



Priorities for the 2018 federal budget

**A Submission on the Pre-budget consultations
of the House of Commons Standing Committee on Finance**

Chartered Professional Accountants of Canada

August 2017

[Chartered Professional Accountants of Canada \(CPA Canada\)](#) is pleased to present its policy priorities and recommendations for the 2018 federal budget to the House of Commons Standing Committee on Finance. We appreciate the committee's continued focus on economic growth, and how measures aimed at increasing Canada's productivity and competitiveness will enhance growth and prosperity.

CPA Canada is one of the largest and most respected national accounting organizations in the world, representing more than 210,000 Canadian chartered professional accountants (CPAs) at home and abroad. Collectively, CPA Canada and the profession enable, champion and safeguard the Canadian ideal of good business that values inclusion, sustainable growth and social development in cultivating a healthy and thriving economy.

Just as Canada is vast geographically, so too is the reach of our members who work in all sectors of the economy, many serving a chief executive officers, chief financial officers and in other senior leadership roles. CPA Canada engages in public policy discourse and economic research to contribute to Canada's economic and social development.¹

To foster a more productive, competitive and prosperous Canada, we recommend that the federal government take action in these key areas:

1. Responsible fiscal management
2. Tax reform
3. Human capital development
4. Innovative business environment
5. National adaptation plan

1. Responsible fiscal management

CPA Canada recognizes the government's commitment to inclusive growth which involves significant investments in Canadians, communities and the economy. We encourage the government to establish a **clear fiscal plan that includes a target date for a return to balanced budgets to support its economic vision.**

Budget 2017 projects five consecutive deficits from 2017-18 to 2021-22, adds \$124 billion to the federal debt, but does not outline when the country will again see balanced budgets. Finance Canada's *Update of Long-Term Economic and Fiscal Projections* estimates that Canada's deficit situation will persist until the 2050s. In a recent [survey](#) among leading professional accountants, CPA Canada found that 83 per cent of respondents are either very or somewhat concerned with the level of debt taken on by the current government. In addition, according to an April 2017 national [survey](#), "four in five Canadians say it is important or somewhat important for the federal government to have a plan in place to eliminate the deficit."

Canada faces several challenges – characterized by slowing labour force growth due to an aging population; ambiguity around U.S. economic, fiscal and trade policies; weak productivity growth; and

¹ See CPA Canada's recent research report, [Income Inequality in Canada: The Urban Gap](#). Learn more about how Canada's accounting profession serves the best interests of the public: cpacanada.ca/PublicInterest.

high household indebtedness, all of which lead to uncertainty in long-term economic forecasting. In addition, the Bank of Canada recently began raising interest rates, having increased its overnight rate target by 0.25% in July, as the Canadian economy has been showing some encouraging signs of growth. Higher interest rates could put further pressure on the deficit due to increased debt servicing costs and impact the government's capacity to stimulate the economy in the event of a future downturn.

Given wide uncertainty around the economic outlook, Canada needs a plan for fiscal stability – **a plan that demonstrates leadership and includes a return to budget balance over the medium term.** Establishing a target date to reach budget balance will guide the government's fiscal and economic planning, instill greater confidence in consumers and investors, create opportunities for growth and enhance Canada's competitiveness.

The 2017 Fall Economic Statement is an opportune time to update Canadians on the state of the nation's finances.

2. Tax reform

CPA Canada commends the government for several key actions to improve and strengthen Canada's tax system – including lowering the middle income tax bracket, eliminating and modifying some inefficient tax expenditures, and investing close to \$1 billion in the last two budgets to combat tax evasion and improve tax compliance so that everyone pays their fair share. We also support the government's commitment to collaborate with the provinces and territories to develop a national strategy to improve the availability of beneficial ownership information to crack down on money laundering, terrorist financing and other illegal practices.

