

## **Certified Management Accountants of Canada**

### **Responses**

#### **1. Economic Recovery and Growth**

*Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?*

Improving Canada's productivity performance – and in particular enhancing our national creative capacity – can help achieve a sustained economic recovery and economic growth in the years ahead. As the C.D. Howe Institute has noted, the most important determinant of national income is labour productivity growth. On that score, the story of Canada's lagging productivity record has been well documented for years. In his recent paper, Confessions of a Serial Productivity Researcher, Don Drummond of Queen's University describes Canada's productivity record as "terrible" and "pathetic". CMA Canada believes special attention should be paid to creativity/innovation in addressing Canada's productivity challenge because, as a recent McKinsey Quarterly paper found, "...the real game changers will be breakthrough innovations created by companies: history shows that a majority of productivity growth – more than two-thirds – comes from product and process innovation." We also believe that Canada's business community must be the primary innovator, although governments can play an important role as catalysts of innovation and creativity. To that end, we recommend: a) Initiatives aimed at transforming the creativity of Canadians into products and services for the global marketplace (i.e. commercialization). These include: repayable, cost-shared grants to SMEs as is done in Australia; the establishment of a technological incubators program as in Israel; and the introduction of a so-called Patent Box to Canada's tax regime as is being implemented in the UK. b) Introducing a training tax credit aimed at improving access to, and use of, information and communications technology. c) Making the Accelerated Capital Cost Allowance on investment in machinery and equipment permanent. d) Investing in basic literacy and numeracy skills programs. e) Improving the Scientific Research & Experimental Development (SR&ED) tax credit program. Further details regarding these proposed policy initiatives are set out in our responses to the other questions.

#### **2. Job Creation**

*As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?*

Investing in information and communications technology (ICT) has long been acknowledged as a key contributor to enhanced productivity. Drummond identifies Canada's significant under-investment in ICT relative to the U.S. as a serious issue. This is both a job creation issue and an investment issue. With regard to jobs, measures to increase the supply of skilled ICT workers should be launched immediately. Empowering older workers with improved ICT-based tools could alleviate looming labour shortages, making work less physically strenuous or reducing the need for work-related travel. This would help offset the declining productivity of many older workers and may also induce some older workers to defer retirement plans if the nature of their work was modified to better suit their needs. At both ends of the workforce spectrum, younger workers entering the workforce and older workers leaving the work force or working part-time, there are significant training and skills upgrading requirements which will be

a heavy burden upon employers, particularly small and medium sized companies. Tax-based fiscal incentives are needed to help employers support necessary training as well as to make ICT investments. More ICT in the hands of better skilled employees is a winning combination. To that end, CMA Canada recommends the introduction of an ICT training tax credit for SMEs, refundable if the company lacks taxable income, up to a limit of \$5,000 per worker per year. Having regard to ICT investments, the government introduced the Accelerated Capital Cost Allowance on investments in machinery and equipment in Budget 2007 as a temporary measure. This key incentive has been renewed in budgets every two years since in recognition of the positive effect on business investment in productive assets. In light of this track record, CMA Canada recommends that the Accelerated Capital Cost Allowance be made a permanent fixture of Canada's tax regime.

### **3. Demographic Change**

*What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?*

Many working Canadians of all ages lack the basic literacy skills needed to participate in Canada's knowledge economy. Our national productivity performance can be improved by bringing the low-productivity segment of Canada's workforce closer to the median. In addition to literacy, basic and intermediate numeracy skills are essential to expanding creative capacity. Poor basic skills act as a drag on the country's economic growth. In Budget 2011, the Government of Canada announced the investment of \$9 million over two years to expand adult basic education programming in Canada's north. When this funding expires at the end of this fiscal year CMA Canada encourages the government to renew this investment for an additional two years in Budget 2013. In addition to focusing on the north, we recommend that the Government of Canada continue to invest, either directly or in partnership with provincial and territorial governments, as well as in collaboration with private sector partners, in literacy and numeracy skills programs across the country.

### **4. Productivity**

*With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?*

One key to improving Canada's poor productivity record is capitalizing on the creativity of Canadians, transforming their knowledge into products and services for the global marketplace. We need to do better at commercializing our outputs. We can learn from, and should emulate, initiatives underway in other countries: a) The Government of Australia has established Commercialisation Australia, a merit-based assistance program which includes early stage funding, mentoring, and "proof of concept" support for SMEs. In the current economic climate, such a robust program may be challenging. However, at least one component merits serious consideration. We recommend a program of repayable grants to assist innovative SMEs in developing a new product, process or service to be taken to market. Applicants for a repayable grant at early stage commercialization would be required to match the funding on a 50:50 basis. b) Israel established its Technological Incubators Program in 1991, aimed at transforming innovative ideas into start-up companies that, after an incubation term, can raise capital on the markets and succeed. From 1991 to 2009, over 1,200 companies have gone through the Program; every dollar invested by the Israeli government levered an additional \$5-6 from the private sector. The incubation term is two years; 85% of the \$600,000 funding is provided by government, with the remaining 15% invested by the incubator – a private, for profit entity. The government grant is repaid by royalties. We recommend that the Committee consider recommending the establishment of a pilot program in Canada based upon the incubation model that has a long history of success in Israel. c) The UK

government is in the process of implementing a Patent Box which will allow companies to apply a 10% corporation tax rate on profits attributed to patents. The objective is to incent companies to retain and commercialize existing patents and to develop new patented products. In turn, this encourages companies to locate high-value jobs associated with the development, manufacture and exploitation of patents. It is also complementary to research & development programs. We recommend that the Committee examine the UK Patent Box model and consider its implementation in Canada.

## **5. Other Challenges**

*With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?*

Canada's economic performance continues to be one of the bright spots in a global economy that continues to prove challenging for many countries, communities, individuals and companies. Having said that, Canada should neither rest on its laurels nor assume that all sectors of the economy are poised for sustained economic growth. Canada's manufacturing sector was hit particularly hard by the global economic turmoil beginning in 2008 and has also been affected by the relative strength of the Canadian dollar. While the sector shows recent signs of strengthening, particularly in auto manufacturing, more can be done to nurture Canada's manufacturing sector. One initiative of particular importance is the SR&ED tax credit program. According to the Canadian Manufacturing Coalition, Canada's manufacturers account for almost 60% of private sector R&D while representing less than 14% of total GDP. While some of the relatively poor R&D performance of Canada's business sector can be attributed to structural characteristics – comparatively small scale of Canadian firms, significant foreign ownership – the design of the SR&ED program is another contributor. Most R&D in Canada is performed by large companies. CMA Canada believes, therefore, that the program would be improved by extending the refundability provision of the SR&ED tax credit currently available only to smaller businesses to claimants of all sizes. This would have the twin benefits of encouraging smaller businesses to grow and recognizing the innovation advantage of larger companies performing R&D in Canada. Claimants could be permitted to use their accumulated but unused tax credits first to offset taxes until the pool has been used up. Companies would thereby be able to draw down their existing pools of earned but unclaimed credits over time, with minimal impact on the federal government's treasury. As an alternative, the government could permit larger claimants to apply the tax credit against other federal government levies such as EI premiums. This initiative, in tandem with our proposals for promoting commercialization, is aimed at attracting more capital investment to Canada and creating high-value jobs for Canadians. NOTE: CMA Canada is interested in appearing before the Committee and would be available to appear in Ottawa at the Committee's convenience.