

FEI CANADA PRESENTATION TO STANDING COMMITTEE ON FINANCE

PRE-BUDGET CONSULTATIONS 2009

NOVEMBER 2, 2009



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Good afternoon Mr. Chairman and Committee members.

I'm Michael Conway and I'm pleased to present Financial Executives International Canada's views on the forthcoming federal budget.

FEI Canada is a voluntary professional association organized into 11 chapters across Canada. Our 2,000 members represent a broad cross-section of Canada's most senior financial executives.

Our recommendations are the result of the collective effort of our tax committee, represented today by Grant Smith, Senior Manager Taxation at Ernst & Young's Ottawa office.

Our submission focuses on three key recommendations that will protect Canadians' quality of life:

- (a) stimulating economic growth and job creation,
- (b) increasing access to capital and cash flow, especially for entrepreneurial initiatives, and
- (c) monitoring government spending and restraining deficit growth.

Canada faces serious economic challenges, and the solutions to these problems must be prudent and fiscally responsible. The budget must be re-balanced before major non-recovery initiatives are contemplated.

We believe our recommendations encourage competitiveness, savings and investment; foster innovation, productivity and initiative; and enhance the economic and social well-being of all Canadians.

To **STIMULATE ECONOMIC GROWTH AND EMPLOYMENT**, economic initiatives should be timely, targeted and temporary. They should also be designed to achieve the desired results. The focus should change from short to medium term policies designed to alleviate the immediate negative impacts of the recession to catalyst-type investment which will stimulate self-perpetuating growth.

In addition to needed physical infrastructure spending, recovery investment should focus on knowledge-based infrastructure, technology incubators and public-private partnerships, all of which create an environment that will unlock entrepreneurial initiative and ingenuity.

Government should encourage the creation of Canadian research and development champions, and corporations recognized worldwide for creative and innovative approaches to employee skills development. We need to create more technology leaders that become tomorrow's employers, like Research in Motion, OpenText and WestJet.

We urge your Committee to recommend that the government balance spending between infrastructure and the knowledge economy.

Two other critical issues facing the Canadian corporate sector are **DECREASED AVAILABILITY OF AFFORDABLE CREDIT** and **DECLINING CASH FLOWS**.

An FEI Canada survey earlier this year indicated about half of respondents felt there had been a significant decrease in the availability of both working capital and long-term financing. While credit availability has somewhat improved since then for larger issuers, smaller businesses continue to face challenges.

Capital formation is critical to economic development and growth. Whereas government can create employment and, for a short time, sustain the economy, the private sector will generate long-term economic growth and increased employment.

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Action is required on several fronts.

1. A national securities regulator is imperative, and we are pleased to see the creation of the Canadian Securities Transition Office to further this important initiative.
2. Start-up funding is required for Canadian technological companies, especially those engaged in innovative research and development.
3. Government-sponsored lending agencies should increase existing loan limits, streamline the application process, and create new types of loans which tailor terms to recession plagued corporations.

Corporate cash flow could be improved if the time limit for funding defined-benefit plan solvency deficits was extended from five to fifteen years.

Because many Canadians have endured steep declines in their pension plans and many must now consider working beyond their expected retirement date, we urge your Committee to recommend measures to encourage Canadians to save more for their retirement. We have included various suggestions in our recommendation summary, including providing a 125% super-deduction on the first \$5000 of RRSP contributions and expanding the Tax-Free Savings Account annual limit.

On the issue of GOVERNMENT SPENDING, we recognize that government had to take action on the recession. A temporary deficit was, therefore, inevitable. Having said that, there are two critical questions of concern for our members:

1. Who will pay for the current spending? and
2. When will payment occur?

Government must ensure that we do not slide down the slippery slope to a permanent structural deficit. Due to our aging population, the health and retirement benefits Canadians enjoy will consume an increasingly greater percentage of government spending in future years. To ensure that Canadians continue to receive the benefits they are accustomed to, we must reduce expenditures in other areas.

Our concern is simple: Will repayment of today's government spending happen within the medium-term? And, more specifically, before the next inevitable economic downturn? Or, will our children and grandchildren bear the burden of this debt?

FEI Canada believes now is the time for prudent and fiscally responsible action.

We urge this Committee to recommend that:

1. Government spending be targeted to knowledge-based infrastructure.
2. Recovery spending continue to be publicly reported by the government and the Parliamentary Budget Officer to enhance transparency, accountability and credibility in the handling of public monies.
3. The federal budget be balanced by fiscal 2012 to reassure Canadians of the government's commitment to fiscal responsibility.

Ladies and gentlemen, FEI Canada believes the implementation of our recommendations will contribute to achieving our shared objective of ensuring prosperity and a sustainable future for Canada.

Mr. Smith and I thank you for your time and for the opportunity to present our ideas, and we would be pleased to answer any questions you may have.

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FEI CANADA SUMMARY OF BUDGET PROPOSALS

ECONOMIC GROWTH AND EMPLOYMENT

1. A business education and training credit to encourage businesses to increase spending in this vitally necessary area.
2. Introduction of a deduction or refundable credit for personally acquired education and training.
3. Subsidies could be provided to displaced workers who undertake skills re-training.
4. Assistance to apprenticeship programs should be enhanced.

CREDIT AVAILABILITY

1. Withholding on all cross-border interest and dividend payments should be reduced to a rate of zero.
2. Existing investment tax credits for R & D should be enhanced, and the refundable investment tax credit should be provided on the first \$3 million of R&D spending per year to all companies (consistent with the current amount allowed for Canadian-controlled private companies).
3. The taxation of termination payments should be averaged over two or three years for displaced workers who invest in a new business or re-training and a tax holiday should be provided for this same period for these new entrepreneurs.

ENCOURAGE RETIREMENT SAVINGS

1. Stimulate Canadians to save more for their retirement, by increasing the RRSP contribution limit to 25% of earned income, by providing a 125% super-deduction on the first \$5000 of RRSP contributions and by expanding the Tax Free Savings Account annual limit.
2. A provision which allows individuals to electively extend the deadline for CPP and RRSP contributions, and RRSP/RRIF conversions, to age 73.

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