Submission to the House of Commons Standing Committee on Finance for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget 2021

Build Back Better: *A Resilient Foundation for Long Term Prosperity*

Submitted by:
MNP LLP

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We are pleased to make a submission in response to the House of Commons Standing Committee on Finance invitation to discuss measures the Federal Government can take to restart the Canadian economy as it recovers from the COVID-19 Pandemic.

MNP LLP (MNP) is a leading national accounting, tax and business consulting firm in Canada. MNP proudly serves and responds to the needs of our clients, which include more than 180,000 private enterprise and small business clients and 19,000 farms throughout Canada.

Our Recommendations:

Recommendation 1: That the Government ensures a **globally competitive tax system** that attracts investment into Canada and encourages entrepreneurship, employment and consumer confidence.

Recommendation 2: That the Government **understands and addresses the gaps** identified during the pandemic to ensure Canada builds back better.

Recommendation 3: That the **Government supports Canadian businesses** to help transition into a new, more resilient economy.

On May 21, 2020, MNP made a submission to the House of Commons Standing Committee on Finance to discuss the Government's response to the COVID-19 pandemic. In our submission, we outlined an action plan for Canada's economic sustainability, provided immediate action steps for economic stabilization and provided transition measures to "Build Back Better".

Continuing the theme of Build Back Better, a familiar concept in disaster recovery – the Government must now focus on long-term policy objectives and economic stimulus to restart the Canadian economy as it plans for Budget 2021. The objectives of any recovery measures must result in a more robust and competitive economy, as the next economic challenge may occur in the same fashion as our current crisis, suddenly and unexpectedly.

What would a successful Canada look like post COVID-19?

Canadians want to feel secure and confident – to return to a safe workplace, spend and be financially stable and know that our retirement and investments are safe. We need to learn from this experience and emerge stronger.

Canadian Businesses need financial support as we build our businesses back – safer, better and more resilient to future crises.

As a country, we need to remain globally competitive to ensure we are prepared for future economic events. We want to be seen as a safe place to live and invest, with opportunities for families and business to innovate and prosper.

RECOMMENDATION 1: Global Competitiveness

As the Government contends with how to restart the economy and manage our public debt, ensuring we have a globally competitive tax system that attracts investment into Canada and encourages entrepreneurship, employment and consumer confidence is critical.

Every country will be undertaking a planned restart and there will be a simultaneous global competition for capital investment. Canada needs to focus on incentivizing targeted industries so that the country is competitively positioned to attract and retain critical investment and talent. To achieve this, Government should identify key pillars to guide tax policy during the economic restart:

- Maintaining Canada's progressive tax system;
- Continuing to ensure capital is taxed at preferential rates to recognize that investments have been made. The Government previously acknowledged the correlation between lower capital gains rates and capital investment in its 2000 Budget and in its Economic Statement and Budget Update issued on October 18, 2000. This measure was successful in bringing investment into Canada and has been successful in many other countries; and
- Continuing to encourage innovation and growth by rewarding entrepreneurship and providing tax incentives and tax holidays (see Recommendation 3(b)(i) below).

Policy measures:

a) Provide confidence regarding tax reform (e.g. proposals on imposing a wealth tax and increasing the capital gains inclusion rate have been hypothesized). Speculation is causing uncertainty in business and consumer confidence, effectively stalling our economic recovery. The Government should minimize this speculation by committing to the principles outlined above. For example, the recent announcement on ending the Canada Emergency Response Benefit program and confirming there will be no changes to Employment Insurance premiums was welcomed and provided businesses with much needed certainty.

b) Introduce measures to make all industry sectors more competitive through technology and innovation. This will allow expansion into new markets and lead to job creation. For example:

   i. Investment tax credits (ITCs) to encourage investment in technology or environmental upgrades;
   ii. Scientific Research and Experimental Development (SR&ED) ITCs should be refundable for all companies, not just Canadian Controlled Private Corporations (CCPCs); and
   iii. Build Canadian intellectual property and foster innovation - consider introduction of federal patent box legislation, similar to Quebec, Saskatchewan and UK, to incentivize research and development especially from international corporations.

c) Invest in infrastructure projects that enable economic growth to better position us in the future, thus creating a stronger foundation for recovery:

   i. Consider programs to attract private money through enhanced donation credits or deductions where individuals and corporations can donate to local infrastructure (like post-secondary institutions);
   ii. Accelerate investment in high-speed broadband networks for remote areas of Canada – post COVID-19 technology needs have changed, and this is one way to ensure resiliency as we move forward; and
   iii. Consider co-funding investment in railways and ports to expand efficiency and capacity –provide incentives for businesses to invest more today.

RECOMMENDATION 2: Understanding and Addressing the Gaps Identified Through the Pandemic

As we build back better, we need to review lessons learned from the pandemic experience:

- COVID-19 had a significant impact on our long-term care facilities. Canada has fared worse than most in this demographic. This has been highlighted in some tragic reports.
- Several government programs had to be amended to consider Indigenous businesses and specific circumstances for Indigenous Peoples.
- Many businesses without a proper rainy-day fund became reliant on government. The recent implementation of passive investment rules for CCPCs exacerbated this issue as it further discouraged businesses to save. Business owners have not been incentivised to save or build resiliency tools.

