The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, ON Canada M5V 3H2
Tel: 416 977.3222 Fax: 416 977.8585
www.cica.ca

L'Institut Canadien des Comptables Agréés
277, rue Wellington Ouest
Toronto (ON) Canada M5V 3H2
Tél. : 416 977.3222 Téléc. : 416 977.8585
www.icca.ca

Helping Canadians and Canadian Business Prosper

A Submission to the
House of Commons Standing Committee on Finance

Canadian Institute of Chartered Accountants

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Executive Summary

Canada's Chartered Accountants are pleased to put forward again this year advice to the House of Commons Standing Committee on Finance for its pre-budget deliberations.

At the outset, we applaud the federal government's focus on improving its fiscal position and the commitment to return to a balanced budget by 2014/2015. According to a C-Suite survey of corporate executives on federal government priorities[1], 84 per cent of those surveyed say balancing the federal budget is the highest priority, outpacing all other considerations. As the government moves forward to deliver on this commitment, we note the risk and sensitivity of the annual deficit to the effects of the government's variable interest-bearing debt. As such, we encourage the government to take the steps necessary to protect its financial position in the event of an unfavourable interest rate movement.

We also note the federal government's commitment to easing the transition of internationally trained professionals into the Canadian workforce. We support the development of streamlined bridging programs that help these professionals close any educational or experiential gaps so that they can contribute their full potential as quickly as possible. The Canadian Institute of Chartered Accountants (CICA) is in the process of developing assessment and bridging programs to provide internationally-trained accountants with efficient, accessible routes to become Canadian CAs. Our recently negotiated Memorandum of Understanding with the Institute of Chartered Accountants of India, for example, represents the type of progress we've achieved by significantly streamlining the process for members of that body.

In this submission, we offer our views on the priorities for the 2012 federal budget, outlining measures that we believe will support the nation's economic recovery by helping Canadians and Canadian businesses prosper. Our recommendations include:

- Enhancing Canada's incentives for innovation by making the Scientific Research and Experimental Development (SR&ED) tax credit partially refundable for all businesses
- Establishing a national consultation process to reduce the complexity of Canada's tax system and lessening the regulatory burden placed on Canadian businesses. The consultation should focus on initiatives such as:
    - Additional federal-provincial tax harmonization in the areas of corporate and sales taxes
    - A formal loss transfer system for the taxation of corporate groups
    - Increasing the capital limit for the small business deduction, or eliminating it entirely
- Easing the personal income tax burden by increasing tax thresholds, examining the appropriate mix of personal income and consumption taxes and reducing tax on savings.

Helping Canadian Business Prosper

Canada's Chartered Accountants applaud the government's continued commitment to reducing the corporate income tax rate to 15 per cent by 2012. Research shows that this initiative, taken together with planned reductions in provincial corporate taxes, will reduce Canada's effective tax rate on new investments to below the 2010 OECD average by 2013[2]. This represents tremendous progress and is crucial to our ongoing economic recovery. In the same vein, we believe the government should continue with the adoption of policies recommended in the Advisory Panel on Canada's System of International Taxation to improve the competitiveness, efficiency and fairness of Canada's system of international taxation. Equally important is the need to reduce the complexity of Canada's domestic tax regime.

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[1] The 23rd Quarterly C-Suite Survey: Priorities for the Federal Government, Climate Change Policy & the Role of CFOs, Q2 2011, Gandalf Group

[2] Canada's 2010 Tax Competitiveness Ranking: Moving to the Average but Biased Against Services, Duanjie Chen, Jack Mintz, School of Public Policy, University of Calgary, SPP Research Papers, Volume 4, Issue 2, February 2011.

Taking further steps in these areas will help to attract the investment needed to achieve a sustained economic recovery.

Enhancing Canada's tax incentives for innovation

For Canada to stay competitive and continue creating quality employment opportunities for an educated workforce, improving the economic impact of our scientific research and experimental development (SR&ED) tax incentives is essential. In particular, the following enhancements would encourage innovation, help create high quality jobs, and make the tax system more attractive to foreign investors.

The SR&ED investment tax credit should be made partially refundable for all businesses. This is crucial to attracting SR&ED investment from foreign entities, such as US-based multinational enterprises. For these companies, the interplay of the tax regimes in Canada and the US makes a non-refundable credit less relevant, if at all. We recognize that implementing this proposal will have a short term cost, so we would suggest phasing in the implementation of this proposal so that the government's initiative to reduce the deficit is not adversely affected.

