



Certified General  
Accountants Association  
of Canada

# **Paving the Way to Prosperity: It's Time for Real Tax Reform**

**A SUBMISSION TO**

**THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE  
AND THE MINISTER OF FINANCE**

**BY THE CERTIFIED GENERAL ACCOUNTANTS ASSOCIATION OF CANADA**

**SEPTEMBER 2007**

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## About CGA-Canada

CGA-Canada is a professional accounting body, representing 68,000 Certified General Accountants and students in Canada and abroad. The Association sets professional standards, develops education programs, publishes professional materials and develops national policy.

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# Summary of Recommendations

# 1

## A FOUR-POINT PLAN

CGA-Canada advocates the following four-point plan be considered by the House of Commons Standing Committee on Finance, the Minister of Finance and, ultimately, the government of the day, during the 2007-08 pre-budget process. We submit that this plan is reasonable and achievable, and would provide a solid base on which to build a more prosperous and competitive Canada.

1. *CGA-Canada recommends that the Minister of Finance appoint an independent panel of experts to undertake a comprehensive review of Canada's taxation policy and taxation system.*
2. *CGA-Canada urges the government to bring personal and corporate income taxes down to an internationally competitive rate by*
  - Lowering personal income tax rates at all income tax brackets.
  - Increasing personal income tax thresholds.
  - Accelerating and deepening reductions in corporate taxes.
3. *Capitalize on Canada's knowledge advantage by*
  - Increasing the current \$5,000 limit for the Education Tax Credit (ETC).
  - Giving consideration to making these education tax credits "refundable" instead of "non-refundable".
  - Amending the *Income Tax Act* to clarify the qualifying criteria for the ETC for educational institutions which provide courses at a post-secondary level.
  - Addressing the recommendations emanating from the Expert Panel on Older Workers on a priority basis.
  - Leading efforts to ensure the labour mobility provisions of the AIT are fully complied with by April 1, 2009.
4. *Provide further and meaningful support to SMEs and Entrepreneurs in Canada.*

Specifically, improve the regulatory and taxation environment for Canadian businesses by

  - Ensuring the consistent application of tax legislation from coast-to-coast-to-coast.
  - Introducing mechanisms to facilitate improved access to capital, including expanding the use of RRSPs to include certain business investment purposes.

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- Providing special tax rates to encourage new corporate investment.
  - Working with Canadian business to develop broad-scope incentives for employer-supported training and retraining.
  - Reducing the employer's EI contribution to the same level paid by employees so that employers are financially encouraged to hire additional workers.
  - Reducing the regulatory burden on SMEs and entrepreneurs.

The Certified General Accountants Association of Canada (CGA-Canada), on behalf of the more than 68,000 CGAs and students we represent, looks forward to participating in the fall 2007 pre-budget consultations of the House of Commons Standing Committee on Finance.

There are a myriad of both positive and negative forces at play in the current Canadian economy, all of which affect, both directly and indirectly, the prosperity and productivity of individuals and businesses in Canada.

As Finance Minister Jim Flaherty pointed out in mid-August, “the fundamentals in our economy are very strong.” Canada is fiscally robust and its employment performance is the best it has been in 30 years. However, the record-high dollar, vulnerable export and financial markets, and rising energy costs are worrisome.

Lagging productivity is an added aggravation which threatens the nation’s growth potential. This was highlighted by the World Economic Forum in its *Global Competitiveness Index 2006-2007*, as it showed that Canada fell from 9<sup>th</sup> place in 2002 to 16<sup>th</sup> place in 2006. More recently, in its March 2007 *Trade Policy Review of Canada*, the World Trade Organization said that while Canada’s “outward-looking” trade regime helped to cushion the economy against a number of external shocks over the last four years, “relatively slow productivity growth is a feature of the economy.”

A simple, transparent and fair tax system with low, internationally competitive tax rates is key to Canada’s economic growth and prosperity. But, it’s not everything — it’s half of the picture. The other half of the picture is the non-tax measures. These are the fundamentals that Canada, as a nation, has embraced and strives towards; these are the very same fundamentals that CGA-Canada, as an organization, has consistently supported. These fundamentals include:

- balancing the books;
- paying down the national debt;
- reviewing and controlling public spending;
- regulating smarter; and
- removing internal trade barriers.

