CHARTERED PROFESSIONAL ACCOUNTANTS CANADA
COMPTABLES PROFESSIONNELS AGRÉÉS CANADA

2014 Pre-budget Consultation

A Submission to the House of Commons Standing Committee on Finance

Chartered Professional Accountants of Canada

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Executive Summary

The Chartered Professional Accountants of Canada (CPA Canada) is pleased to present its 2014 pre-budget submission. This brief was developed in collaboration with the Certified General Accountants Association of Canada.

The issues and recommendations in this brief have been developed in accordance with the key themes proposed by the House of Commons Standing Committee on Finance.

This submission focuses on the following themes:

- Balancing the federal budget to ensure fiscal sustainability and economic growth
- Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization
- Improving Canada’s taxation and regulatory regimes

1. Balancing the federal budget to ensure fiscal sustainability and economic growth

Strong management of government finances plays a crucial role in achieving a sustained economic recovery and enhancing economic growth. CPA Canada applauds the federal government's determination to return to balanced budgets, and recommends the following:

1.1 Balance the federal budget by 2015-16 and maintain balanced budgets/ budget surpluses in future years.

1.2 Balance the federal budget through expenditure controls and by restraining annual government spending rather than increasing the overall tax burden.

To grow the economy and sustain the standard of living that Canadians enjoy, Canada needs to expand and diversify its international trade. CPA Canada supports the federal government's international trade agenda efforts.

Small and medium-sized enterprises are essential to boosting economic growth and diversifying Canada's export markets. Canada's long term economic success depends on the ability of its businesses and labour force to take advantage of new opportunities in global markets, while ensuring they can compete on a level playing field.

CPA Canada urges the federal government to commit to the following:

1.3 Continue to negotiate trade agreements that eliminate barriers to the movement of goods, services, capital, and labour, and reduce the cost of conducting international business.

1.4 Ensure that trade agreements address the barriers faced by Canadian professionals who wish to work in foreign markets, such as citizenship or residency requirements, lack of temporary entry rules, and ownership and investment restrictions.

Skilled professionals are vital to Canada's economic future and we welcome the federal government's efforts to helping internationally trained professionals contribute to their full potential as quickly as possible. We are pleased to have the financial support of the federal government for our initiatives to create online assessment tools that will validate foreign education and work experience and recommend that the federal government continue funding such programs. As part of this work, we are also establishing customized bridging programs to help internationally-trained accountants complete any additional courses and examinations required to prepare them for work in the accounting profession supporting the success of Canadian businesses.

To help attract skilled professionals to Canada, we recommend that the federal government take the following measures:

1.5 Ensure there are clear guidelines, standards and appropriate bridging programs in place for professionals wanting to work in Canada. Easily accessible pre-arrival information and clear foreign educational credential assessment programs for immigration purposes are key.

CPA Canada shares the federal government's belief that helping Canadians develop financial knowledge is critical to individual and societal economic prosperity and growth. Understanding the fundamentals of financial management has a measurable impact on the choices people make at all stages of their lives. Improved financial literacy translates into better-informed financial decisions which lead to increased savings and lower indebtedness. With Canadians having relatively high levels of household debt, low personal savings rates, and with Canada's aging demographics, financial literacy has become a significant national issue.

Given that financial capabilities vary widely among Canadians, we must ensure that people have the skills, knowledge, information and resources they need to make wise decisions regarding their long-term financial security. This is especially the case for those Canadians who are most vulnerable – including Aboriginal peoples, newcomers to Canada, seniors and lower income families. CPA Canada recommends that the federal government:

1.6 Continue to adequately fund the Financial Consumer Agency of Canada to ensure it plays a leadership role in improving the financial literacy of Canadians, and coordinating the efforts of stakeholder organizations.

CPA Canada is privileged to be an active participant in improving financial literacy. We have produced publications to help Canadians deal with money management, undertaken surveys on a wide range of topics – including consumer debt – and initiated education campaigns focused on specific age groups, new Canadians and small business owners. CPA Canada also oversees a volunteer outreach initiative involving professional accountants delivering free seminars in their respective communities, and maintains a website dedicated to financial literacy (www.financialdecisionsmatter.com). We commend the federal government for creating Canada's first National Steering Committee on Financial Literacy, and look forward to working with the government and other stakeholders in the development and implementation of a successful National Strategy for Financial Literacy.

2. Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization

Canada's ability to innovate is critical to the country's competitiveness and long-term prosperity. There is a growing consensus that Canada's relatively low levels of productivity growth in comparison to other major industrialized economies is due to an underinvestment in research and development activities by Canadian businesses.

Capitalizing on the creativity of Canadians by transforming their knowledge into products and services in the global marketplace—referred to as commercializing innovation—can improve Canada's productivity record. Several countries encourage the commercialization of innovation by a tax incentive known as a "patent box". A patent box is a regime that rewards innovative companies by providing for a lower rate of tax on profits earned from the exploitation of patents. Canada's lower tax rate should be competitive and based on studies of comparable regimes around the world. The objective is to encourage R&D activity and the commercialization and adoption of intellectual property developed from R&D by domestic firms. Canadian businesses would benefit by paying a lower rate of tax on profits earned from commercializing their innovations. A ripple effect of high-value employment opportunities would emerge as companies increased their research, development, and exploitation of innovation in Canada.

