Dear Mr. Rajotte,

Financial Executives International Canada (FEI Canada) is pleased to present its recommendations as part of the 2013 pre-budget consultation. FEI Canada is an organization representing 1,800 senior financial executives through various chapters across Canada. This submission has been prepared by the Taxation Sub-Committee of the Issues and Policy Advisory Committee of FEI Canada.

EXECUTIVE SUMMARY

Last year in its submission to the Minister of Finance, FEI Canada noted the concern of the European debt crisis and the slow economic recovery. To date, not only has little changed on these international fronts, but the effects of these continuing economic drags prompted the Bank of Canada to reduce its economic forecast for 2012 from 2.4% to 2.1% on July 17, 2012. Although the Bank of Canada slightly raised its forecast for 2013 and 2014, the precarious problems facing the global economy challenge the ability to accurately predict long-term economic conditions. As such, the following recommendations of FEI Canada support providing a firm foundation for economic stability and growth both by the public and private sector:

1. Recovery and growth – Stay the course and continue to view balancing the budget a priority. The evidence is clear from Europe that sustained deficits leads to a lack of international confidence and slow economic growth. The foundation of the Canadian economy must be based on a system that does not spend more than it earns and supported by strong national financial systems including a strong national securities regulator, a harmonized tax system and the free flow of capital.

2. Job creation – Provide a platform for strong job creation and growth. This platform should create new jobs by transforming innovative ideas from development to commercialization through innovation funding from private and public sources and through focused training in areas where skills shortages have been identified.

3. Demographic change – Establish a framework to address the needs and realize the contributions that our aging population can still make to the Canadian economy. FEI Canada recommends that the government develop and articulate a national framework that addresses the key issues facing the elderly, being retirement income, health care and home care.

4. Productivity – Continue to encourage and promote productivity. With the rapidly changing environment, Canada must be flexible to change and support the retraining of its citizens as economic activity shifts from one sector to another and as citizens move into and out of the workforce. In this regard, the federal government must encourage the provinces to support the elimination of inter-provincial trade barriers to allow and encourage Canadians to seek employment throughout Canada as economic activity shifts from one province to another.

FEI CANADA’S RECOMMENDATIONS

Balance the budget: The government should retain its objective to balance the budget in the near term. That being said, the goal of balancing the budget should not cause the country to slip into a prolonged recession as it has in Europe. FEI Canada encourages the government to continue its cost review project, particularly by cutting expenses that also reduce government bureaucracy. If it is determined that additional revenues are required, an increase in the rate of Good and Services Tax should be considered as commodity taxes are viewed by economists as the most efficient and progressive form of taxation.

Withholding taxes: Withholding taxes constitute a barrier to the free flow of capital and discourage investment. Similar to FEI Canada’s comments in its pre-budget submission last year, FEI Canada believes that Canada should strive to eliminate or phase out withholding taxes on the payment of dividends between Canada and the United States and other major trading partners to encourage investment capital for Canadian businesses. Such a measure is consistent with the removal of withholding tax on interest paid to the United States introduced in prior years. The United States has negotiated a zero withholding tax rate under many of its treaties for dividend payments since 2003 and within the European Union; the EU parent-subsidiary eliminates withholding taxes.

Tax harmonization: Harmonization improves the understanding of the Canadian corporate landscape for foreign investors and reduces administration and costs for both government and industry. Harmonization should continue to be encouraged in all areas where there are similar federal and provincial taxes such as income taxes, sales taxes and environmental taxes.
Provincial income tax rates: Different provincial corporate income tax rates are confusing to foreign investors and encourage what the provinces refer to as provincial income shifting. Much of these concerns would be eliminated if the provinces were encouraged to work towards establishing a common corporate income tax rate.

National regulator: FEI Canada continues to support the government’s efforts to form a national securities regulator. This initiative continues to be a positive measure that would support international confidence in our country.

JOB CREATION

Innovation investment and spending: FEI Canada recognizes that innovation plays a significant role in achieving a strong and sustainable economy. Canada needs economic and taxation policies to encourage and facilitate innovation.

Smaller Canadian companies that are either growing or are in their start-up phase should get as much support as possible. The SR&ED program or any innovation program should not discourage smaller Canadian companies from seeking public funds to fund their research activities in Canada, but should encourage both domestic and foreign investors to provide capital investment for vital SR&ED or innovation projects performed and realized in Canada. The ownership status (public versus private) should not be a criterion for receiving different tax credit enhancements.