To guide its pre-budget deliberations, the House of Commons Standing Committee on Finance has put forward some very pointed and profound questions about the tax system Canada needs for a prosperous future. These

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are important questions which need to be addressed. The deliberations of the Standing Committee on Finance can well set the tone for beginning the discussions. We believe however that a separate and distinct process — one removed from the often partisan deliberations of this committee and its witnesses — needs to be undertaken. This is our first suggestion and, from this, all other recommendations flow.

## **i. APPOINT AN INDEPENDENT PANEL OF EXPERTS**

The concept of “income tax” has been around for thousands of years. Plato referred to it in *The Republic*, written in the fourth century BC, and even earlier Egyptian hieroglyphics detail the impact of taxes on farmers and artisans. However, income tax — as Canadians have come to know it — wasn’t imposed here until 1917 when, famously, it was promoted as a “temporary” measure to underwrite the war effort.

Today’s tax system is a completely different beast in comparison to what was envisioned and implemented in the early twentieth century. It has evolved into an unnecessarily complex and cumbersome system — whereby residents and businesses must contend with three different levels of government, and taxes that include personal income taxes, corporate taxes, sales taxes, property taxes, excise taxes, federal and provincial payroll taxes, provincial capital taxes, provincial health and prescription insurance taxes, to name but a few of the more significant taxes. This, of course, does not include tariffs, fees or premiums, not to mention the excessive number of regulations faced by small and medium-sized businesses in Canada (see CGA-Canada’s 2006 publication entitled *Tackling Compliance: Small Business and Regulation in Canada*).

While there have been changes and improvements to the taxation system over the years, such measures have been primarily targeted, piecemeal and reactive in their nature, often prompted by the concerns raised by a particular group, industry or sector in Canadian society. Moreover, while these targeted tax measures are undoubtedly of assistance to some, these “one-off” or side measures further complicate and confuse an already complex system, and usually involve a significant fiscal cost — which could be applied to finance broad measures. There have also been federal and provincial tax reduction efforts, including the laudable \$100 billion Tax Reduction Plan by the Government of Canada, beginning with the 2000 federal budget, which offered a package of cumulative personal and corporate tax relief over a five year period.

Yet, at the end of it all, in 2005, Canada still laid claim to the second highest effective tax rate among the world’s 36 leading industrialized economies.

So, where do we go from here? What do we need to do to build the tax system that Canada requires to be both productive and prosperous?

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One thing is certain: we must move beyond tinkering with the tax system. It has yielded no real or measurable results. Canada's tax system is unduly complex. The tax rates are not competitive; the tax burden on individuals and businesses is excessive.

We think it's time for a fundamental review, revamping and restructuring of Canada's taxation policy and system. We need tax reform.

In our previous pre-budget submissions to the House of Commons Standing Committee on Finance, CGA-Canada has always devoted a generous part of the discussion to the subject of taxation, and offered suggestions on ways in which to achieve a fairer, simpler, more competitive and efficient tax system. We've supported lower personal income tax rates, more effective and competitive tax rates for businesses, as well as the idea of more consistency in the tax system. We've called for redefining fair and competitive taxation, and even major structural reforms to the tax system to improve Canada's productivity relative to its trading partners. Furthermore, in 2004, CGA-Canada recommended that a Royal Commission on Taxation be struck for the present-day to continue the work of the 1962 Royal Commission on Taxation which was mandated to promote an economically responsive, comprehensive, and ultimately fair and simple tax base.

It's time for a fundamental review, revamping and restructuring of Canada's taxation policy and system.

Against this backdrop and building on previous submissions, CGA-Canada recommends that the Government of Canada appoint an independent panel of experts to undertake a comprehensive review of Canada's taxation policy and taxation system.

