IIAC ACCVM
INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

TD West Tower | 100 Wellington Street West
Suite 1910, PO Box 173 | Toronto, ON M5K 1H6

416.364.2754 | www.iiac.ca

Written Submission for the House of Commons Standing Committee on Finance Pre-Budget Consultations in Advance of the Upcoming Federal Budget

August 7, 2020

- **Recommendation 1:** That the government introduce a tax incentive, such as a personal tax credit, to encourage Canadians to invest in the equity shares of qualified small and medium-sized businesses, structured along similar lines to the successful UK Enterprise Investment Scheme.
- **Recommendation 2**: That the government leverage the private sector for infrastructure investment (public-private partnerships), including small and mid-sized projects.
- **Recommendation 3:** That the government make improvements to tax-assisted retirement savings programs.
- **Recommendation 4:** That the government chart a credible path back toward budget balance.
- **Recommendation 5:** That the government continue with its spending reviews.
- **Recommendation 6:** That the government modernize Canada's Employment Insurance System to accommodate non-standard workers.
- **Recommendation 7**: That the government roll out a training benefit program for CERB recipients and long-term displaced workers.
- **Recommendation 8**: That the government undertake an independent and comprehensive review of the efficiency and competitiveness of the federal tax system.

Executive Summary

The Investment Industry Association of Canada (IIAC) welcomes the opportunity to put forward our recommendations on the measures the federal government could take to restart the Canadian economy as it recovers from the COVID-19 pandemic. Our 115-member firms are the key intermediaries in Canadian capital markets, accounting for a vast majority of financial advisory services and securities trading and underwriting in public and private markets for governments and corporations. As such, our industry has played a significant role in keeping markets operational, resilient and efficient through the global pandemic.

The IIAC applauds the government for the quick and decisive actions it took to support Canadian individuals and businesses facing financial hardship as a result of the pandemic, and to stabilize the financial sector. Building private sector resilience is critical for the recovery efforts. While the Canadian economy appears to have entered the recovery phase, it faces significant risks, and the operating environment for Canadian businesses remains extremely tough. The risk of a second wave of COVID-19 is real and could have a devastating impact on the economy until a vaccine is available. Difficult decisions will need to be made on how fiscal policy will evolve to support the recovery in the context of a framework to rein in debt down the road.

The IIAC asks that the federal government:

1. **Introduce a broadly-based, market-driven tax incentive to attract equity capital for new business formation and expansion of existing small and medium-sized businesses**. Small and medium-sized enterprises have taken on considerable debt, typically relying on loans and lines of credits from financial institutions and often resorting to credit cards as a source of financing as they found it difficult and costly to go public and raise equity capital. With loans now accounting for a greater share of corporate debt, businesses are highly exposed as profits increasingly get squeezed and debt service costs remain at historic high levels, imperiling their ability to repay their debts. Some may not survive. Others will be forced to scale back or defer capital spending and hiring. The government should consider personal tax incentives to encourage investor purchases of equity shares of small business, similar to the U.K. Enterprise Investment Scheme (EIS) program, which provides a personal tax credit on share purchases of eligible small business, to stimulate small business expansion and spending.

2. **Leverage the private sector for infrastructure investment**. Well-targeted infrastructure investment should be a key component of the government’s recovery plan to boost productivity and improve quality of life. Financing mechanisms that draw together public and private capital are critical to funding extensive infrastructure projects in the country aligned with our transition to a low-emissions, climate resilient and energy efficient economy. For example, financing our grids to deliver low-cost, reliability electricity, and allow more renewable power to be added, will require considerable amounts of private and institutional capital. Coordinated leadership between federal and provincial governments, the financial community and industry will be key to progress. There are also many small and mid-sized infrastructure projects desperate for capital at the local and regional level—for example, building retrofits, telecommunications structures for smart technology, and water treatment and energy projects. The government should develop a strategy to harness the available capital and expertise of the private sector, based on a “P3” financing model, to finance both large and small- and mid-sized infrastructure projects. Public funds could supplement private funding, with the benefit of relying importantly on

private sector incentives to allocate capital to the right projects. To link supply and demand of capital to capitalize on the opportunity for increased infrastructure spending, the government should i) provide "catalytic capital" to enhance the economic viability of large projects, and ii) structure projects to balance a healthy return to private sector investors with a "social return" to Canadians reflected in increased productivity. If the government can fully leverage public and private resources, more infrastructure projects could be built and operated in a timely and cost-effective manner.