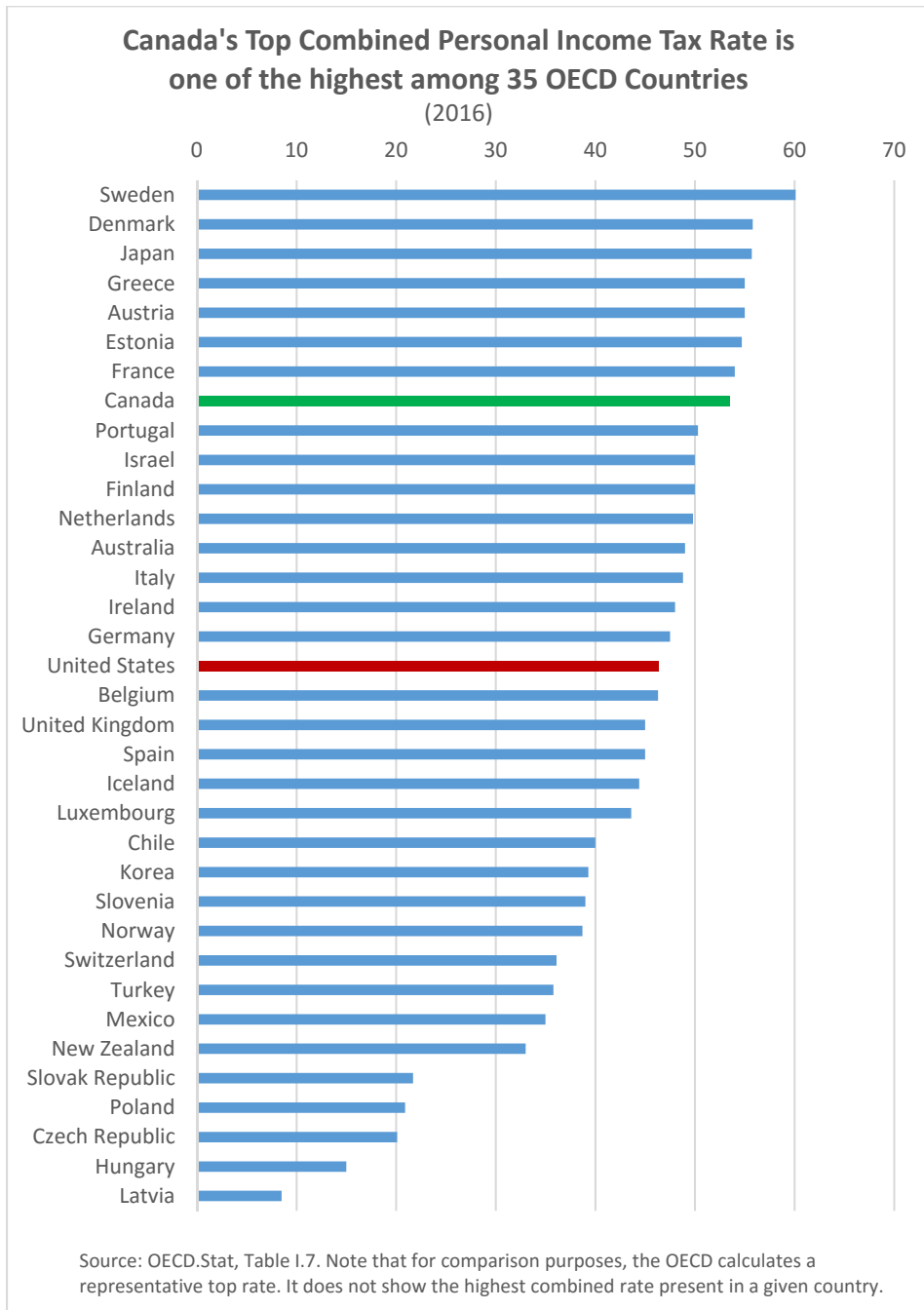
Canada's tax system is an essential tool to improve our competitive position, to attract and retain the best and brightest minds, and to support inclusive economic growth. We submit that there are policies in place that pose a threat to these important objectives. The combined personal tax rate is above 50% in five provinces, there is a cumulative burden from multiple federal and provincial taxes and regulations, and many unintended consequences from excessively complex tax legislation. Each has a detrimental effect on the cost of doing business in Canada. In discussions with members, leading professional accountants are observing an increasing number of businesses and entrepreneurs who are reluctant to make new investments, exiting the Canadian market or selling their enterprises to foreign investors.²