The Government of Canada, which came to office in February 2006 under the leadership of Prime Minister Stephen Harper, is no stranger to this process. The federal government has already struck a number of panels and task forces on significant public policy issues — such as the Canada Revenue Agency's Action Task Force on Small Business Issues, the Competition Policy Review Panel, and Human Resources and Social Development Canada's Expert Panel to Study Labour Market Conditions that Affect Older Workers. Finance Minister Jim Flaherty has also announced his intention to create an expert panel to study a common securities regulator and the passport system. Expert panels such as these are helpful arms-length processes to gather information, consult broadly and suggest a course of action.

In addition, Minister Flaherty's May 2007 announcement concerning the government's new Anti-Tax-Haven Initiative also looks to the appointment of an advisory panel of experts to find ways to further improve the fairness and competitiveness of Canada's international tax system. This is a step forward,

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but only a small step and, unfortunately, indicative of the targeted measures to which this country has grown accustomed.

CGA-Canada believes that if an expert panel on taxation is going to be created, its focus should not be limited to only include the international realm and the business sector. Given that taxation affects every single individual in this country, a broad approach that examines the entire system is what's needed. That is why CGA-Canada is calling for the Government of Canada to appoint an independent panel of experts, to undertake a comprehensive review of Canada's taxation policy and taxation system as a whole.

The newly-created Expert Panel on Canada's Taxation should be named by the Minister of Finance, in consultation with the Minister of National Revenue, with input from provincial and territorial counterparts. The panelists should consult widely in the context of a public forum, debate the issues, draw comparisons, and offer third party advice to the Minister of Finance through a set of specific recommendations, to be tabled in Parliament. The following principles and outcomes should guide the panel's deliberations:

- How Canada's tax system could be reshaped to be fairer, simpler, more efficient and competitive;
- How such reforms can ensure that national prosperity and economic growth are the end result;
- How we can best develop, promote and advance Canada's tax advantage in global world markets.

The Expert Panel on Taxation must also be modern and forward-thinking in its scope, grounded in certain and current socio-economic realities. First of all, it is no secret that Canada has one of the highest rates of taxation. Secondly, as recognized by the federal government in *The Budget Plan 2007*, we know that "the most successful nations are those that best combine people, skills, new ideas and advanced technologies" to create a knowledge advantage. Thirdly, it has been well documented that SMEs, small and medium-sized enterprises, are the engine of economic growth in this country. Finally, given Canada's aging population, this country is likely headed for an even deeper skilled labour shortage down the road, as statistics support there may be more people exiting the workforce than entering it by the year 2017.

Therefore, relying on best practices, both nationally and internationally, CGA-Canada recommends that this newly-created expert panel finds the right balance of measures to facilitate a competitive tax advantage, Canada's knowledge advantage, and better support for SMEs and the workforce.

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## **RECOMMENDATION 1**

*CGA-Canada recommends that the Minister of Finance appoint an independent panel of experts to undertake a comprehensive review of Canada's taxation policy and taxation system.*

### **ii. LOWER PERSONAL AND CORPORATE INCOME TAXES**

Governments, business, academics, think-tanks and well-respected national organizations alike all recognize that Canada's growth and productivity is dependent on a competitive tax regime. As Finance Minister Jim Flaherty so accurately pointed out in *The Budget Plan 2007*, "lower taxes mean a higher quality of life for Canadians".

CGA-Canada agrees. That is why we applauded the federal government when it proposed some far-reaching tax initiatives to the tune of \$20 billion in *The Budget Plan 2006*. We were also pleased by the message delivered in *Advantage Canada: An Economic Plan to Eliminate Canada's Net Debt and Further Reduce Taxes* (November 2006) — which spoke of the desire to gain a global competitive tax advantage, and included "reducing taxes for all Canadians" as well as "establishing the lowest tax rate on new business investment in the G7". While Budget 2007 did announce some supportive measures for Canadian families and small business, in our opinion the federal government missed a golden opportunity to move forward on its tax advantage agenda and make meaningful tax reductions.

"Canadians still pay too much tax."

