Pre-Budget Submission

Canadian Chamber of Commerce

Canada's economy is facing big challenges in the years ahead. The Bank of Canada just slashed our growth outlook for 2016 from 1.7% to 1.3%, partly because of Alberta's wildfires, but also because business investment will fall 1% and exports will be essentially flat, rising just 0.3%. More broadly, the OECD is warning that many rich countries are stuck in a "Low-Growth Trap".

More than ever, we have to focus on catalyzing investment and improving our productive capacity. Canada must become an innovation superpower to make sure that new technologies and jobs are created here. We have to increase investment in skills and education to pull more people into better paying jobs. Finally, infrastructure is critical but only if we invest in projects that have high growth multipliers such as digital, energy, and transport. No stimulus can fix the problems and deliver sustainable growth if Canada's productivity challenges are not addressed.

1. *What federal measures would help Canadians […] maximize their contributions to the country's economic growth?*

Canada's competitiveness will depend, in large part, on its ability to find and foster workers with the skills businesses need to succeed. Skills gaps and mismatches are making it impossible to meet the rising needs of some high-value and growth sectors. We need to better align education and skills development with the needs of employers in a knowledge economy.

We recommend that the Government should:

1. Invest in more and better labour market information - Through the Forum of Labour Market Ministers, the Government is establishing an LMI Council which is a great step forward. Now the government must invest in Statistics Canada to ensure Canada has the most relevant and useful data.
2. Ensure immigration policies stop limiting employers' access to the international talent they need by improving Express Entry with service standards and faster processing of applications. Also, the government must address the serious processing issues and inflexible features of the Temporary Foreign Worker Program that are negatively affecting employers' access to workers in a range of sectors
3. Increase work-integrated learning by providing incentives for employers to take on more students during post-secondary studies.
4. Overhaul ESDC's Youth Employment Strategy in order to ensure that youth are equipped with the digital skills they need for the future of work.

2. *What federal actions would assist Canada's businesses – in all regions and sectors – meet their expansion, innovation and prosperity goals, and thereby contribute to economic growth in the country?*

INNOVATION:

Canada's public sector expenditure on R&D is among the highest in the world, we have excellent universities and colleges that are doing great research, but we lag in the commercialization of new technologies. As such, Canada's innovation agenda must leverage the private sector and help companies get from idea to product.

1. The Canadian Chamber of Commerce recommends adopting an "innovation box" regime that would reduce the corporate tax rate for income derived from patented inventions and other intellectual property connected to new or improved products, services and related innovative processes that were developed in Canada.

   In contrast with a broad tax credit, such as the scientific research and experimental development tax (SR&ED), which provides general tax relief on R&D activities, instead a business that created a patent or new idea in Canada would see the revenues that arose from that idea taxed at a much lower rate. This would encourage companies to locate intellectual property activity and the new high-value jobs associated with development and innovation in Canada.

2. The Canadian Chamber of Commerce recommends that we build a highly competitive venture capital industry that can provide the equity and expertise to create world-leading technology companies.

   a) Make British Columbia's investment tax credit a national program

   British Columbia has a successful, tested program that gives investors a 30% refundable tax credit for investments of up to $200,000 in eligible businesses, a maximum tax credit of $60,000 per investor. A study at UBC showed that for every $1 in provincial tax credits issued, the companies ended up paying $2.92 in Canadian taxes (sales taxes, income taxes and corporate taxes).

   The federal government should establish a 15% refundable tax credit on eligible start-ups that would be matched by the provinces. A country-wide 30% tax credit would grow the community of angel investors to incent them to do more.

   b) Provide a tax exemption on the capital gains from venture capital

   The capital gains in tax-free savings accounts (TFSAs) are exempt from taxation, a helpful boost to retirement savings. By providing a similar treatment for venture capital, the government would make Canada a very attractive destination for investors. Because so many venture capital investments fail to make any profits, it is critical that the successful ones have the large returns that can justify investing in venture capital funds.

c) Increase government investment in venture capital

The federal government's Venture Capital Action Plan (VCAP) has been very successful because government investment must be matched by private sector funding. The government should double the size of the VCAP to $800 million and consider placing a 6% cap on the return on government investment in order to boost the returns received by private sector venture capital investors. This improves the return of private sector investments while leveraging up the funding for entrepreneurs.

d) Invest in incubators

Business incubators support start-ups and new companies by providing resources and services, such as mentorship, funding, networking, training and office space, to accelerate their development. The governments should invest in incubators as a key part of bringing together start-ups, mature companies and post-secondary institutions. These can help foster "business clusters" which accelerate learning and innovation.

3. Make flow-through shares available to all types of technology companies

For 25 years, flow-through shares, a uniquely Canadian tax innovation, have generated billions of dollars for mining exploration and enabled the development of some of Canada's largest mines. The way it works: the tax deductions for exploration and development expenditures are of no use to companies that will not have taxable income for years. Flow-through shares enable them to renounce qualifying expenditures and transfer them to their investors. Someone who purchases shares in a mineral exploration company gets the potential return along with a nice tax deduction.