FEI Canada recommends that the current SR&ED program should be expanded so that all activities related to development and commercialization of a product or processes are eligible activities. Activities such as market research or data collection, business development and quality assurance are necessary in order to gain valuable insights from customers and other parties so that the ultimate product or service is commercially viable. Commercial viability, in fact, should be tied into the criteria for a project to qualify for the expanded SR&ED expenditures incurred in Canada, and not only the scientific research results or technological advancement of the project. It is the commercial viability that ultimately creates jobs, generates tax revenue and spawns additional innovation. The availability of tax credits for the commercialization and development of products can be tied to the sale of product from a Canadian company to ensure that the tax credits are recovered through additional tax revenues generated from the sale of the ideas or products.

In addition to the above, FEI Canada believes that innovation requires a long term approach. The federal budget of 2012 introduced considerable uncertainty regarding support for innovation by reducing generally-available SR&ED incentives. In their place, direct support programs of an uncertain nature and amount were suggested. FEI Canada supports the restoration of SR&ED incentives, in particular those related to capital expenditures and the use of proxy calculations. FEI Canada would welcome clarity related to the grant process announced in last year’s budget and would recommend that the government review process not be slow or vague.

Complementing the above, FEI Canada suggests that the government introduce legislation that would allow companies engaged in innovation to issue flow-through shares that could operate similar to the flow-through share programs that exist in the oil and gas and mining industries. The flow-through share program has encouraged exploration and development of Canada’s natural resources. This concept can also be applied to support innovation across all industries. Innovation flow-through shares would renounce qualifying SR&ED or innovation expenditures and any related tax credits to investors investing in these companies. Such a program would encourage private investment in Canadian innovation and would not be an incremental cost to the government since this program only represents transferring deductions and credits from one taxpayer to another.

Skills training: Shortages of skilled trades’ people are a growing concern for the Canadian economy. This concern will increase as skilled workers retire. A shortage of employees with skilled trades will hamper growth and productivity, particularly in more rural areas. Many young people are deciding their future during an era when job uncertainty threatens the next generation. FEI Canada recommends that the government develop and launch an awareness campaign to inform people of skilled labour in demand, how to obtain the appropriate education and how to link up with employers within their field of interest. Organizations such as apprenticesearch.com are already in place and can be expanded to meet this need. Employment opportunities will be enhanced by the removal of interprovincial barriers that prevent mobility of skilled workers across the county. FEI Canada also supports reducing immigration barriers for foreign trained and educated professionals whose qualifications meet standards.

DEMOGRAPHIC CHANGE

The demographic change in upcoming decades will provide both unique opportunities and challenges for the Canadian economy. In one regard, a healthy and vibrant aging population can continue to add to Canadian productivity and overall quality of life in our communities by remaining in the work force longer or by undertaking community and volunteer activities in their retirement. On the other hand, however, the challenges facing our seniors are considerable and include ensuring that retirement income is properly planned and is adequate for both known and unknown expenses and that health care and supportive living costs are provided for.
Retirement planning is not only an individual issue, but, as demographics change and resources become scarce, it is a family and corporate matter as well. Increasingly, parents, grandparents, aunts and uncles will have to rely more heavily on the younger working generation for transportation, care and advice. FEI Canada encourages the government to conduct a study and develop a national framework on this issue. FEI Canada will continue to offer its support and ideas during this process. The following are some ideas that are for consideration either immediately or in the near future.

There currently is a plethora of programs to encourage retirement income planning. These programs need to be reviewed and innovative ideas need to be introduced to provide a robust framework that encourages retirement income planning. FEI Canada recommends that policies should include:

- The reinstatement of the ability to transfer retiring allowances and severance amounts directly to an registered retirement savings plan (RRSP) possibly based on the years of service;
- The ability to transfer registered pension plan (RPP) to an individual's RRSP or spousal RRSP if the individual decides to remain in the work force and does not immediately require the retirement income;
- Allowing senior couples to income split after both have attained the age of 65;
- Allowing family members to contribute to an elder family member's RRSP similar to spousal RRSP plans.

If Canadians wish to maintain social programs at their current level (and FEI Canada believes that they do), demographic trends will cause the government’s fiscal expenditures to substantially increase. The ability to fund these “demographically-driven” higher costs will require either a substantial increase in tax revenue or a substantial decrease in other program costs if the government still wishes to balance its budget in the near term. FEI Canada encourages the government to make policy choices that will actively support actions and behaviours that will proactively help individuals remain healthy and vibrant, both mentally and physically.

Health Canada states that healthy living means making positive choices that enhance personal physical, mental and spiritual health. In this regard, FEI Canada suggests that policies should include:

- After review with the medical community, expand the list of expenses qualifying for medical tax credits and therefore for reimbursements from corporate health spending account plans costs that support healthy living and effective illness management such as consultation costs with a nutritionist, dietician or weight loss clinic, pharmacist and other health care practitioners currently recognized as medical practitioners in the Income and Excise Tax Acts;
- Allowing corporations a tax deduction for any membership to a health club or sporting facility to a maximum of $1,000 to encourage employees to become active. Because of the potential for the perception of abuse, golf fees should remain excluded from the above;
- Allowing local sporting organizations to be eligible to register for charitable purposes to encourage donations to sporting organizations to reduce the cost of programs to all Canadians;
- Allow companies to pay employees a tax-free amount up to a maximum (say $25,000) to cover the cost of treating a life threatening disease not covered by a provincial health care program;
- Continue government support of the Canadian Mental Health Commission.