(Finance Minister Jim Flaherty, *The Budget Plan 2007*)

We, as a country, need to do better — progress has been slow in comparison to other developed countries, and there is much room for improvement. In its *2006 Tax Competitiveness Report*, the C.D. Howe Institute makes reference to "our status as a high-tax nation", pointing to an international survey showing that "Canada has the eighth highest effective tax rate on capital among 81 countries". A multinational study coordinated by KPMG also reveals that Canadian tax rates are significantly higher than the international average. Data from 92 different countries covered by the *Corporate and Indirect Tax Rate Survey 2007* shows that Canada's corporate tax average has been a consistent 36.1 per cent since 2004, while averages elsewhere have been reduced for 11 consecutive years to some 26.8 per cent in 2007.

Moreover, the federal government's continued ability to balance the books and allow for growing surpluses provide the right conditions to reduce taxes.

It's no wonder that the federal Finance Minister acknowledged that "Canadians still pay too much tax", and did so on at least two different occasions in *The Budget Plan 2007*.

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## **RECOMMENDATION 2**

*CGA-Canada urges the government to bring personal and corporate income taxes down to an internationally competitive rate by*

- *Lowering personal income tax rates at all income tax brackets.*
- *Increasing personal income tax thresholds.*
- *Accelerating and deepening reductions in corporate taxes.*

CGA-Canada does not stand alone on these recommendations. There are several other national organizations as well as think-tanks that continue to call for a lower personal and corporate tax burden.

The Canadian Chamber of Commerce, in its *Analysis of Budget 2007*, acknowledges positive developments on the tax front, but also notes that high marginal tax rates on individuals remain a barrier to growth. Citing examples at opposite ends of the tax spectrum, the Chamber concludes that “we must continue to lower personal income tax rates applying at all income tax brackets and we must increase income tax thresholds”. The Certified General Accountants Association of Canada agrees with the Canadian Chamber of Commerce.

Moreover, CGA-Canada joins with the Canadian Chamber of Commerce in its call for accelerated and deeper reductions to the general corporate income tax rate to put Canada in an even stronger competitive position.

“Tax policy is an essential lever for creating competitive advantage in a global economy”, observes the Canadian Council of Chief Executives. “It has a critical impact on the ability of Canada to attract people and investment, of companies to grow and to create jobs, and of families to build better lives for themselves and for their children”. The Council contends that tax policy should emphasize the forms of tax that are least damaging to competitiveness, and asserts that corporate taxes are the single most damaging form of tax to economic growth. Not surprising, the Canadian Council of Chief Executives also calls for significant cuts in corporate taxation.

Wary of targeted tax relief measures, as recent as July 2007, the C.D. Howe Institute called on Canadian governments to get back to an “agenda of tax reform”, and look to “reduce personal and corporate rates to internationally acceptable levels while keeping tax bases broad and neutral”. The C.D. Howe Institute contends that “this is the only approach that makes sense if policies are to maximize economic growth while ensuring fairness in the tax system”. We share the Institute’s views — a simple, transparent and fair tax system with low, internationally competitive tax rates is integral to Canada’s prosperity and productivity. Moreover, we at CGA-Canada submit that the subject of tax competitiveness or, to borrow the federal government’s phrase, Canada’s tax

A simple, transparent and fair tax system with low, internationally competitive tax rates is integral to Canada's prosperity and productivity.

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advantage, must be taken into consideration at every step of the process by an Expert Panel on Taxation.

### **iii. CAPITALIZE ON CANADA'S KNOWLEDGE ADVANTAGE**

The federal government's objective, as outlined in *Advantage Canada*, last fall's economic plan, is to pursue a knowledge advantage in which Canada would create "the best-educated, most skilled and most flexible workforce in the world." As the government recognized, "talented, motivated people have become the world's most valuable resource." Accordingly, it committed to incentives for people to excel. "We will reduce taxes and invest in education, training and transition to work opportunities so Canadians can achieve their potential and have the choices they want," it said.

"Talented, motivated people have become the world's most valuable resource."

(Finance Minister Jim Flaherty, *Advantage Canada*)

CGA-Canada calls on the government to deliver on its commitment by ensuring the best and brightest have the financial resources to support them through post-secondary education. The evolution to a knowledge-based economy is no longer an idea. The Association of Universities & Colleges of Canada (AUCC) reported in May 2007 that the number of jobs available for university graduates had doubled between 1990 and 2006 with a corollary decline in the openings for people without post-secondary education. "The demands of Canada's increasingly knowledge-based economy will continue to drive national enrolment growth," the AUCC said in a summary of its *Trends in Higher Education* report.