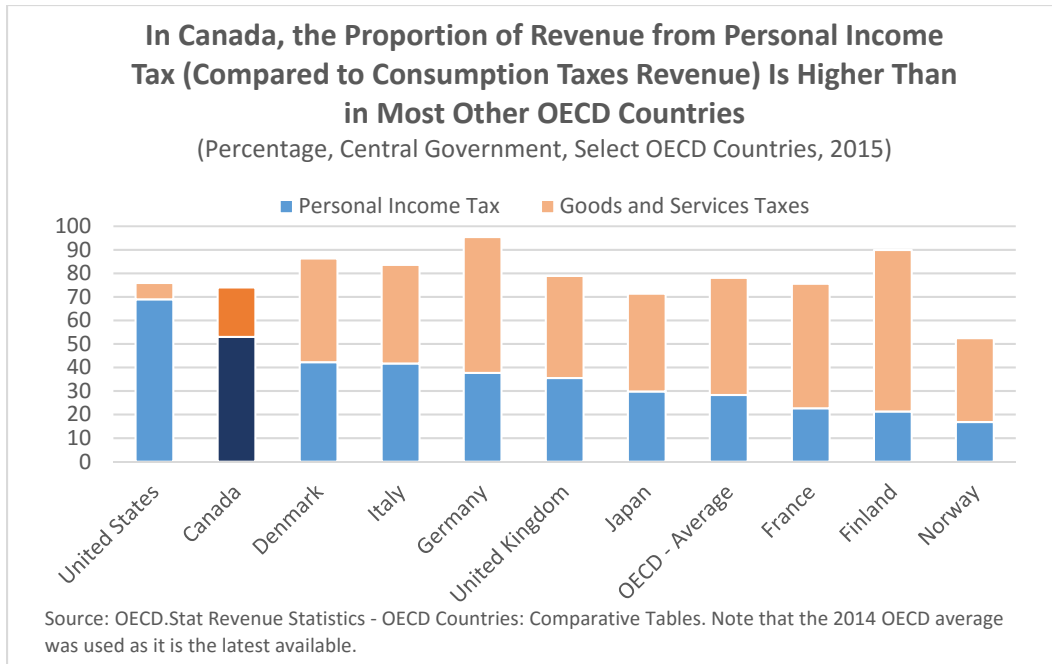
In addition to the competitive pressures within Canada, the U.S. administration's plan to lower personal and corporate income taxes and simplify the tax system poses a serious risk to the tax advantage that Canada currently holds. Granted, it is uncertain when tax reform in the U.S. will materialize – but our southern neighbour's focus on economic nationalism, combined with our own domestic tax policies that can inadvertently hurt our competitiveness, should serve notice that it is time for a **comprehensive review of Canada's tax system.**

Canada needs an internationally competitive, efficient, simple and fair tax system that provides a climate where businesses grow and Canadians prosper. The government should undertake the following measures:

² CPA Canada Tax Advisory Board meeting, June 2017

- A. Lower personal income tax rates and broaden the bases** to attract and retain the highly talented and nurture the next generation of Canadian leaders.
- B. Continue to eliminate inefficient or poorly targeted tax preferences** to increase fairness for Canadians, and reduce complexities and inefficiencies.
- C. Keep corporate tax rates low** to maintain a competitive edge internationally, entice new investments and create a climate where businesses can thrive and create jobs.
- D. Consider changing the income tax/consumption tax mix** to bring it closer to OECD averages to improve Canada’s tax competitiveness.





CPA Canada recognizes that implementing the necessary structural reforms to the tax system to increase Canada’s competitiveness is a complex task requiring a great deal of political will. However, ad hoc incremental changes do not constitute a long-term solution. They can create further complexities, inefficiencies and unintended consequences. **We encourage the House of Commons Standing Committee on Finance to launch its planned study on a [Comprehensive Review of Canada’s Tax System](#).** This should include input from a broad spectrum of taxpayers to help determine what key measures must be taken to ensure Canada has a world-class tax system that takes global competitiveness to the next level and builds on the government’s inclusive economic growth strategy.

3. Human capital development

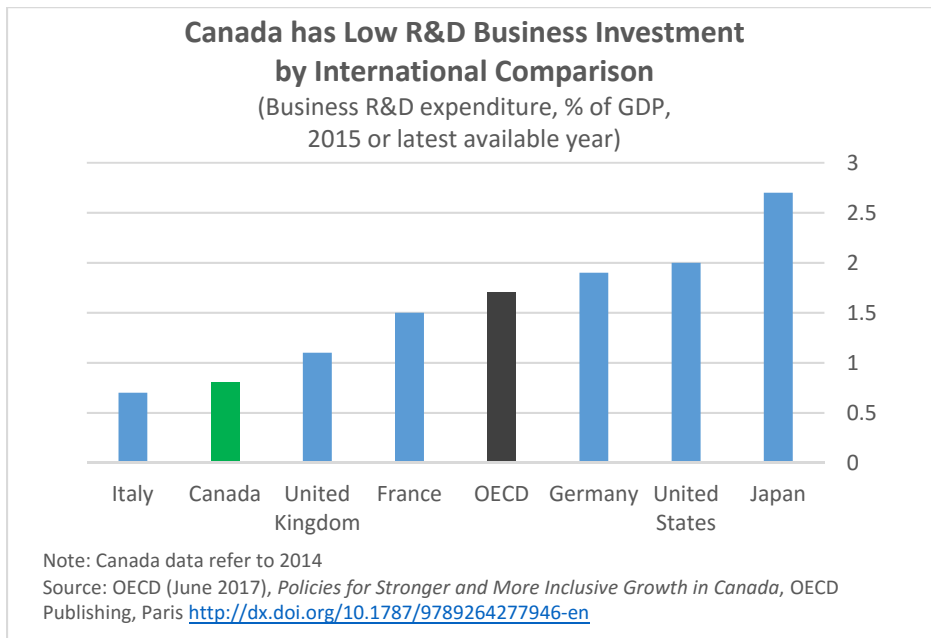
Canada’s productivity and competitiveness depends on the creativity, resourcefulness and energy of its people. There has never been a greater need for educated, highly-skilled workers, and for ambitious, innovative entrepreneurs. CPA Canada encourages the government to maintain its focus on skills and talent. We need to properly prepare our young people so they have the skills to be resilient in times of rapid change, ensure there are more opportunities for under-represented groups in the workforce, and attract and retain high-potential new Canadians.