3. **Make improvements to tax-assisted retirement savings programs** to enable Canadians to save more for retirement and future out-of-pocket health care costs. With Canadians living longer lives and investment returns expected to remain relatively low, there is a significant risk that Canadians run short of adequate savings for their retirement. It is critical that the government provide increased scope for Canadians to accumulate savings in tax-assisted retirement programs. These increased savings are not just to meet the retirement needs of aging Canadians living longer lives, but for the inevitable and expensive long-term care. Without sufficient private-sourced resources, the funding problem will ultimately fall to the state. Increasing the allowable annual contribution to RRSPs and extending the deductibility of payroll taxes for contributions to Group RRSPs would assist younger Canadians to save for retirement. Self-employed Canadians, on the other hand, would benefit from a larger annual RRSP contribution amount. The government should also increase the eligible age to make RRSP contributions beyond age 71, enabling older Canadians that work past normal retirement age, and other seniors, to supplement their private retirement savings.

4. **Chart a credible path back toward budget balance**. Recent estimates indicate the government's deficit will eclipse $340 billion this fiscal year, with the federal debt-to-GDP ratio jumping from 30% in fiscal 2019-20 to 49% in 2020-21. Interest rates are likely to remain low for some time to come which will mitigate the budgetary impact of a higher debt burden. Nonetheless, interest rates will eventually rise, increasingly borrowing costs, and further credit rating downgrades are possible (Fitch Ratings stripped Canada of its AAA rating in June 2020). As the recovery takes hold, the government should outline a path to fiscal sustainability. As stressed by the Office of the Parliamentary Budget Officer, "fiscal transparency and accountability would be enhanced if the Government identifies its fiscal anchor. Further, the commitment should be supported with the Government's detailed economic and fiscal projections over a medium- and longer-term horizon." Establishing a realistic fiscal plan to move back to budget balance is an integral part of strengthening confidence, especially in the business sector.

5. **Continue with the government's spending reviews**. It will be difficult for the government to rely on economic growth alone to achieve a significant reduction in the debt-to-GDP ratio. Spending reviews should be a permanent feature of the budget preparation process to ensure Canadians' tax dollars are delivering value and results, and to enable the government to identify savings and reallocate spending to higher priority/productivity enhancing areas, such as entrepreneurship education and skills training programs, to support the recovery.

6. **Modernize Canada's Employment Insurance System**. The pandemic exposed long-standing issues with the Employment Insurance (EI) system. Had it not been for the Canada Emergency Response Benefit (CERB), millions of Canadians would have been left without financial assistance during the pandemic because they did not have access to EI. Canada's Employment Insurance (EI) needs to be reformed and

modernized to make the system more inclusive – one that accommodates self-employed and other non-standard workers (eg. temporary and part-time works; gig workers) that are becoming more prevalent. A more inclusive system could help bridge incomes and support the recovery.

7. **Roll out a training benefit program**. Three million Canadians lost their jobs as the COVID-19 pandemic shuttered entire industries. While more than half of the jobs have come back, the labour market recovery will likely be uneven and protracted. Policy responses such as retraining programs are needed to increase resilience across Canada's workforce. A C.D. Howe Institute Crisis Working Group recommended that the federal government roll out a training benefits program to provide opportunities for Canada Emergency Response Benefit (CERB) recipients, and long-term displaced workers. The Canada Training Benefit, announced in Budget 2019, can be tweaked to fit the current situation. A strong upskilling and reskilling program would ensure Canadians remain connected to the labour force, especially displaced workers in sectors facing dismal post-pandemic recovery prospects.

8. **Undertake an independent and comprehensive examination of the federal tax system to ensure it best supports productivity and economic growth**. A tax system that reflects sound policy employs tax bases that are as broad and inclusive as possible. This would lead to a simpler tax system, one that is easier to administer, more fair and efficient, and reduces the potential for revenue shortfalls as economic circumstances change. The tax mix is also important as it has a far-reaching impact on economic growth. There is a need to rebalance Canada's tax system so it relies less on economically-damaging income and profit taxes, and more on consumption taxes. The government should refrain from increasing personal and business taxes.