



2016 Pre-Budget Consultation

A Submission to the House of Commons Standing Committee on Finance

Chartered Professional Accountants of Canada

August 2016

Chartered Professional Accountants of Canada (CPA Canada) is pleased to share its priorities for the 2017 federal budget with the House of Commons Standing Committee on Finance.

Chartered Professional Accountants of Canada (CPA Canada) serves as the national and international voice for Canada's accounting profession. Representing more than 200,000 Canadian chartered professional accountants at home and abroad, CPA Canada is one of the world's largest and most respected business and accounting organizations.

Canadian CPAs work in a variety of occupations and throughout every sector of the economy. The organization and its members are driven by one higher purpose: to enable Canadians, businesses and the economy to succeed and prosper over the long-term. By acting in the public interest, we apply the Canadian values of fairness, inclusion and collaboration to encourage and cultivate long-term economic and social development – a sustainable Canada.

To support a sustainable Canada, the federal government should focus on four key priorities:

1. Responsible fiscal management
2. Tax reform
3. Enhancing skills and education
4. Innovation and adaptation

1. Responsible fiscal management

Budget 2016 made significant investments to stimulate economic growth, but due to a weaker economic and fiscal outlook than anticipated, the budget plan was not able to fulfill key election promises relating to fiscal management.

Budget 2016 projects five consecutive deficits from 2016-17 to 2020-21 and offers no firm target to return to balanced budgets. Instead, Budget 2016 pledges to reduce the debt-to-GDP ratio to a lower level over a five-year period ending 2020-21.

CPA Canada encourages the government to strive to meet the challenge to balance the nation's books by the end of its mandate – as promised during the 2015 federal election. Budget 2017 should provide a realistic and achievable plan to meet that commitment.

CPA Canada believes that strong management of government finances is crucial to ensuring that Canada can support essential programs, finance its plans and debt obligations and minimize the burden for future generations. Sound fiscal policy measures instill confidence in consumers and investors, create opportunities for growth and prosperity, and enhance the competitiveness of Canada.

In short, a responsible plan to fiscal management that is anchored in a clear target date should be an integral part of the government's agenda for economic growth.

Economic research demonstrates there is a strong connection between sustained and strategic investments in public infrastructure and long-term gains in economic productivity.¹ As the government focuses its attention on the second phase of its ten-year \$120 billion infrastructure plan, accountability is crucial. There must be established criteria in place and assurances that the next generation of infrastructure projects will be deemed as fiscally responsible investments that will provide lasting benefits to Canadians, communities and the country.

In Budget 2017, the government should:

Outline its plan to ensure fiscally-responsible investments in core public infrastructure that are focused on longer-term goals, including building a stronger, more internationally competitive, prosperous and sustainable Canada.

Outline details for the proposed creation of the Canada Infrastructure Bank that will provide low-cost financing and work with other orders of government and Canada's financial community to help finance the broad range of infrastructure projects needed.

2. Tax reform

Canada's tax system is a key lever for ensuring that our business environment remains competitive, that we attract and retain the best and brightest minds and that we achieve sustained economic growth and prosperity for all Canadians.

The federal government's tax expenditure review is a step in the right direction, but falls short of the comprehensive review CPA Canada firmly believes is required. There has not been a thorough review of Canada's tax system for fifty years. The *Income Tax Act* has become overly complex, with excessive compliance and administrative costs. **CPA Canada's call for a comprehensive review is echoed by major national organizations, economists, academics and think-tanks – and aligns with the government's agenda for sustainable economic growth.**

CPA Canada welcomes the motion passed by the House of Commons Standing Committee on Finance to undertake "a comprehensive review of the *Income Tax Act* and the Canadian tax system and prepare a report," which highlights key issues such as fairness, complexity and effectiveness, and how a competitive tax system propels innovation, job creation and overall long-term economic growth.

¹ Canada West Foundation, February 2013. See: <http://www.cca-acc.com/pdfs/en/cca/AtTheIntersection2013.pdf>

CPA Canada recommends that the comprehensive tax review be guided by the following principles and outcomes:

- **Keep the personal tax rates low, the tax base broad and ensure that inefficient or ineffective tax preferences are eliminated.** The impact of the new top tax rate of 33% will need to be monitored, as the combined personal tax rate in some provinces now exceeds 50%. Canada now has the third highest top tax rate of all OECD countries.²
- **Keep corporate tax rates low** to maintain a competitive edge internationally, attract new investment and create jobs.
- **Consider changing the income tax/consumption tax mix** to bring it closer to OECD averages to improve Canada's tax competitiveness.
- **Do not tax personal savings** – particularly in view of the changes to the TFSA limit, Canada's high levels of household debt and its rapidly aging population that is saving for retirement.
- **Focus on a pro-growth approach** that encourages innovation, productivity and prosperity.
- **Work with the provinces and territories** to facilitate a coordinated approach to tax administration that benefits all Canadians and recognizes there is only one taxpayer.

The need for tax reform is not just a domestic issue. A collaborative approach must be taken globally to ensure that national tax policies are completely in step with the evolving international business environment. **Here in Canada, changes to tax legislation are needed to bring greater certainty and clarity to the rules that govern unacceptable tax planning.**

CPA Canada fully supports the Canada Revenue Agency's increased enforcement efforts and remains firmly committed to working with the Government of Canada and international bodies, such as the OECD to combat global tax evasion and other illegal practices.

