Written Submission for Pre-Budget Consultations

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Canadian Chamber of Commerce

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Recommendations

1. **Create an organization in government with Deputy/Senior ADM level accountability for delivering on Biomanufacturing and Life Sciences Strategy (BLSS) and developing BLSS 2.0**.

2. **Renew BLSS innovation support programs.**

3. **Establish an agile procurement implementation process focused on piloting/deploying promising products and technologies to increase health system security.**

4. **Provide funds to support a digital health strategy.**

5. **Invest $1 billion to enable critical infrastructure and essential service providers at federal, provincial, municipal, and territorial levels, to prevent their systems and supply chains from falling victim to cyber attacks.**

6. **Invest $500 million through a dedicated SMB Cyber Defence Fund to improve the cyber resilience of SMBs and close the cybersecurity investment gap.**

7. **Invest $300 million to accelerate the commercialization of cybersecurity products and services, including through direct funding to help firms obtain the security certifications and compliances**

8. **Invest $200 million to grow the future workforce through new cybersecurity education, talent development and retention programs.**

9. **Create a cabinet-level position for cybersecurity.**

10. **Enable businesses of all sizes to make investments in preventative cybersecurity products and services tax deductible.**

11. **Develop a common definition for what constitutes "net-zero aligned investment" by governments and include emission reduction estimates alongside policies.**

12. **Design policy options to incentivize emission reductions in Canada's international supply chains.**

13. **Develop a plan for funding decarbonisation fairly, reviewing the distribution of costs for businesses, households and the government and being clearer on who pays to ensure vulnerable households are not left behind.**

14. **Maintain a commitment to the OECD multilateral tax agreement and not pursue a unilateral and retroactive DST.**

15. **Implement a two-year pause on further increases to the automatic excise escalator tax on all alcoholic beverages.**

16. **Delay implementation of interest deductibility changes until 2024, grandfather existing debt obligations, and create an exemption for large infrastructure projects.**

17. **Implement a three-year extension of the Accelerated Investment Incentive at the current rate, with an expanded scope to include mining and metal manufacturing activities (included in tax classes 41, 41.2 and 43), and a delay of the phase-out period to fiscal year 2027.**

18. **Work with industry and provinces to develop a single national cannabis excise stamp across Canada and eliminate the excise tax on medical cannabis.**

19. **Align implementation plans to those of its main trade competitors and articulate the postponing of the implementation timeframe of Pillar II.**

20. **Consider that the routine rate of return should equate to 5% plus the published inflation rate in the country that issued the functional accounting currency of the multinational, ensuring that fixed asset investments are really incentivized**.

21. **Work with provinces and territories to establish supports needed to upscale/retrain workers, to reduce the barriers to hiring highly skilled foreign talent, and to enhance the systems and processes for foreign credential recognition.**

22. **Modernize Canada's regulatory regime by committing to evidence-based, data-driven regulation and applying an economic lens to all regulatory mandates.**

Background

Canada faces strong headwinds as our economy comes off the post-pandemic economic bounce. This includes economic challenges that originate at home and abroad. Just as businesses recovered from the pandemic, they faced the spectre of supply chain bottlenecks, a tight labour market, inflation and significant debt loads.

Budget 2023 offers the federal government the opportunity to support Canadian businesses, as the engines of job creation across the country, and the millions of Canadians they employ. This means a singular focus on measures to support economic growth.

Life Sciences

The pandemic exposed our healthcare system's fragility and demonstrated the central role of life sciences in our health and economic well-being. The government's Biomanufacturing and Life Sciences Strategy is a strong starting point, but more needs to be done to ensure the strategy's effective implementation.

To ensure Canada effectively addresses current and future health security threats, **the Canadian Chamber recommends that the government create an organization in government with Deputy/Senior ADM level accountability for delivering the Biomanufacturing and Life Sciences Strategy (BLSS) and developing BLSS 2.0**. This will help coordinate investments, policies, and engage stakeholders through a permanent table and allow a single lead within government.

The Canadian Chamber recommends renewing BLSS innovation support programs, building on those announced in previous budgets.

The Canadian Chamber also recommends establishing an agile procurement process focused on piloting/deploying promising products and technologies to increase health system security.

The Canadian Chamber recommends that the government provide funds to support a digital health strategy. This will enable data-driven advances in health care, including the development and use of real-world evidence.

Cybersecurity

Small and medium sized businesses (SMEs) have borne the brunt of the impact from cyber attacks, but nearly half of all SMEs have made no investment in cybersecurity protection. There is a pressing need for federal funding to help these organizations deploy advanced defences that improve their cybersecurity posture. This includes:

Invest $1 billion to enable critical infrastructure and essential service providers at federal, provincial, municipal, and territorial levels, to prevent their systems and supply chains from falling victim to cyber attacks.

Invest $500 million through a SME Cyber Defence Fund to improve the cyber resilience of SMBs and close the cybersecurity investment gap.

Invest $300 million to accelerate the commercialization of cybersecurity products and services, including through funding to help firms obtain security certifications and compliances.

Invest $200 million to grow the future workforce through cybersecurity education, talent development, and retention programs.

Create a cabinet-level position for cybersecurity, as was done in the U.K., U.S., and Australia.

Enable businesses of all sizes to make investments in preventative cybersecurity products and services tax deductible.