#### **Education Tax Credit (ETC)**

The federal government supports higher learning through transfers to provinces and individuals. Reforms to the Education Tax Credit (ETC) would provide an appropriate mechanism for it to begin delivering on last fall's commitment.

While the cost of a higher education has been rising, the tax system has not adequately reflected that change. CGA-Canada wishes to make three specific recommendations to recognize the growing cost of post-secondary education.

Firstly, while refundable and non-refundable tax credits directly reduce taxes payable, the difference is evident where the amount of the credits exceed the taxes payable. In the case of non-refundable credits, the excess is lost but if the credits are refundable, the taxpayer becomes eligible for a refund. Many students are in the lowest income tax bracket and their non-refundable personal credits often exceed their taxes payable. Refundable credits would mean that they could receive a payment through the tax system that could help to finance ongoing education costs. Most education related non-refundable tax credits may be carried forward, so students eventually receive the tax benefit, but possibly

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not for many years after their low earning period. Refundable credits would help them financially during these years, with minimal cost to the tax system.

Secondly, CGA-Canada wishes to draw the attention of policy makers to the transferability of the ETC. The \$5,000 annual ETC cap yields a tax saving of approximately \$1,000 per student, which is nominal when compared to the actual cost of financing education. To recognize that cost better, CGA-Canada recommends that the cap be tripled, to \$15,000. In many families, the additional refund to parents or other supporting persons is paid back to the students to cover tuition and other costs.

Finally, a small but important provision of the *Income Tax Act* is preventing students in some educational programs from claiming the Education Tax Credit. Students can claim credits if they were enrolled at a Canadian post-secondary institution or any other educational institution that is certified by the Department of Human Resources and Social Development Canada. Those are appropriate criteria for maintaining accountability and in Budget 2004 the eligibility criteria was updated to remove the restriction for those students who may also be working in their area of study. That was a step toward formal acknowledgment that learning is a life-long process. There remains, however, one additional barrier preventing legitimate students from claiming the education credit despite the fact these students can claim the tuition credit.

An important aspect of capitalizing on Canada's knowledge advantage is to provide policies to support a rapidly aging workforce.

Institutions not recognized as universities or colleges but which offer post-secondary level courses eligible for credit at a university or college do not qualify for purposes of the education credit unless designated by a province for financial assistance to students under various statutes, including the *Canada Student Loans Act*. This renders programs such as the CGA Program of Professional Studies and other programs — which, while not university programs, provide courses that are recognized by universities — unattractive to students as well as professionals. These programs are often designed around work experience requirements or a student's desire to work while studying, rendering the financial assistance criteria redundant.

To correct this situation and to mirror the requirements of the tuition credit, CGA-Canada asks the House of Commons Standing Committee on Finance to recommend that section 118.6 (1) (i) of the *Income Tax Act* be amended so as to eliminate the requirement that an institution be designated under the *Canada Student Loans Act* and related legislative provisions.

### **Older Workers**

An important aspect of capitalizing on Canada's knowledge advantage is to provide policies to support a rapidly aging workforce.

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An August 2007 Statistics Canada report confirmed that older workers are staying in the workforce longer. The 55-64 age group represented 12 per cent of the labour force in 2005, up from 10 per cent 30 years ago.

Government policies are acknowledging this new reality. CGA-Canada welcomed measures contained in the Budget 2007 to permit older persons to continue working while drawing partial pensions, a small but significant step toward recognizing the needs of older workers in today's work environment. But more needs to be done.

Later this year, the federal government will be receiving recommendations from the Expert Panel convened to study labour market conditions that affect older workers. While we are not privy to recommendations, we know that the Panel will be reporting and making recommendations on a number of areas including barriers and disincentives for older worker participation in the labour force.

CGA-Canada looks forward to the Panel's recommendations and working with the federal government and stakeholders on implementing strategies to encourage prolonged workforce participation. Business and industry, federal and provincial governments hold a stake in addressing this issue.