FEI Canada remains a strong proponent of a balanced budget and encourages the government to balance the costs of the above with the long-term savings opportunities that an effective program could offer. In the spirit of healthy living, the government could increase the “sin taxes” to help fund short-term deficits caused during the implementation of these programs.

PRODUCTIVITY

Review of the Income Tax Act: Consistent with the last two years, FEI Canada recommends that the Ministry of Finance establish a task force to undertake a comprehensive review of the Federal Income Tax Act with the objective of reducing complexity, in particular, those aspects of the Act which (a) do not lead to economic efficiency, growth and/or increased competitiveness, (b) create excessive compliance costs vis-à-vis their policy objectives (the proliferation of CCA classes, e.g.), (c) are inconsistent with the characteristics of a simple tax system, and/or (d) result in unnecessary duplication.

FEI Canada requests that the Committee include the following recommendation included in its December 2011 report in its current report:

“The federal government convene an expert panel to review, modernize and simplify the federal corporate tax system.”

FEI Canada continues to be prepared to participate in this expert panel or assist the government in any manner to achieve this worthwhile endeavour.
Loss transfer system: Consistent with its prior recommendations, FEI Canada believes that the government should implement some form of tax loss utilization system that transitions towards the filing of one consolidated tax return in an effort to further reduce tax administration. A consolidated tax return appropriately recognizes the broader economic corporate group as the taxpayer. For further details, please see FEI Canada's comments on the Department of Finance's consultation paper on the Taxation of Corporate Groups, dated 18 March, 2011, which can be found at http://www.feicanada.org/page/news/comment.

Mandatory settlement process: Tax simplification will ultimately reduce the burden of tax administration for CRA and Finance thereby reducing government costs and contribute to balancing the budget. Similarly, streamlining the tax audit process and resolution of tax disputes will again reduce costs for the government. Tax disputes have increased significantly over the past decade because the CRA has a mandate to reassess rather than to resolve. For instance, notices of objection (or “intakes”) filed by taxpayers increased 88% between 2005/06 and 2009/10; the overall caseload (or “inventory” of cases) increased during the same time period by 126%. These levels of increases are neither efficient nor affordable and clearly call out for immediate change.

FEI Canada recommends that the federal government introduce legislation that would allow and require a mandatory process to encourage settlement as part of the field audit. Mandatory settlement meetings currently are undertaken at the tax court level with the view of settling cases out of court. Encouraging the settlement of an issue at the field audit level will reduce the number of files that filter through the objection and appeals process over a number of years and will save resources for both the government and taxpayers (especially for smaller taxpayers where financial resources are scarce). The Canada Revenue Agency (“CRA”) currently reports the statistic “Tax Earned by Audit” or TEBA for its measure of audit effectiveness. This reporting method should be changed to one that supports the settlement rather than only the reassessment of audit issues.

GST/HST consolidated filing: Each legal entity within a corporate group is required to file a separate GST/HST return. Often corporate groups have a centralized accounts payable function that pays funds on behalf of all companies in the corporate group and recovers the payments from the members incurring the expense. The corporate group would then record and report GST/HST paid by the corporate group on numerous GST/HST returns for each entity that also are separately paid and subject to audit. The process is both costly and inefficient for both government and taxpayers.

Corporate groups should be permitted to report GST/HST on a consolidated basis. Consolidated reporting may be limited to those companies engaged exclusively in commercial activities. Consolidated reporting would substantially reduce the number of returns that need to be processed by the CRA. Further, consolidated reporting elections would identify related parties to tax auditors eliminating the multiple audits of companies within the same corporate group. This measure would not result in any lost revenue to the CRA and reduce costs of administering the GST/HST system.

About FEI Canada (www.feicanada.org)

Financial Executives International Canada (FEI Canada) is an all-industry professional association for senior financial executives. With eleven chapters across Canada and more than 1,800 members, FEI Canada provides professional development, thought leadership and advocacy services to its members.

The Issues and Policy Advisory Committee (IPAC) is one of two national advocacy committees of FEI Canada. IPAC is comprised of more than 40 senior financial executives representing a broad cross-section of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of topics of interest to Canadian business and governmental agencies. The current composition of IPAC is formulated to address the following areas: governance and risk, treasury and capital markets, taxation, pensions, private company issues and information technology. In addition to advocacy, IPAC is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving these areas.