Policy Measures:

a) Consider a suite of tax credits that address senior care:

   i. Expansion of the caregiver tax credit; and
   ii. Creation of a home renovation tax credit for aging in place that could be for families to create suites in their homes for aging parents or to renovate the home for the individual to continue to live independently. This would also stimulate consumer spending during this time.

b) Introduce a multifaceted Home Renovation Tax Credit to encompass various situations:

   i. Address the senior care issue as noted above;
   ii. Home renovation tax credit for individuals;
   iii. For individuals who qualify for the disability tax credit and wish to stay at home, the current Home Accessibility Tax Credit could be expanded to include modifications for creating living areas for seniors or caregivers; and
   iv. Refundable tax credit for business retrofit for repurposing vacant commercial rental space (detailed in Recommendation 3 below).

c) Work with the provinces to allow families to choose to have family members live in assisted living or have assistance come to the home. If the senior was eligible for subsidized care, then the family should be able to access these subsidies for care workers at home.

d) Incentivize Canadians to rebuild financially using RRSPs. Allow taxpayers tax-free capped withdrawals if made prior to a certain date. Consideration can be given to allow for regeneration room or to allow recontributions over the next few years to ensure security of long-term retirement savings. Both measures would provide individuals with funds outside of government programs and provide entrepreneurs with funds to kickstart the recovery of their business.

e) Enhance the tuition credit - Government support for post-secondary students during COVID-19 was minimal and student employment has been hard-hit leading to increased financial needs. Along with investing in innovation and technology, our people need to be re-trained for our economy to be more resilient:

   i. Provide additional programs for education and retooling of skills;
   ii. Consider our previous recommendations to remove the $5,000 annual cap on tuition transfers to parents (which has not increased since 1997). Any amount not required by the student should be transferred to the supporting parent to reflect the economic reality of education costs;
   iii. Introduce grants or credits for students enrolled in targeted areas of investment; and
   iv. Consider a training grant similar to the Quebec program that reimburses employers for training expenses if certain conditions are met.

f) Target tax incentives for harder hit industries/communities:

   i. Introduce a super donation tax credit for donations to charities that deal with social and health issues surrounding COVID-19;
   ii. Introduce a safe domestic tourism credit, incentivizing people to travel safely while supporting struggling airlines and the Canadian tourism industry; and
   iii. Implement a training tax credit for Indigenous employees and refundable tax credit for corporations partnering with Indigenous businesses on projects to incentivize businesses to work with Indigenous communities and workers.

RECOMMENDATION 3: Support Canadian Businesses as they Build Back Better

What support can we provide businesses to help them transition back safer and more resilient?

Businesses who can safely open and transition to a growth phase will help get Canadians back to work, in turn leading to increased consumer spending.

Policy Measures:

a) Help businesses transition from survival to growth. For example, the Canada Emergency Business Account program provided businesses with much needed emergency funding. To jumpstart growth, the Government should coinvest with financial institutions to create programs to stimulate the economy with transition funding. These loans could have longer repayment terms and forgivable portions.

b) Introduce tax incentives that target specific growth areas:

   i. Manufacturing - rebuild Canada’s manufacturing base by offering a tax holiday for new manufacturers, ITCs or accelerated tax depreciation for purchasing manufacturing equipment and/or ITCs for innovation and improving efficiencies through technology; and
   ii. Agriculture – prioritize the expansion of our natural capital by offering ITCs and cost sharing grants to encourage farmers to innovate and invest in their capital-intensive operations (i.e. buildings, grain storage, cattle handling facilities, barns, technology and environmental upgrades). National alignment of AgriStability programs and boosted program funding amounts would ensure our famers are able to access the assistance needed.

c) Introduce tax incentives for all businesses to ensure resiliency:

i. A commercial retrofit refundable tax credit would assist in creating safer workplaces. Employers will be able to provide a safer workplace for their employees, resulting in greater employee wellbeing, productivity and confidence. These retrofits will be felt throughout the economy. Modifications to an office or place of business could include redesign of work spaces for social distancing, clean air HVAC systems and automated door and elevator systems and handwashing stations to encourage ongoing personal hygiene measures; and

ii. Create a refundable ITC to help landlords with the cost of retooling commercial properties. Considering the future temporary and permanent impacts of COVID-19 on retail and physical infrastructure, this could also coincide with our earlier recommendations regarding long-term care living spaces.

Budget 2021 Must Build A Strong Foundation for Long Term Prosperity

The COVID-19 pandemic has had repercussions for every Canadian and Canadian business. Millions of Canadians have been left unemployed and uncertain of their future. Vision, leadership, and support from the Government will be critical in shaping how Canada emerges from this pandemic.

We believe that a "Build Back Better" approach should be the cornerstone of Canadian economic recovery. Our submission provides recommendations to ensure a successful economic restart.

MNP is pleased to continue to work with the Government, Parliamentarians and policy makers across Canada to further discuss our comments and recommendations in this submission.

Thank you.

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Thank you for the opportunity to submit our recommendations.