CGA-Canada believes that the right level of incentives could facilitate longer participation in the work force. Allowing for flexible part-time pension policies, enhancing learning opportunities and addressing the issue of mandatory retirement in all jurisdictions are helpful policies. The private sector has a role to play as well in developing alternate work arrangements such as phased retirement, "flex time" and Internet-based distance learning.

We do not, however, believe that increasing the age of entitlement to public pensions or altering plans by shrinking early retirement benefits are viable options.

### **Interprovincial mobility**

Improving interprovincial mobility will go a long way to retaining older workers by providing them the ability to work where they want in Canada. It's also good for business. We welcome targets set by provincial and territorial premiers at the August 2007 meeting of the Council of the Federation to bring all regulated professions in compliance with the *Agreement on Internal Trade* by April 2009. While an important step, federal/provincial/territorial labour market Ministers should as well extend the requirement to occupations as proposed by the federal Minister of Industry at the June 2007 meeting of the Committee on Internal Trade.

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### **RECOMMENDATION 3**

*In order to capitalize on Canada's knowledge advantage, CGA-Canada urges the government to commit to the following:*

- *Increasing the current \$5,000 limit for the Education Tax Credit (ETC).*
- *Giving consideration to making these education tax credits "refundable" instead of "non-refundable".*
- *Amending the Income Tax Act to clarify the qualifying criteria for the ETC for educational institutions which provide courses at a post-secondary level.*
- *Addressing the recommendations emanating from the Expert Panel on Older Workers on a priority basis.*
- *Leading efforts to ensure the labour mobility provisions of the AIT are fully complied with by April 1, 2009.*

#### **iv. PROVIDE MORE SUPPORT TO SMEs AND ENTREPRENEURS**

Small and medium-sized enterprises (SMEs), the largest single source of new jobs in the Canadian economy, are effectively the engine of economic growth on which continued prosperity is vitally dependent.

*In Harnessing Canada's Competitive Advantage: Small Business has Big Plans (Business Outlook & Budget Priorities for 2007), the Canadian Federation of Independent Business (CFIB) observes the following about Canada's SMEs:*

Small and medium-sized enterprises (SMEs) are the backbone of the Canadian economy, and their impact on Canada's job creation over the last 25 years has been significant...They represent over 97 per cent of independent business establishments...and account for roughly half of Canada's GDP. In 2005, SMEs employed over 6.7 million Canadians or 64 per cent of private sector employees...There is ample evidence that the tremendous expansion of Canada's economy in recent years has been driven by SMEs and they continue to be the major source of wealth and economic growth underlying Canada's current economic success.

The Government of Canada is wise to devote time and energy towards providing the most conducive environment, with the right blend of conditions, for SMEs to thrive. But, even the best intentions can fall short of the mark. As we mentioned, some say Canada's business taxes are sky-high and uncompetitive in every sense of the word. Others say the regulatory burden, coupled with high compliance costs, is an enormous source of anxiety for Canadian SMEs. In our SME survey, we found that more than 85 per cent of Canadian respondents

SMEs are effectively the engine of economic growth on which continued prosperity is vitally dependent.

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were concerned about the quantity, complexity and inequity of government regulation.

At the same time however, we are encouraged by the final report of the Canada Revenue Agency's (CRA) Action Task Force on Small Business Issues which proposed some solutions to reducing the compliance burden imposed on small businesses. CGA-Canada also welcomed the measures in Budget 2007 that focused on creating an entrepreneurial advantage for Canada — including plans to reduce the federal paper burden on small business by 20 per cent by November 2008, and to reduce the tax compliance burden on small business by decreasing the frequency of the tax remittance and filing requirements. These are steps forward, hopefully with more to come down the road.

CGA-Canada believes that Canadian productivity and growth would be greatly strengthened by making improvements to the regulatory and taxation environment for Canadian businesses. Below are some of our suggestions.

It's clear that tax legislation in Canada is excessively and unnecessarily complex.