Simplifying taxes and red tape reduction

Each year, the World Economic Forum measures and ranks the global competitiveness of 139 countries. Canada's overall ranking in the 2010/2011 index[3] slipped from ninth to tenth place over the previous year's ranking. Tax regulations are among the top four most problematic factors cited by business executives for doing business in Canada.

As a guiding principle in reducing complexity in the tax system, we believe that the "tone from the top" in federal departments and agencies should shift from the current focus on regulatory enforcement to an approach aimed at helping businesses comply with tax regulations. The report of the Advisory Panel on Canada's System of International Taxation[4] examined the relationship between businesses and the CRA, and noted that if concerns in this regard are not addressed, the ongoing efficiency and effectiveness of our self-assessment system would be jeopardized, leading to higher compliance and administrative costs. Many aspects of Canada's tax system have become much too complex. In our view, complexity could be reduced by ensuring tax rules aimed at preventing abuses are properly targeted to achieve their goals and proportionate to the issue at hand. Equally important is the need to automate tax compliance processes, improve the tax system as technology evolves, and ensure that taxpayers are aware of the full extent of technological tools available to them.

We believe the federal government must simplify our tax system to lessen the tax system's regulatory burden on Canadian businesses. We recommend that the federal government establish a national consultation process to obtain input on tax simplification initiatives, such as the following measures which we believe merit consideration:

- Pursuing greater federal-provincial tax harmonization across all tax systems while seeking to minimize differences between harmonized sales tax rules among the provinces;
- Implementing a formal loss transfer system for the taxation of corporate groups;
- Extending the personal income tax filing date for individuals and their spouses with income from trusts or partnerships (reported on T3 and T5013 forms) to June 15;
- Reducing the burden of complying with withholding tax requirements for fees paid to non-residents for services rendered in Canada by shifting more of the compliance to the non-resident;
- Eliminating or significantly limiting the application of the Alternative Minimum Tax, as we believe that the tax is not proportionate to the level of complexity that the rules create;

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[3] The Global Competitiveness Report 2010-2011, World Economic Forum

[4] *Enhancing Canada's International Tax Advantage*, Final Report, Advisory Panel on Canada's System of International Taxation.

- Reviewing tax thresholds in general and adjusting them to reflect inflation. For example, the need to remit payroll deductions more than once per month was originally restricted to larger employers and now applies to most employers because the threshold has not been adjusted;
- Increasing the $10 million capital limit for the small business deduction, or eliminating it entirely; and
- Providing the Canada Revenue Agency with more authority to waive or reduce tax penalties and interest when warranted in order to expedite more tax settlements.

The CICA further recommends that all federal government departments and agencies adopt Standard Business Reporting, and specifically, eXtensible Business Reporting Language (XBRL), for use by businesses for all of their various government filings. Adopting such a system would reduce the compliance costs for business, simplify the filing process and enhance the efficiency and accuracy of data collection.

Helping Canadians Prosper

In order to stay competitive and attract and retain human capital, Canada must also stay attuned to the personal income tax burden placed on Canadians. At the same time, reducing tax on savings is crucial to helping Canadians prosper over the longer-term. With this comes the need to enhance financial literacy to ensure that Canadians have the skills needed to make the right decisions and save adequately for retirement.

Easing the personal income tax burden

Over the past five years, the federal government has introduced numerous personal income tax credits aimed at incenting certain behaviours – initiatives which only add complexity to the tax system. In our view, broad-based tax reductions would be a more meaningful approach to providing personal income tax relief. We encourage the government to take steps to increase current tax thresholds to bring them more in line with those of our global competitors. To help attract and retain the best and the brightest in terms of human capital (many of who are internationally mobile), we believe the government should closely examine the two highest rates of personal income taxation, both in terms of the income levels at which they apply, and the rates. Against the backdrop of balancing the budget as the priority, we urge the government to take steps to increase the top threshold from $127,021 to $200,000 and the second highest threshold from $81,941 to $100,000. Over time, we urge the government to also look at decreasing the rate of tax that is applied to the two highest income brackets.

Key to balancing this broader approach to reducing personal income taxes is the need to examine the appropriate mix of personal income taxes and consumption taxes. Compared to other OECD countries, Canada obtains a significantly higher proportion of its tax revenues from taxes on personal income than from consumption taxes. An OECD comparison of sources of tax revenue shows that in 2008, personal income taxes in Canada represented 37.2 per cent of total tax revenues, versus the OECD average of 25.0 per cent. Conversely, taxes on goods and services were 23.6 per cent of total tax revenues in Canada, compared to the OECD average of 31.7 per cent. Having a lower personal income tax burden than our top competitors represents a distinct advantage in attracting and retaining talent in a global marketplace. In order to improve Canada's tax competitiveness, we recommend that government consider changing the revenue mix to bring it closer to the OECD averages.

