Standing Committee on Finance (FINA)

Pre-budget consultations 2012

Investment Industry Association of Canada (IIAC)

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?

We commend the government on its careful financial management during this era of ongoing economic uncertainty. On the premise the key to sustained social programs is healthy public finances, we believe continued progress in bringing Canada's budget into balance remains critical to strengthening consumer confidence and boosting investment spending. A July 25, 2012 IRPP-Nanos poll shows Canadians place a high priority on preserving and improving the quality of public health care, coping with an aging population and balancing government budgets. We believe most Canadians understand there are tough choices to be made among these priorities. To achieve these goals, we must rely on robust revenue from sustained and strong economic growth and continued efficient management of government programs. The groundwork has been laid: a series of balanced budgets before the 2008 downturn enabling government debt to be paid down and a succession of business tax reductions meaning Canadian federal corporate tax rates are recognized as among the lowest – and most competitive – among those of the G-20 countries. The fundamental measures needed now in the face of the continued weak recovery and only modest economic growth are also structural. We recommend continued prudent management of public finances by reducing the public debt-to-GDP ratio to 28.5% in 2016-17, consistent with the pre-recession target and lowest among G7 countries. This can be achieved by a focus on helping businesses create jobs and re-allocating government spending through: 1. Judicious rationalization of regulation to enable businesses to better compete and create jobs. 2. Faster, more flexible immigration approaches to address skilled work shortages. 3. Measured adjustments to Old Age Security (OAS) and structural changes providing fairness between public and private sector pensions. 4. Allocating capital to private sector venture capital funds plus more robust tax incentives for investment in small and mid-sized businesses.

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?

The government already has taken steps to promote a more flexible, adaptable workforce. The ability to transfer skills is critical to staying employed in a more volatile and competitive world, discussed further in the next section. Looking ahead, we recommend continued efforts aimed at overcoming obstacles to doing business in Canada. We encourage provincial governments to remove interprovincial barriers and strongly support federal and provincial government efforts at red tape reduction. These changes will make Canadian businesses more competitive in a global economy and Canadian jobs more certain, without having to compromise consumer protection. The IIAC is pleased that the federal government continues in its commitment to red tape reduction, for example, efforts we have seen at the Canada Revenue Agency (CRA) to eliminate unnecessary costs while ensuring the government obtains tax revenue efficiently and honest taxpayers do not face delays and confusion. Our prescription for managing effective regulation – for hanging out Canada's "open-for-business" sign – has four parts: 1. Before regulatory drafting starts, regulators should consult with those expected to be affected by new requirements on a plain-language two-page summary of the perceived problem and whether it requires regulatory intervention. Regulation should be pursued only when it can improve on market solutions. 2. If regulatory intervention is required, there should be a review of and agreement among the government and stakeholders on possible reasonable solutions. 3. At least a high-level cost-benefit analysis of two or three options that appear most promising should be done by the government with input from those parties to be regulated. The purpose is to achieve that fine balance between protecting consumers and fostering businesses that provide jobs. 4. Regulators should be accountable for reporting annually to Parliament against the specific measurable goals of better consumer protection, more cost-effective business regulation and elimination of outdated requirements.

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?

We believe sustainable, intergenerationally fair solutions to demographic challenges is critical, meaning equitable tax treatment across retirement savings vehicles – pension plans, RRSPs and TFSAs – and between public- and private-sector arrangements through: 1. Phased-in adjustments to OAS coupled with the concurrent extension in the RRSP-RRIF conversion age from 71 to 73, removal of the minimum annual withdrawal limit from RRIFs and elimination of RRSP/RRIF income from the GIS clawback. 2. Removal of CPP and EI taxation of employer and employee contributions to RRSPs and employer contributions to individual RRSPs making contributions payroll-tax-free like those to defined benefit and defined contribution plans. The gross cost to the government is limited as yearly maximum pensionable earnings cap CPP and EI contributions; the net cost is considerably less and ultimately will be positive as savings for business generates jobs and more business and individual tax revenue. Leaving more money in the hands of Canadians and Canadian businesses – a Government commitment – generates spending (and income taxes) or investment (jobs and taxes). 3. Ability of individuals to compensate for lost RRSP accumulation because of job loss or fluctuations in income, based on an average of preceding working years' contributions, and for the self-employed to be allowed annual RRSP contribution room based on average income with a carry-forward or back into years of leaner earnings. We elaborate on these recommendations in other submissions available on request. With respect to skilled work shortages, we recommend measures including funding to help transition Canadians from shrinking sectors to ones that are growing, as well as for apprentice programs. The government has reviewed the Federal Skilled Worker, Federal Immigrant Investor and Federal Immigrant Entrepreneur programs to ensure Canada can better attract innovative entrepreneurs. We see benefit in federal (including Canada's embassies abroad), provincial and municipal governments working with the education and private sectors to better co-ordinate the identification and sharing of skills needs, as well as where jobs of the future are emerging. We encourage more programs with work terms and the welcoming of students to Canada to further develop ties into some of the sources of the future Canadian work force.