This would work for innovative technology companies that will not have any income for the years it takes to develop a new product. In fact, a study by PricewaterhouseCoopers LLP in 2010 analyzed the potential economic impacts of allowing the biotechnology sector to use flow-through share financing. The study predicted an increase of R&D spending by $411 million, a total gross output impact of $967 million, and the creation of 7,945 full-time equivalent jobs.

4. Create a Sovereign Patent Pool

Japan, South Korea and France have all created government-run funds to intervene in the patent landscape by acquiring, licensing and even occasionally enforcing patents. Canadian business – over 98% are SMEs – often don't have the patent portfolios or the financial resources to license them, so they cannot deploy certain technologies and are at greater risk of patent infringement litigation. The sovereign patent fund model can make technologies available and help commercialize Canada's IP.

TRADE

As part of a small, open economy, Canada's ability to grow depends on international trade. Exports, imports and foreign investment create and sustain jobs in our communities, stimulate competition and innovation and give families affordable choices in the marketplace.

The Government should:

1) Press ahead with the Comprehensive Economic and Trade Agreement (CETA). As it must be ratified by the 27 EU member states, Canada should mobilize resources to educate Europeans on the benefits of trade with Canada. We should also begin negotiating a trade agreement with the United Kingdom and we should continue to discuss the merits of the Trans-Pacific Partnership.
2) Undertake a comprehensive study on the benefits and costs of a free trade agreement with China.

TAXES

High business taxes discourage investment and job creation, which subtracts from the economic stimulus that the government has been striving for. In addition, Canada's tax code is overly complex and imposes significant compliance costs on businesses and consumers. Canada also relies too heavily on inefficient revenue sources such as payroll taxes.

We recommend that the government look at new ways to improve the tax competitiveness of Canadian business:

1) Tax simplification: Review Canada's tax credits/expenditures and eliminate the less effective ones. The savings can be used to bring down overall corporate income tax rates.
2) Continue the planned reductions in the small business tax rates (which were deferred in 2016) and increase the income threshold to $1,000,000 from $500,000 to encourage small companies to continue growing.
3) Accelerate the CCA rates to 50% for a broad variety of capital equipment and technology (advanced machinery, computers, telecommunications network equipment, fibre cables, data network infrastructure) to encourage greater private sector investment in technology.
4) Reduce EI premiums to the seven-year break even rate of $1.49. The Canadian Chamber welcomes investments in training but payroll taxes are the worst way to pay for it. EI premiums are a tax on hiring, that make it more expensive to create jobs. If there is a surplus in the EI account, the premiums should be lowered.
5) Increase the de minimis tariff from its current $20 in order to speed the flow of goods across the border and reduce paperwork for small business.

3. ***What federal measures would ensure that urban, rural and remote communities throughout Canada enable residents to make their desired contribution to the country's economic growth and businesses to expand, prosper and serve domestic and international customers in order to contribute to growth?***

INFRASTRUCTURE

The federal government has made a historic commitment through deficit financing to double federal infrastructure investments to nearly $120 billion over the next decade. While the Canadian Chamber of Commerce is supportive of addressing Canada's infrastructure deficit, it is crucial that Canada is strategic with these new investments. While the proposed commitment of $60 billion in new funding for green, social, transit investments over the next decade ($20 billion each) is needed, the federal plan lacks balance.

Trade-enabling infrastructure – that which enables the movement of products, services and people through Canada and to key markets around the world is largely absent in the new plan. With 60% of Canada's annual gross domestic product tied to trade, this category of infrastructure has the strongest connection to our long-term global competitiveness and economic well-being. As Canada's trade infrastructure is showing signs of increased strain our competitors are aggressively investing in improvements to their trade infrastructure.

The Canadian Chamber recommends:

1) Trade-enabling infrastructure must be made an equal priority alongside green, social and transit Infrastructure in Phase 2 of the federal infrastructure plan.
2) The federal government should renew its commitment to trade corridors as was done previously thought the federal Asia Pacific Gateway and Corridor Initiative (APGCI) and the Gateways and Border Crossings Fund (GBCF). Programs like these help coordinate investment from the private sector and other levels of government in Canada's trade corridors to help Canadian businesses better connect to global supply chains.
3) The Government should build capacity for Indigenous businesses and communities by creating the conditions for them to be financial partners in projects. This means access to the capital necessary for them to invest in projects, equipment, training, etc. The federal government also needs to be more ambitious in its definitions of Indigenous capacity building and assisting them to establish credit ratings and to document their resources; natural, human, financial, etc.

As the Canada Transportation Act Review concluded, investments in Canada's transportation infrastructure can drive Canada's global competitiveness for the next 30 years. Trade infrastructure also directly generates more revenue than other forms of infrastructure and thereby helps pay for Canada's social and economic priorities. These recommendations and more findings on the importance of trade-enabling infrastructure can be found in the Canadian Chamber's June 2016 report, ***The Infrastructure that Matters Most: The Need for Investment in***

Canada's Trade Infrastructure - http://www.chamber.ca/media/blog/160628-investments-in-trade-infrastructure/