Encouraging retirement savings and enhancing financial literacy

The responsibility to save for retirement (beyond the benefits provided under the two public pillars of our retirement income system) is a personal one. However, given that attitudes and knowledge about financial issues vary widely among Canadians, we must ensure that Canadians have the financial skills, knowledge and confidence to make the best choices in planning for their retirement. Our research shows a clear link between financial literacy and retirement preparedness and higher rates of saving and financial planning[5].

The CICA is working to support a national, collaborative financial literacy strategy. We are engaged in providing Canadians with the knowledge and confidence required to take control of their finances. These efforts include free home and workplace based educational tools; community workshops by CAs and awareness campaigns.

We support the work of the Task Force on Financial Literacy and applaud the government's decision to appoint a financial literacy leader and invest in advancing financial literacy. This leadership is critical to achieving the Task Force's vision of an inclusive and thriving national economy based upon a financially literate population. We urge the government to ensure its commitment of $3 million for financial literacy in the 2012 budget.

In terms of the retirement income system itself, we also believe that the government should review the regulatory framework governing pension plans on an ongoing basis to ensure it does not unnecessarily inhibit innovation in the private sector market. In this regard, we support the government's commitment to implementing Pooled Registered Pension Plans as soon as possible.

Beyond this, we believe the following reforms would provide an incentive for savings and make the tax system more efficient, effective and competitive:

- Reduce or eliminate the income tax on personal savings. We support the government's intent to increase the contribution limits for Tax-Free Savings Accounts (TFSA), contingent on achieving a balanced budget. We also believe the RRSP contribution rate should be raised from 18 per cent to 34 per cent of earned income, and the maximum dollar amount should be raised proportionally from $22,000 to $42,000.
- Modify the RRSP and Registered Retirement Income Fund (RRIF) rules to allow greater tax deferrals on retirement savings by:
  - Increasing the age limits for withdrawals from a Registered Pension Plan (RPP) and for converting an RRSP to an RRIF
  - Reducing the RRIF minimum withdrawal requirements.
- Develop saving incentives, perhaps through enhanced credits, to encourage younger Canadians to start saving earlier.
- Tax RRSP withdrawals according to the nature of the underlying income rather than as ordinary income, so that investment income—whether capital gains, dividends or interest—is taxed according to its source when withdrawn. A phased approach should be taken in recognition of the government's budgetary restraints and focus on eliminating the deficit.

International credential recognition

Skilled professionals are vital for Canada's future and the CICA supports and encourages the federal government's ongoing commitment to easing the transition of internationally trained professionals into the Canadian workforce. All regulated professions have a responsibility in the public interest to ensure Canada's high standards are maintained in their respective fields. To ensure these standards are not seen as barriers to employment, regulatory bodies must develop credential assessment processes that fully recognize international education, training and experience, as well as streamlined bridging programs that help internationally trained professionals close any education or experiential gaps quickly and at reasonable cost. The CA profession is itself developing such programs. The CICA has embarked on a major initiative to develop new assessment tools and bridging programs to streamline the process for internationally-trained accountants to become Canadian CAs. These initiatives build on the profession's long history of assessing the qualification processes of international accounting bodies. The CICA has

[5] CICA Canadian Finance Study, conducted by Harris Decima, 2010; http://www.cica.ca/news/media-centre/media-releases-and-backgrounders/2011/item46014.aspx

Mutual Recognition Agreements with 14 such bodies, and this year negotiated a Memorandum of Understanding with the Institute of Chartered Accountants of India that significantly streamlines the process for its members.

Government funding and support for the development of these programs will ensure new Canadians are able to contribute at their full potential as quickly as possible.

Conclusion

Canada's Chartered Accountants believe that the nation's economic recovery can best be supported by enacting measures that help Canadians and Canadian businesses prosper and are pleased to provide advice to the Committee again this year for its pre-budget deliberations.

Improving our scientific research and experimental (SR&ED) tax incentives would encourage innovation by business, create high quality jobs and attract foreign investors. Reducing the complexity of Canada's domestic tax regime is crucial to easing the regulatory burden placed on Canadian businesses. Examining broad-based measures to provide personal income tax relief, as well as reducing tax on savings and enhancing financial literacy are key elements of ensuring that individual Canadians can prosper over the longer-term.