**RECOMMENDATION 4**

*CGA-Canada urges the government to commit to the following:*

*Specifically, improve the regulatory and taxation environment for Canadian businesses by*

- *Ensuring the consistent application of tax legislation from coast-to-coast-to-coast.*
- *Introducing mechanisms to facilitate improved access to capital, including expanding the use of RRSPs to include certain business investment purposes.*
- *Providing special tax rates to encourage new corporate investment.*
- *Working with Canadian business to develop broad-scope incentives for employer-supported training and retraining.*
- *Reducing the employer's EI contribution to the same level paid by employees so that employers are financially encouraged to hire additional workers.*
- *Reducing the regulatory burden on SMEs and entrepreneurs.*

**Consistency in the application of tax legislation**

There's no two ways about it — it's clear that tax legislation in Canada is excessively and unnecessarily complex. What's less clear however is the manner in which to interpret some areas of tax law in Canada. Known as "grey areas", Canadians — individual taxpayers and accountants alike — can encounter different and sometimes conflicting interpretations from any one of the several thousands of auditors and/or various tax centres across the country that contend with Canada's tax complexities.

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For example, rules pertaining to “independent contractor vs. employee” are one common area of dispute, as are the provisions that concern “reasonable expectation of profit”, and it is entirely possible that an auditor in Calgary may reach a different conclusion than another auditor in Halifax on either case. When judgments are involved, the results cannot always be consistent across the board.

This is unfair and requires attention. Canada needs a more predictable tax system for the economy to grow and continue to prosper. Therefore, we suggest that the government act to ensure the consistent application of tax legislation from coast-to-coast-to-coast.

### **Improved access to capital**

There has been some positive movement on the tax front with the increase of the small business tax deduction threshold, but SMEs continue to face significant obstacles to success — one being access to capital. This is particularly the case for women entrepreneurs, who are further disadvantaged on account of an inherent gender bias and lingering stigma that often affects their ability to develop networks, obtain a business loan, and build a good credit rating.

Canada’s tax system must be supportive of SMEs and entrepreneurship — and access to RRSPs for business investment purposes is a good place to start. While it is true that self-directed RRSPs can hold shares of qualifying private Canadian corporations, this can only take place in very restricted circumstances. It’s simply doesn’t go far enough to assist small business owners in obtaining the required financing they need to start or expand their business.

In *Harnessing Canada’s Competitive Advantage: Small Business has Big Plans (Business Outlook & Budget Priorities for 2007)*, the CFIB, recognized as “Canada’s big voice for small businesses”, recommends that business owners be allowed “to borrow from RRSPs for use as business equity” — “similar to the first-time home-buyers and lifelong learning education plans”.

CGA-Canada joins with the CFIB in supporting the expanded use of RRSPs for business purposes.

### **New corporate investment through special tax rates**

This is an idea that is not new and is definitely familiar to the current federal government. Indeed, as noted earlier, in *Advantage Canada*, the national economic plan announced by Finance Minister Jim Flaherty in November 2006, “establishing the lowest tax rate on new business investment in the G7” is identified as a priority for the government.

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In an article written by Roger Martin, Dean of the Rotman School of Management, and Gordon M. Nixon, President and CEO of the Royal Bank of Canada — entitled “*Growing Global Leaders: The ‘Hollowing Out’ Solution*”, published by *The Globe and Mail* in June 2007 — they recommend a “major change” in Canada’s taxation philosophy. Drawing from a study by the Organization of Economic Cooperation and Development (OECD) of the thirty most developed and high-income countries in the world, they note that “Canada has the third highest tax rate on business investment — 36.6 per cent versus the average of 20.6 per cent”. What’s worse is that while much of the industrialized world has “tilted their tax structures” to encourage rather than discourage corporate investment, it would appear that Canada has not followed suit. “Australia and New Zealand for example have approximately the same overall tax take as Canada but have tax rates on new business investment of around 24 per cent versus our 37 per cent.”

With statistics like these, CGA-Canada encourages and fully supports the Finance Minister in his efforts to establish “the lowest rate in the G7”, making Canada a global leader in new business investment, and spurring even greater prosperity and productivity for this nation.

#### **Broad-scope incentives for employer-supported training and retraining**

A CFIB survey revealed that SMEs found that tax breaks and credits as well as government-supported training programs are efficient strategies to promote training.

