Submission for the Pre-Budget Consultations of the House of Commons Standing Committee on Finance

By the C.D. Howe Institute

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List of Recommendations

Fiscal Responsibility

- The federal government should surrender some of its fiscal policy flexibility. One approach would be to enshrine specific constraints in legislation, as is done in many other countries.
- The following fiscal principles should be enshrined in legislation:
  1. Debt must be managed prudently, bearing in mind the issues of sustainability, economic stabilization and the impact of debt on present and future generations.
  2. Gaps between prudent and actual or projected debt levels must be eliminated over a reasonable period of time, bearing in mind the state of the economy and the stance of monetary policy.
- Legislation should be amended to enhance federal reporting requirements, such as the development of operational rules or anchors to guide policy and to monitor progress toward the fiscal objectives; these rules must include a rolling multiyear ceiling on non-cyclical spending.
- The government should demonstrate that the risks to the long-term forecasts and projections have been prudently assessed.
- The government should prepare, at least every three years, a report analysing the intergenerational impacts of fiscal policy and advising on changes to the fiscal framework that will promote intergenerational fairness. The advice will take into consideration the relevant economic, social, and demographic factors that affect the intergenerational distribution of fiscal burdens.
- The Parliamentary Budget Office (PBO) should assess and offer an opinion on the consistency of the fiscal framework with the fiscal principles. The assessment should make use of a probabilistic approach to debt sustainability.
- The PBO should also be tasked with preparing reports on intergenerational fairness and investment.

Fiscal Transparency and Accountability

- Present each year's budget at least 30 days before the start of the fiscal year and present the Main Estimates at the same time.
- Present the summary statement of transactions in the first 15 pages of the budget.
- Prepare the Main Estimates so that parliamentarians can readily reconcile them with the fiscal plan in the budget.
- Table the Public Accounts no more than 90 days after the end of the fiscal year.
- Consolidate federal pension expenses and liabilities on a fair-value basis in the government's statement of operations and statement of financial position, and use this presentation consistently in all presentations.

Control of Expenses and Improving Government Operations

- Limit growth of federal employee numbers and payroll expense by freezing federal departmental operating budgets for wages and salaries at their 2023 levels for five years, while ensuring competitive compensation for federal employees.
- Avoid unnecessary and unproductive expenses. The government, for example, should not:
  - pursue a national pharmacare program. An enhanced medical expense deduction would alleviate some of the pressures Canadians experience from healthcare cost;
  - increase the Canada Health Transfer;
  - cut Canada Mortgage and Housing Corporation mortgage insurance premiums;
  - introduce a basic income, loosen eligibility for EI or increase the share of earnings that EI covers; or
  - introduce ad hoc measures to offset the impact of monetary restraint in Canada and abroad on economic activity
- Transition federal employees' pension plans to shared-risk, shared-governance plans in which taxpayers bear less risk.
- Prioritize funding for infrastructure projects under direct federal control, such as investments in capacity and added security for marine, rail and air transportation, and military assets.
- Continue to issue Real Return Bonds (RRBs) and improve the functioning of the RRB market by issuing bonds with various terms, rather than 30 years exclusively.
- Renew the federal government's commitment to ensuring that regulations achieve their objectives at the lowest practical cost to Canadians and to their businesses.
- Emphasize the economic stream of immigration entering under the points system, and ensure that principal applicants become a larger share of that stream.

Tax Reform to Drive Economic Growth

- Fund new spending with a higher GST rate, rather than growth-inhibiting hikes in personal and corporate income taxes.
- Introduce legislation to make strike pay taxable as ordinary income.
- Provide a more generous tax treatment of medical expenses by lowering the threshold to 1.5 percent of net income or $1,240.
- Limit inflation's fiscal burdens. The federal government indexes personal income tax thresholds, benefit payments and most tax credits to the CPI. Some thresholds that would be easy to index remain unindexed. Examples include:
  - the federal government's pension income credit and the maximum tuition credits that tax filers can transfer to spouses or parents;
  - the Guaranteed Income Supplement for low-income seniors has, since 2020, exempted up to $5,000 of employment earnings, and half of the next $10,000 of earnings, from its calculation, but lack of indexation of these thresholds is subjecting more seniors and more of their incomes to 50 percent to 75 percent clawbacks; and

  - the $10,000 foreign employee exemption in the Canada-US tax treaty. After more than 40 years, inflation has cut its real value by almost three-quarters – a major hassle for people who do minimal amounts of work in Canada.

- Reduce the base amount of the age credit from $8,396 to $4,000.
- Phase out the tax credit for first-time homebuyers.
- Implement a benefit shields, focusing on the Child Tax Benefit and the Canada Workers Benefit. This "benefit shield" would partly compensate workers for the loss of certain income-tested tax credits – but only in the first year after they take on more work.
- Allow workers to average their income over many years, so that any single large-earning year would not lead to a disproportionate loss of fiscal benefits and higher tax payments.
- Revisit the tax deduction granted for childcare expenses and replace it with a refundable tax credit for childcare expenses.
- Amend the *Income Tax Act* to relieve more donations of private company shares and real estate from capital gains tax.
- Raise the limit for contributions to defined-contribution pension plans and RRSPs by three percentage points of income per year – from the current 18 percent to 30 percent of earned income – over four years.
- Institute an exemption threshold for RRIF withdrawals under which minimum RRIF withdrawals would not apply; alternatively, institute an immediate one-percentage-point reduction of minimum RRIFs withdrawals mandated for each age, beginning with the 2023 taxation year.
- Allow purchases of annuities – including the advanced life deferred annuities introduced in the 2019 budget and variable payment life annuities (VPLAs) – within a TFSA.
- Raise the age at which contributions to tax-deferred retirement saving schemes must end.
- Increase the age of eligibility for public pension benefits. The normal age of eligibility for Old Age Security and the Canada Pension Plan should rise from 65 at the beginning of 2023 to 66 in 2033, and then to 67 between 2048 and 2050.
- Implement a temporary general investment tax credit, applicable to all investments in depreciable assets, including intangibles, at a rate of 5 percent, in effect from now until 2025. Reduce the corporate income tax rate from 15 percent to 13 percent starting in 2025, after the temporary investment tax credit has ended.
- Establish an "IP Box" tax mechanism whereby income from patents and other intellectual property generated by activity in Canada would face a lower corporate tax rate.
- Tie the Small Business Deduction to the age of firms. At five-year intervals, the threshold level of capital assets that qualifies for the Small Business Deduction would rise and the level of the deduction fall, regardless of firm size, until the standard corporate tax rate is reached.
- Exempt from taxation capital gains realized on the sale of certain publicly traded small business shares.

This submission collects the recommendations of a number of C.D. Howe Institute publications related to Canadian fiscal and tax policy. For more details on the recommendations listed above, see:

Fiscal COVID: The Pandemic's Impact on Government Finances and Accountability in Canada – by William B.P. Robson and Nicholas Dahir.

The Morning After: A Post-Binge Federal Shadow Budget for 2023 – by William B.P. Robson, Don Drummond, and Alexandre Laurin.

Softening the Bite: The Impact of Benefit Clawbacks on Low-Income Families and How to Reduce It – by Alexandre Laurin and Nicholas Dahir.

Tax Support for R&D and Intellectual Property: Time for Some Bold Moves – by John Lester.