Canada needs a 21st century tax system: a simple, predictable, fair, efficient and transparent tax system with low, internationally competitive tax rates, where everyone pays their share so that all Canadians prosper.

3. Enhancing skills and education

Internationally trained professionals are vital to Canada's future economic competitiveness. CPA Canada's own occupational demand analysis forecasts future demand for professional accountants that cannot be met domestically. To help facilitate the integration of

² Jack M. Mintz, **Financial Post**, November 5, 2015. See: <http://business.financialpost.com/fp-comment/jack-m-mintz-a-better-way-to-pay-for-middle-class-tax-cut>

internationally trained professionals, CPA Canada is negotiating mutual recognition and other agreements with many international accounting bodies to streamline the assessment and accreditation process, and has in place appropriate bridging mechanisms, an alternate career path through a new mid-tier credential and other adaptation supports such as a self-study course on Canadian Accounting Business Culture.

Canada needs to attract skilled talent from around the globe – and to do so, **it is imperative that governments, regulatory bodies and other stakeholders make a concerted effort to integrate internationally trained professionals into the workforce as quickly as possible.**

CPA Canada is encouraged by the federal government’s ongoing commitment to financial literacy. We believe that enabling Canadians to gain greater financial knowledge is critical to individual growth and Canada’s prosperity. Special attention must be paid to those who are most vulnerable, including Aboriginal peoples, newcomers to Canada, seniors and lower income families. Through CPA Canada’s award-winning Financial Literacy Program that draws on the expertise and commitment of 11,000 trained member volunteers, and our active participation in the National Steering Committee on Financial Literacy, CPA Canada is privileged to work with dedicated stakeholders whose mission is to strengthen the financial literacy of Canadians.

CPA Canada recommends that the federal government:

Meet the goals and priorities outlined in the National Strategy for Financial Literacy.

Commit to adequate and ongoing funding to the Financial Consumer Agency of Canada to ensure it continues to play a leadership role in improving Canadians’ financial literacy skills and coordinating the efforts of various stakeholders.

CPA Canada applauds the government’s commitment to a renewed relationship with Indigenous peoples to help improve their quality of life. **It is important that Canada’s First Nations receive adequate funding to ensure equal access to education opportunities so they can participate in a growing, productive and competitive economy.** CPA Canada plays an active role in helping First Nations individuals succeed through its mentorship program for Aboriginal high school students, run in conjunction with the Martin Aboriginal Education Initiative (MAEI), and we note the continued funding to the MAEI.

4. Innovation and adaptation

If Canada is to maintain its enviable quality of life, we must learn to continually innovate and adapt. The priority the government has placed on developing an innovation agenda is both welcome and timely, and CPA Canada plans to provide more extensive input on the subject through that consultation process.

But, as noted earlier in our submission, one of the most fundamental policy tools for spurring innovation is the tax system. A modernized Canadian tax system needs to incent desired behaviours – it should encourage businesses to grow and invest, and to use energy and resources responsibly. One consequence of an overly complex tax system is that incentives sometimes work at cross-purposes and may distort business decisions.

An example of this is the Scientific Research and Experimental Development (SR&ED) tax program which discriminates based on the size of the business and the type of investment being made. For that reason, CPA Canada recommends that the government should:

Enhance the SR&ED tax credit program by making it partially refundable for all businesses, regardless of size, and by repealing the exclusion of capital expenditures as eligible expenses.

If we are to really spur innovation in Canada though, we must think beyond tax credits. In fact, a CPA Canada report demonstrates that factors affecting productivity extend beyond innovation. These factors include the size and export orientation of companies. **We encourage the federal government to ensure its programs and policies help firms grow, invest in intangible capital and better compete in foreign markets.**

It has been well-documented that where Canada struggles most is not in generating ideas, but rather in commercializing the results of that research and development. A number of countries – and most recently, the province of Quebec – have adopted a tax measure known as a “patent box” to spur research and development and, most importantly, encourage the commercialization of that intellectual property to be done at home. A patent box achieves this by providing a reduced tax rate on profits earned from commercializing innovations. To ensure that intellectual property results in economic growth and new jobs, we encourage the government to:

Implement a patent box to incent R&D in Canada and encourage Canadian businesses to develop, commercialize and retain patents in Canada.

Innovation in government itself plays a critical role in promoting a culture of innovation. In particular, government should streamline regulatory processes and make use of technological advances that enable it to act more quickly and responsively and reduce the administrative burden faced by businesses. A good first step would be to:

Adopt Standardized Business Reporting using eXtensible Business Reporting Language (XBRL) across government departments and agencies for use by businesses for all government filings.

Professional accountants are key advisors to businesses looking to grow, innovate and transform. We have long been dealing with matters relating to climate change and sustainability, and play a pivotal role in helping businesses adapt to climate related impacts. We look forward to contributing further advice to the government's ongoing sustainability consultations.

In particular, we congratulate the government and its provincial and territorial counterparts for agreeing through the Vancouver Declaration to a pan-Canadian approach for addressing this most challenging issue. We encourage ongoing collaboration to ensure that our achievements in confronting climate change do not inadvertently cause fractures to Canada's economic union.

CPA Canada appreciates this opportunity to provide the accounting profession's views and recommendations to help support a prosperous and sustainable Canada that benefits its people, its businesses and its communities.