CPA Canada recommends that the federal government:

2.1 Incent Canadian companies to develop and commercialize their R&D in Canada by implementing a patent box.

For Canada to stay competitive and create employment opportunities for an educated workforce, it is essential that the Scientific Research and Experimental Development (SR&ED) Tax Incentive Program be improved. The focus should be on encouraging companies that promote growth in SR&ED irrespective of the size of the company. Rather than funding innovation through direct investments, the existing SR&ED program should be enhanced: amendments related to reducing the general SR&ED tax credit rate and excluding capital expenditures should be repealed or deferred until a later date. The SR&ED investment tax credit should be made partially refundable for all businesses. This is particularly important to U.S.-based multinational enterprises for which the interplay of the Canadian and U.S. tax regimes makes a non-refundable credit less relevant, if at all.

CPA Canada recommends that the federal government:

2.2 Enhance the SR&ED tax credit program by making it partially refundable for all businesses regardless of size, and by repealing the latest reduction of the tax credit rate and the exclusion of capital expenditures as eligible expenses.

3. Improving Canada's taxation and regulatory regimes

There has not been a thorough review of Canada's tax system since the Royal Commission on Taxation (the "Carter Commission") in 1966. Tax reform is needed to ensure a fairer and less complex system, to contribute to economic growth and provide an internationally competitive tax system that benefits Canadians and Canadian businesses.

In the recent past, the Commons finance committee has called on the federal government to explore ways to simplify the *Income Tax Act*. We support the committee's recommendation, and urge the federal government to take the following key actions:

3.1 Undertake a comprehensive review of Canada's tax system to reduce its complexities and inefficiencies.

3.2 Appoint an independent expert panel to provide advice on short and long term options to streamline and modernize the tax system. Consider creating a permanent independent tax simplification office (as in the U.K.) to review existing and proposed measures.

Reducing complexity in Canada's tax regime is crucial to easing the regulatory burden placed on Canadian businesses and attracting investment. Simplifying our tax system would make the country more competitive and allow both individuals and businesses to prosper. To this extent, we recommend that the federal government:

3.3 Consider the following measures as part of a tax reform initiative and to ensure a globally competitive tax jurisdiction:

- Maintain competitive corporate tax rates by continuing to benchmark Canada's rates against the OECD average
- Index current tax thresholds in accordance with inflation and competing tax jurisdictions
- Adjust capital cost allowance rates for all classes of equipment to correspond with the true economic life of the assets
- Implement the policies recommended by the Advisory Panel on Canada's System of International Taxation, particularly regulations 102 and 105
- Assess the federal and provincial fiscal impact of a formal loss transfer system for the taxation of corporate groups so that a transition mechanism can be developed and such a system can be introduced
- Make targeted improvements, such as:
  - Eliminating or significantly limiting the application of the alternative minimum tax
  - Indexing to inflation the $10 million capital limit for the small business deduction
- When economic conditions allow, reduce personal income tax rates and, if needed, offset the resulting loss of tax revenue by increasing consumption taxes to align Canada with its major trading partners
- Issue criteria to assess the effectiveness of tax credits on a regular basis to ensure their effectiveness in maintaining a fair, broad based and efficient tax system

Equally important, CPA Canada believes that Canada must continue to be an active participant in the OECD Base Erosion and Profit Sharing (BEPS) initiative, and adopt tax policies that are consistent with those made by our major trading partners, but do not harm Canada or Canadian multi-nationals by ensuring global competitiveness is maintained.

In addition, as the Government of Canada takes steps to address illegal international tax evasion, it must work with Canada's business and tax community to promote clarity and certainty over tax matters, strengthen Canada's tax administration and ensure our competitive position is maintained. In addition to the tax reform measures outlined in section 3.3., CPA Canada recommends that Canada:

3.4 Take the following unilateral steps now:

- Tighten the focus of specific anti-avoidance rules
- Continue to use tax policy to help Canadian businesses compete
- Pursue more international Tax Information Exchange Agreements

Lessening the regulatory burden placed on Canadian businesses is also crucial. Businesses must submit the same or similar information in multiple reporting formats to numerous government departments and agencies. This duplication of effort places a considerable compliance burden on companies. The adoption of Standardized Business Reporting (SBR) – and specifically, eXtensible Business Reporting Language (XBRL) – would reduce compliance costs for business, and would enhance the efficiency and accuracy of the government's data collection, thereby resulting in cost savings. CPA Canada is pleased that XBRL was endorsed by the House of Commons Standing Committee on Finance in 2012 and 2013, and we encourage the committee to include XBRL in its 2014 pre-budget report.

CPA Canada recommends that the federal government:

3.5 Continue to implement the recommendations of the Red Tape Reduction Commission and report on the progress to reduce red tape through the government's Annual Scorecard.

3.6 Adopt SBR – more specifically XBRL – across government departments and agencies, for use by businesses for all government filings. Furthermore, the federal government should undertake a cross-department study to develop a detailed implementation plan.

We thank the House of Commons Standing Committee on Finance for the opportunity to provide the accounting profession's views and recommendations for the 2015 federal budget. CPA Canada looks forward to appearing before the committee during its pre-budget hearings in the fall of 2014.

CPA CHARTERED PROFESSIONAL ACCOUNTANTS CANADA COMPTABLES PROFESSIONNELS AGRÉÉS CANADA

Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto ON M5V 3H2
Phone: (416) 977-3222