CGA-Canada believes that the federal government can play a supportive role by, for example:

- Supporting strategies such as access to broad band networks and facilities in Canada, especially in rural or remote areas, to enable the enhancement of skills by online distance learning.
- Giving EI contribution breaks in return for business directly investing in on site employee training. Qualifying criteria would need to be developed.
- Assisting foreign trained professionals in gaining access to their profession in Canada through a better exchange of information.
- Providing financial incentives such as tax breaks or EI contribution breaks for employers who allow time for employees to complete their professional certification.

#### **Parity in EI premiums paid by employers and employees**

Insofar as Employment Insurance is concerned, CGA-Canada acknowledges and applauds the gradual and consistent decline in EI premiums brought about by the federal government over the span of 13 consecutive rate reductions since 1994. That being said however, a structural imbalance remains entrenched in

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the EI program — the employer rate continues to be higher than the employee rate, an issue we raised in our October 2003 pre-budget submission to the Standing Committee on Finance. In fact, there is a 72-cent differential in the 2007 EI premium rates between employees and employers (\$1.80 vs. \$2.52 per \$100 of insurable earnings). There is no policy rationale for this inequity — it only serves to act as a disincentive to employers in terms of expanding their business and hiring additional workers.

CGA-Canada believes that the EI premium rate for employers should be on par with the EI premium rate for employees — set at the exact same level. The best and most productive way to accomplish this task is to reduce the employer's EI contribution to an amount equal to the employee's rate. This solution will provide a financial incentive to employers, encouraging them to hire more staff, with clear positive effects on the economy and productivity.

One additional structural inequity which CGA-Canada would like to bring to the attention of the Standing Committee on Finance — which we raised in May 2007 before the Standing Committee on the Status of Women — concerns the access that entrepreneurs have to the EI program. Entrepreneurs — including women entrepreneurs — face a very unique dilemma: as employers, they contribute financially to the EI program; but as individuals, they are unable to access program benefits. We believe the EI program should be expanded to better meet the needs of entrepreneurs — particularly women — and, judging from its recommendations, so does the House of Commons Standing Committee on the Status of Women.

Progress in reducing the burden on business should not be left to chance.

### **Reducing the burden**

Last but not least, we offer some comments about the federal government's commitment to reduce the paper burden by 20 per cent. This announcement is good news to small business, given that these companies bear a disproportionate brunt of the regulatory burden and cost, yet these very same companies provide the fuel that drives Canada's economy.

The government has pledged that key federal regulatory departments and agencies will be required "to establish an inventory of administrative requirements and information obligations, with which business must comply, by September 2007". Furthermore, *The Budget Plan 2007* states that a 20 per cent reduction of those requirements will be achieved by November 2008.

Progress in reducing the burden on business by this target date should not be left to chance; it must be properly monitored through performance indicators. There must be a mechanism to hold the government accountable, to ensure commitments are honoured and this particular objective is achieved. Therefore, CGA-Canada respectfully requests that the Government of Canada table a

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progress report, along with this inventory, to Parliament in the fall of 2007. Indeed, this action would be entirely consistent with this government's focus on accountability and transparency.

The opportunities for improving Canada's tax system abound, but the fundamental key to long-term economic health and prosperity is a simple, transparent and — above all — fair taxation system with internationally competitive rates.

Canada's tax system has become unduly but not irredeemably complex and, in the process, has become a serious threat to this country's global competitiveness. While CGA-Canada and its members do have opinions on this challenge, addressing it effectively will require consultations with Canadians and others with specific expertise on the often arcane world of taxation. Accordingly, our proposed panel of experts should be appointed as soon as is practicable with a view to making specific proposals sooner rather than later. CGA-Canada respectfully submits that continued delay in implementing real reform — rather than periodic “tinkering” — is not an option if Canada is to regain its place as one of the leading and most promising industrialized nations of the world.

Once again, CGA-Canada appreciates the opportunity to participate in this important public policy debate, and we remain available for further discussion on any or all elements of our 2007 pre-budget presentation. CGA-Canada very much looks forward to working with parliamentarians and government officials in making progress on these recommendations, and in ensuring Canada has the tax system it needs for a prosperous and productive future.