Getting to Net Zero

Without strong collaboration between government and the business community, it will be difficult to build effective pathways to zero emissions that are practical and affordable. To help ensure Canada's pathway to net zero is competitive, enhances investment, creates jobs, and promotes innovation, the Canadian Chamber recommends the following:

Develop a common definition for what constitutes "net-zero aligned investment" by governments and include emission reduction estimates alongside policies. This will provide clearer guidance on what policies and investments are helping the path to net-zero. Developing this definition is a key foundational action for 2030 and 2050 and would help all tiers of government and the private sector plan investment strategies. It will also enable tracking progress against investment needs, thus facilitating accountability.

Design policy options to incentivize emission reductions in Canada's international supply chains. Measuring consumption-based emissions will shine a light on the emissions linked to the $631 billion of goods and services Canada imports each year. We recommend Canada develop options that incentivize reduced emissions intensity overseas that protect the competitiveness of Canadian businesses and reduce Canadian consumer demand for imported carbon intensive products.

Develop a plan for funding decarbonisation fairly, reviewing the distribution of costs for businesses, households and the government and being clearer on who pays to ensure vulnerable households are not left behind. The current ERP has transparency on government spending but not on consumer prices, business costs or the potential for tax increases. There also needs to be recognition of competing priorities and trade-offs given finite government resources.

Finance and Taxation

Despite signing a multilateral agreement to standstill digital services tax (DST)-like measures, concerns remain about the government's intent to move forward with legislation on a DST with retroactive enforcement to January 2022. Such action: invites economic risks and tariffs, opens the potential of double taxation, complicates regulatory predictability and tax planning given companies would need to collect the tax for two years, and undermines efforts to secure support for the G20/OCED agreement in other countries. **The Canadian Chamber recommends that the government maintains its commitment to the OECD multilateral tax agreement and not pursue a unilateral and retroactive DST.**

In the current inflationary environment, alcohol producers will be particularly penalized with inflation at levels not seen in a generation, which was not considered when the automatic escalator on the alcohol excise tax was implemented. **The Canadian Chamber recommends that the government implement a two-year pause on further increases to the automatic excise escalator tax on all alcoholic beverages.**

Given the need for companies to have sufficient time to transition to the new interest deductibility rules, it will be critical to delay implementation and ensure that existing debt – which was taken out under the current rules – is grandfathered. The current proposals from Finance Canada also pose challenges for large infrastructure projects, particularly those that will aid the transition to net zero. **The Canadian Chamber recommends that the government delay implementation of interest deductibility changes until 2024, grandfather existing debt obligations, and create an exemption for large infrastructure projects.**

The business community has long advocated for tax incentives that encourage companies to invest in productivity-enhancing equipment. The announcement of the Accelerated Investment Incentive in the 2018 Fall Economic Statement was a welcome step, but excluded critical mineral mining and metal manufacturing activities from its scope. **Consistent with the government's**

bold vision for critical minerals, we recommend a three-year extension of the Accelerated Investment Incentive at the current rate with an expanded scope to include mining and metal manufacturing activities (included in tax classes 41, 41.2 and 43), and a delay of the phase-out period to fiscal year 2027.

The current excise tax regime on recreational cannabis in Canada requires stamps to be manually applied and replaced each time the product enters a new jurisdiction (including provinces), which poses an administrative and economic burden on producers. A national stamp would eliminate a significant portion of production costs and facilitate business. Separately, excise taxes comprise a large portion of the price of medical cannabis. **The Canadian Chamber recommends that the government develop a single national cannabis excise stamp across Canada and eliminate the excise tax on medical cannabis.**

Many countries have signalled that the 2023 implementation timeline for the OECD tax deal is too ambitious. Furthermore, there is uncertainty about Pillar II implementation in the United States. The OECD Implementation Framework will also include significant measures such as safe harbours and technical clarifications that should not be overlooked. Additionally, Canada needs to consider the Tangible Asset Carve-Out rate in our preparations for implementing Pillar II. The Model Rules currently propose to fix the routine rate of return at 5%. In the current inflationary environment, a 5% rate of return is below inflation and represents a negative rate of return on fixed asset investments.

Canada should align its implementation plans to those of its main trade competitors and articulate the postponing of the implementation timeframe of Pillar II.

The government should also consider that the routine rate of return should equate to 5% plus the published inflation rate in the country that issued the functional accounting currency of the multinational, ensuring that fixed asset investments are really incentivized.

Skills

Labour is one of the biggest challenges facing businesses and businesses need a workforce that has right skills. **The Canadian Chamber recommends that the government work with provinces and territories to deploy supports needed to upscale/retrain workers, reduce the barriers to hiring highly skilled foreign talent, and enhance the processes for foreign credential recognition.**

Agriculture and Agri-food

The 2018 Economic Strategy Table on Agri-food identified internal regulatory barriers as a hindrance to innovation and competitiveness. It also called for an agile regulatory regime that is robust, flexible, and based in evidence. However, Health Canada has recently imposed regulations out of step with Canada's broader economic and innovation agenda, particularly in gene editing and supplemented foods.

The Canadian Chamber recommends that the government modernize Canada's regulatory regime by committing to evidence-based regulation and applying an economic lens to all regulatory mandates.