Throughout our consultation with local businesses, we heard that there is a mismatch between the skills being obtained by our workforce, and the skills needed by business. In fact, the Canadian Chamber of Commerce's report, "Tackling the Top 10 Barriers to Competitiveness in 2015," listed the skills gap as a top ten issue impacting Canadian businesses. According to the report, "currently Canada is not producing enough graduates with the skills needed for its economy. Canada has shortages and high demand forecast in a wide range of occupations."

With more and more Canadians about to leave the workforce due to demographic realities, stronger efforts will be needed to coordinate the skills that Canadians are obtaining, with those needed by the business community. Businesses should be at the heart of this coordination.

The Chamber recommends the government:

- Introduce a broad tax credit for employers across Canada to offer training, post-secondary co-op placements, and internships. Providing the incentive to the employer, without overly limiting the type of skills-related training that is eligible, will allow businesses to target gaps in skills as they emerge. Tax incentives can also be focused to training underrepresented groups in the workforce, along with workers who may not have the necessary skills-set to succeed in an increasingly technological world.

3. Incent Technological Innovation

Issue: Canada lags behind our peers in terms of innovation. In the 2018 Budget, the Government of Canada can encourage innovation by enhancing competition, helping companies access global talent, and providing further incentives for commercialization.

Background: Countries around the world have recognized the importance of innovation to sustain and grow economies. While there is no simple formula to creating an innovative society, there are measures the federal government can take to encourage the commercialization of new technologies.

A recent survey found that only 30 percent of Canadian businesses consider innovation to be extremely important or very important; only 15 percent would assume significant financial risks in the pursuit of innovation. The Advisory Council on Economic Growth has identified five reasons that Canada's business community is more complacent when it comes to innovation than our global competitors, including:

- Regulatory protections;
- Depressions of the Canadian dollar;
- Trade with the United States;
- Strong demand for Canadian resources; and
- Low competitive pressures in some industries.

Canada's abundance of resources, and trade with the United States are possible reasons for complacency because, in theory, an abundance of a valuable commodity along with proximity to the world's largest market could reduce an economy's need for innovation. Opening the Canadian market to greater competition will have a positive effect on innovation. This can be done through processes established in the CFTA, and continued efforts to expand trading relationships abroad.

53 percent of technology companies report that finding and hiring experienced management and executive-level talent is their biggest obstacle to growth. The federal government should

continue to work with the business community to address the barriers that are limiting access to highly-skilled talent globally.

Along with low competitive pressures in some Canadian industries, there is a gap between the creation of innovative technology, and revenue generation. Simply put, Canada does not benefit as much as it should from the intellectual property that is created here. While federal programs such as the Scientific Research and Experimental Development (SR&ED) tax incentive have encouraged greater private sector expenditure in research and development (SR&ED offers tax credits on R&D expenditure), Canadian businesses are still struggling to translate research and development into revenue.

The Chamber recommends the government:

- Reduce the corporate tax rate on any new revenues earned on innovative or new technologies developed in Canada (commonly referred to as an intellectual property (IP) box). While some IP box regimes place a lower corporate tax rate on revenue generated through patented technology, Canada should broaden the regime to include other forms of innovative technologies, avoiding the administrative burden of acquiring patents to qualify. In this respect, Canada should follow the example of the Netherlands who offer a lower corporate tax rate for revenues generated on patented technologies, along with non-patented IP for which an R&D certificate has been granted. The reduced corporate tax rate, however, should not treat company sizes differently. By creating an IP box regime, Canada could incent more commercialization of innovative technology, along with encouraging innovative businesses that have already commercialized products to stay, or relocate to Canada. This will broaden the tax base and increase employment opportunities in Canada.

4. Encourage Capital Investment for Business Growth

Issue: According to the World Bank, Canada is the second easiest country in the world to start a business. However, Canadian businesses face issues scaling up. In the 2018 federal budget, the Government of Canada can encourage business growth by addressing the barriers limiting small and medium-sized businesses from accessing capital.

Background: Canada must not only be a great place to start a business, but also a great place to grow a business.

Canada’s 1.2 million small and medium-sized enterprises (SMEs) are critical to innovation and entrepreneurship, employing nearly 70 percent of the Canadian workforce. But only 1.4 percent of Canadian medium-size companies become big businesses, which are a key driver of workforce productivity, job growth, and business efficiency.

20 percent of the labour productivity gap between Canada and the United States is due to lack of scale in Canadian businesses. In Canada, the average business with less than 100 employees generates roughly $500,000 in economic activity, while the average business with 100-499 employees generates roughly $15 million in GDP.

Limited access to value-added capital has reduced Canadian businesses ability to scale up production. A policy environment must be established not only to help entrepreneurs access the capital they need to start a business, but to encourage capital investments in businesses looking to expand production and grow larger.

The Chamber recommends the government:

- Establish an investor tax credit, equal to 30 percent of investment made through the program against federal taxes, to encourage greater capital investment in small and medium-sized businesses. The program should be open to both small and medium-sized businesses looking to expand production.

Thank you for the opportunity to submit our recommendations on how to improve Canada's business productivity and competitiveness. If you have any questions regarding references for the content in the submission, or would like to discuss our proposals in further details, please feel free to contact at zaddington@calgarychamber.com or at 403-750-0400.

Sincerely,
Calgary Chamber

Zoe Addington
Director of Policy and Government Relations