While our immigration selection system is well designed to attract the skills needed by Canadian employers, Statistics Canada data show that newcomers today are not integrating into the labour market as successfully as in the past. According to a [report](#) for Immigration, Refugees and Citizenship Canada, *“language constitutes the most serious barrier newcomers face to furthering their education or training and is among the most serious barriers to finding employment.”* CPA Canada’s experience bears this out. Further, even when language proficiency is adequate, insufficient communication skills and understanding of Canadian workplace culture can create additional challenges.

A new investment in occupation-specific language benchmarking and training, and Canadian workplace culture supports is needed. Proposals for such training are eligible for settlement grants, but the need is such that a dedicated envelope of funding should be considered for this purpose. CPA Canada’s interactive online course in accounting business culture is geared to new immigrants or those seeking to work in Canada. It was developed with federal funding assistance and is a good example of a tool to help meet this need.

4. Innovative business environment

For Canada to improve its productivity and competitiveness, Canadian businesses must do the same. Canada’s Innovation and Skills Plan does much to create an environment for business innovation, but as the [Council of Canadian Academies](#) noted, Canada’s low business spending on research and development (R&D) is a symptom rather than a cause of weak business innovation.



Budget 2017 introduced new demand-side innovation programs and we encourage this emphasis on demand-side solutions. Specifically, **CPA Canada recommends the adoption of an innovation box** to incent R&D in Canada and encourage Canadian businesses to develop, commercialize and retain patents in Canada. An innovation box, also known as a patent box, provides a preferential tax rate for income derived from intellectual property. Many of Canada’s peers and competitors have already introduced innovation boxes, so it is a matter of remaining competitive.

Well-designed regulatory frameworks can actually incent innovation, yet the opposite is too often the case. Regulatory processes that are time-consuming, overlapping, and lacking certainty hamper innovation, slow productivity and harm competitiveness.

Regulatory processes should be as streamlined as possible to make it easier for businesses to comply, which is especially important for new businesses and small businesses that lack internal resources. Regulations across different jurisdictions need to be more compatible. In particular, we encourage

Canada to continue to pursue the work of the Regulatory Cooperation Council with the United States, and to encourage all Canadian governments to make full use of the Regulatory Notification, Reconciliation, and Cooperation chapter in the new Canadian Free Trade Agreement. Work on regulatory cohesion must happen within the federal level as well, as regulations of different federal departments can sometimes work at cross-purposes. **Efficient regulation should be a priority for this government and clear direction should be provided to the Regulatory Affairs Secretariat within Treasury Board** to ensure seamless regulatory cohesion between departments and across jurisdictions.

In these times of rapid change and disruptive technologies, regulation must become more nimble and responsive where it is required. Fast-emerging new sectors, including fintech, do not have time to wait for regulation to evolve and catch up. Finally, to be effective, regulatory processes must result in certainty so that businesses can make investment decisions.

5. National adaptation plan

In addition to economic challenges, Canada's competitiveness will also be tested by the impacts of climate change. We need to both mitigate and adapt to the impacts of climate change. We congratulate the government for its achievements under the Pan-Canadian Framework on Clean Growth and Climate Change and the climate change adaptation measures in Budget 2017.

However, **there remains a missing piece: a national adaptation plan (NAP)**. A NAP would help to coordinate the climate change adaptation activities of all actors in both the public and private sectors and ensure that adaptation is a consideration in all government policy development. It also would contribute to fiscal accountability by ensuring that all government spending decisions, including the investments of the new Canada Infrastructure Bank, consider the need for adaptation measures.

The United Nations Framework Convention on Climate Change has adopted a process for countries to develop NAPs and demonstrated the value that NAPs bring to coordinating adaptation measures. One important lesson learned from countries that have developed NAPs is that it needs to be a collaborative approach involving the public and private sectors. To achieve that, the business community needs to be involved from the beginning and throughout the process.

CPA Canada appreciates this opportunity to provide the accounting profession's views and recommendations on improving Canada's productivity and competitiveness.