

January 5, 2005

The Honourable Ralph Goodale, P.C., M.P.  
Minister of Finance

Dear Honourable Minister:

Please except this letter on behalf of the Tax Policy Committee of Financial Executives International Canada (Hereafter referred to as THE COMMITTEE). Financial Executives International Canada (FEIC) is an all-industry professional association for senior financial executives. With 11 chapters across Canada and nearly 1,600 members, we are an integral part of a larger 91 chapter, 14,000 member North American organization. Together, the members of FEI Canada and FEI United States represent 8,000 of North America's leading and most influential corporations. The following are the views of the Tax Policy Committee and do not necessarily reflect the views of FEIC members at large.

THE COMMITTEE members understand the importance of sound, prudent financial planning. We, therefore applaud your government's fiscal and debt management achievements (seven consecutive budget surpluses, culminating in a \$9.1 billion surplus in fiscal 2003-04, and a \$61 billion reduction in the national debt since 1997-98), which continues the deficit and debt reduction policies of Mr. Martin. These accomplishments will place Canada's economy in a sound financial position as we continue into the early years of the new millennium. THE COMMITTEE believes that your government should not waiver from the path of fiscal discipline, a commitment included in the Throne Speech.

THE COMMITTEE encourages a balanced approach of tax reductions and debt repayment, within agreed parameters. To achieve fiscal flexibility, it is critically important that we pay down the deficit so as not to saddle future generations with our current spending programs. An aggressive repayment schedule should be incorporated in future budgets. For example, if actual surpluses exceed forecast surpluses by x%, debt repayment should be increased by a pre-determined amount of at least x%. Such a strategy should meet, and hopefully exceed, the Throne Speech's 25% debt-to-GDP ratio within 10 years target.

We also note the potential of the on-going government-wide expenditure review, under the leadership of the Honourable John McCallum. We do not encourage further growth in federal government program spending. Our belief is that if there is a surplus of x% in a given year, it should be government policy that program spending increase by no more than a predetermined amount less than x%. While we recognize that there are urgent needs which must be addressed, in our view, these needs can be met by reallocating currently committed funds, a policy in line with your government's Throne Speech commitment "not to spend itself into deficit".

Canada has many natural attributes, but in a competitive world, we must foster a business environment that encourages investment and capital accumulation to ensure the growth of the economy and opportunities for future generations. We compete head to head with productive capacity in the USA, particularly given NAFTA. Thus, we must ensure that our taxation regime is also competitive with the U.S.

We must also ensure that simplification of the tax system continues, within a framework which has due regard for preservation of the tax yield, ensures fair treatment of all taxpayers, and guards against unwarranted abuse.

The 2004 Fiscal and Economic Update projected short and medium term budget surpluses, after providing funding for the intergovernmental health accord, the framework for equalization and Territorial Formula Financing, and provision for the Contingency Reserve, as follows:

2004-05	\$5.9 billion
2005-06	\$0.5 billion
2006-07	\$0.9 billion
2007-08	\$3.2 billion
2008-09	\$7.5 billion
2009-10	\$11.5 billion

These projections, which total approximately \$29.5 billion over the six years, support your request to the House of Commons Standing Committee on Finance, and by extension, the broader Canadian community, for (a) suggestions as to how to allocate the surplus, and (b) budget measures which can enhance competitiveness.

We note your comment that, in order to accomplish the goals of the Throne Speech, *“such an ambitious agenda must be founded upon a robust, competitive and innovative economy – growing and thriving in a knowledge-based technology-driven and highly skilled world.”* In addition, we note you indicated that, *“[W]e must also improve Canada’s competitiveness”,* in part, *“by maintaining Canada’s competitive tax system”.*

THE COMMITTEE also espouses the attainment of a more competitive economy, both domestically and internationally. A more competitive economy means more than “a level playing field” and more than a lower taxed business sector, although both are important components. Competitiveness also encompasses public policies which promote strategically important industries or sectors, match incentives provided by other countries, contribute to the development of a technologically skilled labour force, permit corporations of all sizes to access new technology in a rapidly changing technological world, establish amortization rates appropriate for the new technological environment, and ensure the availability of financing at appropriate rates.

As a signatory to the Kyoto Accord, your government is committed to improving the environment, both in Canada and around the globe. Themes of the Throne Speech included the pursuit of greater productivity, investment in people, a competitive tax system which promotes economic growth, improving the commercialization of environmental technologies, and attaining sustainable development. Capital investment is a key to attaining these goals. THE COMMITTEE believes that your government can spur capital investment by directing initiatives to capital investment which demonstrates a positive impact on the economy and the environment.

## **BUDGET PROPOSALS**

THE COMMITTEE recommends that your Department consider the following taxation initiatives for inclusion in the forthcoming budget. We strongly believe these will achieve our mutual objective of enhancing the competitiveness of the Canadian economy.

- **Following comprehensive study and consultation, and incorporating a lengthy phase-in period, a loss transfer system should be introduced which would allow Canadian corporations to directly access the unused tax attributes of other members of a commonly owned corporate group. (A lengthy discussion of this proposal was contained in our 2002 submission to the House of Commons Standing Committee on Finance.)**

Many developed economies that directly compete with Canada for capital, including the United States and the United Kingdom, currently have tax systems that allow consolidated tax reporting. In addition, such measures would greatly simplify Canadian taxation practices, as significant effort is now spent developing mechanisms to ultimately accomplish this simple purpose.