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?

Canada has long faced the dilemma of low productivity; addressing it is all the more important now to compensate for the strong dollar, sluggish recovery and volatility that have deterred investor participation in markets. Most affected is the supply of risk capital to innovative small and mid-sized enterprises (SMEs) with less established financial track records. We recommend that the government reinvigorate the venture capital market by allocating capital from the $400 million earmarked in the 2012 budget to private sector funds, subject to past investment performance and defined pro-rata allocation across the different regions of the country. However, it also remains vitally important for the government to support non-venture fund financing through tax incentives targeted specifically to high-tech and biotech SMEs: 1. Adoption of the 2006 Conservative Party election platform proposal that capital gains earned by individuals on financial assets be tax-exempt if proceeds are reinvested within a six-month period in qualifying investments. 2. Extension of the flow-through share concept beyond resources to sectors identified as having high value-added potential and important sources of future economic and employment growth. 3. Introduction of a lower capital gains tax rate for listed traded shares and/or initial and secondary public offerings, reducing the income inclusion rate below 50% for investment in productivity-enhancing sectors. 4. Broader applicability of the lower corporate tax rate and investment tax credits to mid-sized businesses and/or to small and mid-sized public companies in such sectors. We also recommend restoration of the former tax treatment of a little-known financial instrument, typically called “broker warrants”, inadvertently caught by a 2008 tax change applicable to traditional warrants. Broker warrants provide an alternative to paying underwriting fees by small businesses, allowing them to compensate dealers by giving them the opportunity to purchase stock on a future date at a pre-determined price.

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?

While many challenges affect people and businesses in different regions, it is important for the most vulnerable that the social safety net Canadians rely on remains strong. Our recommendations in previous questions will help keep health, education and other programs that meet the basic needs of Canadians on a sound footing. Commitment to the Government’s fiscal plan is critical to building confidence in Canadian leadership from within and outside the country and to attracting investment and jobs to Canada. The Canadian financial services sector generally has avoided financial and other problems of counterparts in the U.S. and Europe. But further action can be taken by the government to help add more value-added jobs to the hundreds of thousands of Canadians working in the financial services sector, and the businesses and individuals they support: 1. Continue dialogue with the provinces to seek consensus and move forward on a single securities regulator as voice for Canadian capital markets. To date, an informal body with roots deep in provincial regulation, the Canadian Securities Administrators (CSA) has neither articulated a vision for global reform necessary to strengthen the competitiveness of our institutions, nor shown the authority to speak credibly for national market interests in global forums. Given varying election timetables, perspectives on national rules and levels of expertise, the CSA cannot quickly achieve consensus among securities commissions to meet the significant demands of global financial regulation. 2. Pursue open access to foreign markets through multilateral and bilateral co-ordination of harmonized global regulatory reform. This is aimed at enhancing safety while avoiding valueless duplicative regulatory costs, with the goal being mutual recognition of equivalent regulatory regimes. The actions above require provincial co-operation and we are also articulating these points to provincial finance ministers. We will be urging provinces to achieve deficit elimination and debt reduction goals, and to honour promises to reduce corporate taxes for the combined 25% rate the federal government championed. We will encourage provincial co-ordination on economic policy and elimination of inter-provincial trade barriers, which still exist even in the financial services sector.