INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

Ian C.W. Russell FCSI
President & Chief Executive Officer

August 8, 2011

Mr. James Rajotte, Chair, and Members
House of Commons Standing Committee on Finance
c/o Mme. Guyanne L. Desforges, Clerk
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6
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Dear Mr. Rajotte and Members:

Re: IIAC Recommendations to the House of Commons Standing Committee on Finance (the Committee) for the 2012 Federal Budget

The Investment Industry Association of Canada (IIAC) is responding to your June 27 request for comments as part of the Committee's annual pre-budget consultation process. Our 180 members, ranging in size from small regional firms to mid-size and large organizations employing thousands of Canadians across the country, serve the savings and investment needs of millions of Canadians, as well as assist small, medium and large companies, governments, and not-for-profit organizations in capital-raising. While the country's economic recovery remains fragile primarily due to issues outside our borders, we are making three recommendations based on our members' experience and knowledge of two key and related issues – reducing costs for business so that companies can do their part in delivering economic growth and helping Canadians secure a financially comfortable retirement.

We agree with the goals set out in the request for comments for the 2012 budget: that is, identifying measures that target sustained economic recovery for Canada, quality sustainable jobs, relatively low rates of tax, and a balanced budget. The four goals are inter-related and the challenge is progressing on all four goals more or less simultaneously.

The federal 2011 Budget set out a five-year plan to eliminate the deficit and reduce the debt-to-GDP ratio, with the goal of meeting the G20 targets of halving Canada's deficit by 2013 and stabilizing the public debt burden by 2016. Returning to a balanced budget is critical. Canada's success in achieving budget surpluses and a manageable debt load prior to the 2008 financial crisis enabled Canada to weather the ensuing economic crisis and begin economic recovery sooner than other countries.

The 2011 Budget presented a blueprint for reducing the budget and returning to surplus that should be used to build the economic stability and financial security to attract and retain investment. We support a policy emphasis on lowering expenditures rather than increasing taxes to reduce deficits to instil confidence in stable tax rates and efficient regulation. This confidence will boost tax revenues naturally through economic growth. In this context, our three recommendations are:

1. **Ensure implementation of Red Tape Reduction Commission recommendations, especially those that achieve government efficiencies while freeing up business resources**

   We commend the government for establishing the Federal Red Tape Reduction Commission (the Commission) to identify specific fixes and general principles to avoid regulatory creep. Despite successive governments' efforts to reduce red tape, there is more to be done. Red tape expense becomes part of Canadian businesses' cost base, ultimately paid for by clients, shareholders, taxpayers and individual Canadians, either through lost sales or lost jobs.

   Our member firms engage frequently with officials at the Canada Revenue Agency (CRA), Finance Canada and other departments with respect to client tax reporting and delivery of important programs such as registered retirement, education, and disability plans. These consultations are important to promoting efficiencies and cost-effective processes in the delivery of these programs for Canadians. In our March 31, 2011 submission to the Commission, we made six general recommendations to minimize costs of new regulation and suggested 14 specific actions, including ones to replace the use of paper with electronic information transfer. Such changes will ultimately reduce costs and frustration for both government and business, and for small businesses in particular. In the case of our industry, tax reporting and other efficiencies would particularly help the majority of our members that are small businesses by Statistics Canada's definition. Also, it often would reduce client confusion and irritation with both government and financial institutions.

2. **Equalize payroll tax effect on those offering and using employer-provided retirement savings options**

   With an aging population, there is an appropriate focus on the changes necessary to ensure affordable comfortable retirements. Pooled Registered Pension Plans (PRPPs) – a new tax-advantaged retirement savings option – have been proposed, and PRPPs are expected to benefit from some RRSP-style administrative efficiencies. We have long believed that Group RRSP members should enjoy certain benefits that have been limited to pension plans, specifically, that all retirement savings products should be treated on an equivalent basis with respect to payroll taxes. Contributions by small businesses and their employees to the $40 billion held by Canadians in Group RRSPs should, like those to defined benefit (DB) and DC plans, be exempt from Canada Pension Plan (CPP), Employment Insurance (EI) and other such taxes.

   The justification for levying payroll taxes on contributions to Group RRSPs appears to be that RRSPs are not locked in like pension plans are and may be used for any purpose, such as vacations. In fact, the majority of funds – which are taxed when withdrawn – are used for retirement or other reasonable purposes (e.g., education, living expenses in a period of unemployment, a new business). It is wrong to penalize the many Canadians who leave money in their Group RRSPs – and employers offering these retirement plans – by subjecting contributions to payroll taxes solely because a minority cash in their savings for other purposes. Moreover, the federal and provincial governments can promote or mandate the locking in of employer contributions to Group RRSPs, which would increase the amount of RRSP savings available to Canadians when they retire.

By recommending the removal of payroll taxes from contributions to Group RRSPs and the locking-in of employer contributions, the Committee would increase retirement savings by reducing costs of businesses – and of small businesses, in particular, as the majority users of Group RRSPs. The Committee would also leave these businesses with more money for growth, for jobs and/or income on which taxes would be paid. In the ideal, this tax reduction will be self-financing to the extent that the CPP and EI *not* collected would be replaced by income tax revenue and a reduced call for government-funded assistance at retirement.

3. Plan for personal tax reductions

We support the government's fiscal decision to steadily reduce corporate tax rates to competitive levels with those of other industrialized countries, attracting capital to, and encouraging investment in Canada. Taxes on businesses remove from the economy the capital investment needed to grow and create or retain jobs that produce wealth over time. As budget balance is being restored, we recommend lower personal taxes as the next phase of tax policy, which would also help boost personal savings rates. Also, we welcome Prime Minister Harper's election commitment to help Canadians save for a business, education, retirement or emergency purposes – once the federal budget is balanced in 2015-16 – by doubling to $10,000 the current contribution permitted annually to Tax-Free Savings Accounts (TFSAs). We encourage this commitment to be made formally because we believe the stand-out success of TFSAs is testament to the responsiveness of Canadians to such incentives for savings.

Other alternatives we have recommended in the past included lowering the effective tax rate on capital gains for common equity shares by reducing the inclusion rate (possibly in targeted ways to reduce the cost to government). This would encourage emerging Canadian businesses to list and offer shares on a Canadian exchange, and provide a liquid market for their shares, in turn spurring further capital formation.

Sound management of public finances through targeted cost reductions will restore to the government the manœuvrability to provide further incentives for savings and investment – the key to growth and job creation – and to meet the social spending demands of an aging demographic. I look forward to meeting with the Committee in hearings later this year to elaborate on our views. In the meantime, please contact Barb Amsden, Director – Special Projects, at bamsden@iiac.ca, (416) 687-5488, if you have any questions.

Yours sincerely,