- **As indicated in THE COMMITTEE's 2002 submission to the House of Commons Standing Committee on Finance (see Appendix), a Centre for Continuing Workplace Training and Education should be established.**

Along with the government's new Workplace Skills Strategy, this initiative would enable businesses of all sizes to access high quality continuing education programs tailored to their individual needs, thus enhancing the employment-related skills of Canadian labour and improving the productivity of the economy.

- To provide incentives for the acquisition of environmentally friendly capital investment:

**(a) CCA rates should be increased for such investments.**

**(b) The half-year rule should be eliminated for environmentally friendly capital equipment.**

To effectively target this initiative, careful definition of the term "environmentally friendly" will be required. Ideally, all investments that supplant less efficient plant and equipment should qualify. Should this prove administratively unfeasible, qualifying investments could, for example, be restricted to energy efficient acquisitions or those which utilize renewable energy sources (to conform to the thrust of the Throne Speech). Alternatively, designated sectors (for example, natural resources or manufacturing), or investments which achieve desirable outcomes (pollution abatement, for example), could be targeted.

- The 2004 personal income thresholds are \$32,183, \$64,368 and \$104,648. The comparable top threshold in the U.S., our most important trading partner, is approximately C\$350,000. While the debate over the "brain drain" can generate conflicting conclusions, it is unquestionable that mobile taxpayers (a group which would include senior and middle managers and executives/professionals), are influenced in their employment location decisions by the impact of taxation on their income.

**In order to create an after-tax position for managers and professionals more comparable with the U.S., the income thresholds for the personal income tax should increase to roughly \$40,000, \$80,000 and \$130,000, which are approximately 125% of the current amounts.**

- When the personal minimum tax was introduced in 1986, the threshold was set at \$40,000. In spite of inflation induced increases in income since 1986, the threshold for the personal minimum tax has been maintained at \$40,000. While this amount may have met the policy objectives of the measure when it was introduced, it clearly is inappropriate at a time when approximately 17% of Canadian tax filers report annual income between \$40,000 and \$65,000 (*Income Statistics, 2004*). Many individuals, for whom the measure was never intended, may now be caught by the minimum tax rules because of the relatively low threshold.

The CPI has increased approximately 61.5% since introduction of the minimum tax. Had the threshold been indexed since its inception, the threshold would now be approximately \$64,500.

**In order to restore a comparable balance between incomes and the minimum tax threshold, the threshold should be raised to \$65,000 (indexed).**

- Past government policy decisions have emphasized the need for Canadians to save for retirement, thus reducing their future dependence on government programs. In addition, past governments have attempted to gather various retirement plans into a common taxability basket via the Pension Adjustment mechanism. Our view is that these policies should continue augmented by an additional objective of ensuring that RRSPs attain parity with defined benefit pension plans.

We note that an increasing number of Canadians are no longer members of registered pension plans due to labour market adjustments and the generally more mobile nature of the workforce. It is essential that these individuals are not disadvantaged vis-à-vis employees enrolled in registered pension plans.

Furthermore, many members of defined benefit plans are disadvantaged because of the relatively small Pension Adjustment Reversal available when they leave their plans (often not a choice of their own making). Many such individuals would have been better off in a defined contribution plan or personally saving for retirement via an RRSP. It should be government policy that a more level playing field exist when taxpayers move their retirement savings between a defined benefit plan, a defined contribution plan, and an RRSP.

THE COMMITTEE recommends that:

- (a) RRSP contribution rates be significantly increased beyond those announced in the 2003 budget.**
  - (b) Tax deductible limits for registered pension plans be increased.**
  - (c) The cap on foreign investment in RRSPs and registered pension plans be increased, and eliminated by 2010.**
  - (d) The Pension Adjustment Reversal threshold be increased, preferably to the amount of the transfer between pension or retirement plans.**
- Capital investment is essential to sustain economic and employment growth. Investment is stimulated by attractive domestic after-tax returns and by tax rates which are competitive with U.S. rates.
    - (a) To encourage business capital expansion in Canada and to remain competitive with U.S. rates, effective corporate income tax rates should be reduced further than as currently scheduled to be implemented.**
    - (b) Consideration should be given to eliminating the surtax from selected sectors.**
    - (c) Elimination of the Large Corporations Tax should be accelerated.**
  - Many Canadian corporations transact business in two or more provinces. The larger corporations do so in all ten provinces and one or more territories. Various studies have indicated the need to remove or reduce provincial sales taxes. In addition, differences exist between the PST and GST tax base in some provinces. Whereas sales tax jurisdiction rests with the provinces, the federal government is responsible for administering the GST. Greater harmonization of the GST with provincial sales taxes would enhance competition, reduce red tape, and reduce compliance and administration costs as taxpayers and government would only have to deal with one sales tax authority.

**THE COMMITTEE recommends that the federal government work with its provincial colleagues towards greater harmonization of the provincial sales taxes with the GST.**

## CONCLUSION

As outlined in this brief, fiscal discipline and aggressive debt reduction, federal spending increases less than revenue growth, a competitive tax regime, continued simplification of the tax system, targeted tax incentives, and a more competitive, environmentally friendly and growing economy are fundamental tenets of THE COMMITTEE. We believe the tax measures we have proposed conform to these principles and are consistent with the Throne Speech commitment to “contribute to real progress for Canadians”. We strongly urge your government to consider these measures and implement them in the expected spring budget. THE COMMITTEE stands ready to assist the government in fulfilling our mutual objectives.

A handwritten signature in blue ink that reads "Barry Gorman". The signature is written in a cursive style and is positioned above the typed name and title.

Barry Gorman,  
Chair Tax Policy Sub-Committee  
Issues and Policy Advisory Committee (IPAC)  
Financial Executives International Canada