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August 6, 2014

The Honourable Joe Oliver
Minister of Finance
House of Commons
Ottawa, Ontario K1A 0A6

Dear Minister:

Re: Pre-Budget 2015/2016 Submission (via email)

The Vancouver Board of Trade (“VBOT”) is very pleased to share our priorities for the 2015 federal budget. These priorities reflect the concerns of our board of directors and our organization’s 5,000 business members across Greater Vancouver and British Columbia.

We have organized our recommendations around certain themes for the pre-budget consultation identified in the June 6, 2014 Press Release.

Improving Canada’s Taxation and Regulatory Regimes

Thin-Capitalization

The thin capitalization rules in subsection 18(4) of the *Income Tax Act* (the “ITA”) can limit the deductibility of interest paid on certain debts owing to non-residents. The ITA currently contains a provision in subsection 18(6) addressing “back-to-back” loans that were entered into in an attempt to circumvent the thin capitalization rules. However, the federal government’s 2014 Budget proposed a significant expansion of the thin capitalization back-to-back loan rules in subsection 18(6) of the ITA and the addition of new legislation in Part XIII of the ITA.

The 2014 Budget proposals are incredibly far-reaching, likely unintentionally so, and will make it harder for many Canadian companies to obtain cost-effective financing. Further, these proposals may also restrict future investment in Canada by non-residents. We understand that the Department of Finance is reconsidering these proposals and we strongly suggest that the scope of the proposed legislation either be significantly scaled back or be eliminated altogether.

Tax legislation should not be a deciding factor in investment decisions. The current thin-capitalization rules are thwarting certain investment decisions and restricting investment into Canada. This result can be remedied to ensure that foreign investment is encouraged.

Small and Medium-Sized Enterprises

The small business income tax threshold (“SBITT”) has increased over the years, which has been of significant benefit to the growth of small businesses. However, the small business tax limit is reduced when taxable capital exceeds \$10,000,000 and is completely eliminated when taxable capital exceeds \$15,000,000. The taxable capital threshold has not been increased since its inception in 1994. We believe the taxable capital threshold should increase similar to the SBITT, to reflect the growth of the



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economy and increased cost of capital since 1994. As a comparative example, the SR&ED program had similar taxable capital thresholds for the calculation of eligible expenditures until 2009 when the upward threshold was increased from \$15,000,000 to \$50,000,000. We feel the same increase could be used for small business tax limit.

Similar to the incentive to reduce corporate taxes to stimulate economic growth, we believe the increase of the taxable capital limits would be an incentive for small businesses to reinvest capital rather than take funds out of their business to avoid paying tax at the higher general tax rate. Small and medium-sized businesses in all sectors and regions of the country would directly benefit from this change.

As mentioned above, we believe the recommendation would encourage small and medium-sized businesses to further reinvest in their businesses which in turn would create more jobs and foster growth of not only their business, but the Canadian economy as a whole.

Supporting Families and Helping Vulnerable Canadians by Funding Health, Education and Training

VBOT is of the view that the Canada Health and Social Transfer must be age adjusted to account for the increased costs of providing health care to seniors aged 65 and over.

The new, per-capita-based funding formula for the Canada Health and Social Transfer should incorporate a methodology that recognises the different demographic and population compositions of provinces.

British Columbia has a growing population of seniors. The 2011 census counted nearly 688,715 seniors living in B.C. According to the census, the percentage of British Columbians aged 65 and over was 15.7 per cent, compared with a national population of 14.8 per cent. The percentage of seniors in B.C. will reach 24.7 per cent by 2036. Furthermore, the fastest-growing demographic group in B.C. are people aged 85 and older.

There are estimates that the funding formula allocated on a per capita basis only will cost B.C.'s health-care system \$202 million. As B.C.'s Finance Minister has noted, this approach does not "operate in a way that is favourable" to the province, nor does it acknowledge the significant efforts that have been made to contain health care costs, nor the province's aging population.

B.C.'s Finance Minister has estimated that recognising the fiscal demands of providing health care to seniors would incur the province with more than \$100 million in additional funding for health care.

When B.C.'s shifting demographics are translated to health spending trends for seniors in Canada, the cost projections are staggering. The increases in health care spending for seniors compared to other age groups are as follows: \$6,223 for those aged 65 to 69, \$8,721 for those 70 to 74, and \$12,050 for those 75 to 79. The increases jump to \$20,113 for those 80 and older.

Given these costs, it is critically important to British Columbians and fair for Canadians that the Canada Health Transfer funding formula be adjusted to account



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for the increased health care costs for provinces with disproportionately higher populations over the age of 65.

Ensuring Prosperous and Secure Communities, Including through Support for Infrastructure

Recent developments in the area of resources and trade mean that Canada's Asia-Pacific Gateway has never been more important. VBOT recognizes the investments made to date in various related infrastructure projects. However, to effectively move the Gateway forward, projects in British Columbia need continued consideration when allocating funds from the Building Canada Fund, and on an expedited basis. It is apparent that Asian interest in our resources may have a limited time horizon and it is imperative that we don't lose access to these markets. Accessing these markets in a timely manner should have spin-off benefits for the whole country.

Key projects that the VBOT views as being strategic in nature and deserving of federal support, as they present a benefit to all of Canada, include the following:

- Roberts Bank Terminal 2 Project;
- George Massey Tunnel Replacement;
- Pattullo Bridge Replacement;
- Railway capacity across the Fraser River;

In summary, The Vancouver Board of Trade is supportive of federal involvement in infrastructure projects that benefit the nation, particularly the Asia-Pacific Gateway and Corridor Initiative, which should be a priority for all of Canada.