

GOOD MORNING MR. CHAIRMAN AND COMMITTEE MEMBERS.

I'M **MICHAEL CONWAY**, CHIEF EXECUTIVE AND NATIONAL PRESIDENT OF FINANCIAL EXECUTIVES INTERNATIONAL CANADA.

FEI CANADA IS A VOLUNTARY MEMBERSHIP ASSOCIATION, COMPRISED OF 2,000 CANADIAN CHIEF FINANCIAL OFFICERS AND OTHER SENIOR FINANCE EXECUTIVES.

THE RECOMMENDATIONS WE PRESENT TO YOU TODAY ARE THE RESULTS OF THE COLLECTIVE EFFORT OF FEI CANADA'S TAX COMMITTEE, WHOSE CHAIR **PETER EFFER**, VP TAXATION AT SHOPPERS DRUG MART, IS WITH ME HERE TODAY.

FEI CANADA UNDERSTANDS THE CRITICAL IMPORTANCE OF MAINTAINING STABILITY WHILE THE GOVERNMENT WORKS TO ACHIEVE ITS FISCAL POLICY GOALS AND WE AGREE WITH THE GOVERNMENT'S CONTINUED COMMITMENT TO FISCAL PRUDENCE.

IT IS IMPERATIVE THAT THE GOVERNMENT FOCUSES ITS RESOURCES TO ACHIEVE MAXIMUM IMPACT FOR ITS SPENDING.

IN ORDER TO BE ABLE TO CONTINUE OFFERING MANY OF CANADA'S CURRENT SOCIAL BENEFITS, THE ESCALATING COST OF WHICH IS DRIVEN BY AGING DEMOGRAPHICS¹, CANADA NEEDS TO CONTINUALLY STRIVE TO GET "A BETTER BANG FOR OUR BUCK".

IN OUR WRITTEN SUBMISSION TO YOU, WE HIGHLIGHTED 3 INITIATIVES THAT FEI CANADA BELIEVES THE GOVERNMENT SHOULD ADOPT, AS THEY WILL BE CRITICAL TO ACHIEVING AN EFFICIENT TAX ENVIRONMENT.

¹ **OAS benefits & Health transfers** were $\$35.6B + \$37.2B = \$72.8B$ or 30.4% of 2010-2011 Program Expenses of $\$239.6B$, vs. $\$23.7B + \$13.5B = \$37.2B$ or 28.5% of $\$130.6B$ Program Expenses in 2000-2001.

This represents a 96% increase in these "Demographically-driven" costs vs. the 83% increase in total Program Expenses over the same 10 year period.

FIRST, FEI CANADA BELIEVES THE GOVERNMENT SHOULD ENCOURAGE INNOVATION, AND FEI CANADA AGREES WITH THE JENKINS REPORT² THAT “INNOVATION IS THE ULTIMATE SOURCE OF LONG-TERM COMPETITIVENESS OF BUSINESSES & QUALITY OF LIFE OF CANADIANS”.

THERE ARE VARIOUS WAYS TO ENCOURAGE INNOVATION THROUGH FUNDING:

- TAX CREDITS COULD BE PROVIDED TO ANGEL INVESTORS WHO FUND QUALIFYING INNOVATION EXPENDITURES³; AND
- HELP CAN BE PROVIDED TO COMPANIES THAT INCUR COSTS THAT LEAD TO INNOVATION.

IN THIS REGARD, ONE EFFICIENT WAY TO ENCOURAGE INNOVATION WOULD BE TO USE A MECHANISM THAT THE GOVERNMENT ALREADY HAS — *THE SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT OR “SR&ED” PROGRAM* — BUT MAKE IMPROVEMENTS TO IT, AS THE SR&ED CREDIT IS CURRENTLY TOO COMPLEX AND NARROWLY FOCUSED.

IT SHOULD BE RECOGNIZED THAT INNOVATORS NEED SUPPORT BEYOND THE EARLY R&D STAGE, AND THAT **ACTIVITIES LEADING TO PRODUCT COMMERCIALIZATION SHOULD BE ELIGIBLE FOR SR&ED CLAIMS.** AFTER ALL, IT IS THE COMMERCIALIZATION OF RESEARCH THAT CREATES ECONOMIC ACTIVITY.

THE CURRENT PROGRAM DISCOURAGES SMALL PRIVATE COMPANIES FROM ACCESSING PUBLIC CAPITAL BY REDUCING THE AVAILABLE TAX CREDIT FROM 35% TO 20% WHEN A COMPANY BECOMES PUBLIC. **FEI CANADA RECOMMENDS THAT PUBLIC COMPANIES BE ENTITLED TO THE SAME TAX CREDIT ENTITLEMENTS AS PRIVATE COMPANIES.**

FINALLY, WE LIKE THE JENKINS REPORT RECOMMENDATION TO **SIMPLIFY THE SR&ED PROGRAM BY BASING THE TAX CREDIT FOR SMALL AND MEDIUM-SIZED ENTERPRISES SOLELY ON LABOUR-RELATED COSTS.**

² The Independent Panel on Federal Support to Research and Development

³ The National Angel Capital Organization has recommended an Innovation and Productivity Credit similar to BC’s Small Business Venture Capital Program and the UK’s successful ten-year-old Enterprise Investment Scheme.

MR. CHAIRMAN, THIS POINT IS A GOOD SEGUE INTO A REQUEST THAT WE MADE TO THIS COMMITTEE LAST YEAR – FOR THE BENEFIT OF BOTH BUSINESS & THE GOVERNMENT, WE NEED TO REDUCE THE COMPLEXITY OF THE TAXATION SYSTEM AND ITS COMPLIANCE REQUIREMENTS.

THE GOVERNMENT SHOULD DO EXACTLY WHAT IT DID LAST YEAR TO REVIEW RED TAPE AND R&D SPENDING, NAMELY: A TASK FORCE SHOULD BE ESTABLISHED TO THOROUGHLY REVIEW THE FEDERAL INCOME TAX ACT.

TAX SIMPLIFICATION WILL CUT THE ADMINISTRATIVE BURDEN SHOULDERED BY BOTH BUSINESS & THE GOVERNMENT, WHICH FUNDS CRA. HAVING MORE CLARITY WILL REDUCE THE NUMBER AND COST OF TAX DISPUTES FOR BOTH SIDES.

THIS WILL BE PARTICULARLY HELPFUL FOR SMALL AND MEDIUM SIZED BUSINESSES, AND WILL HELP THIS KEY SECTOR OF THE ECONOMY WHICH EMPLOYS MILLIONS OF CANADIANS AND GENERATES THE MAJORITY OF CANADA’S GDP.

THE BEST WAY TO START SIMPLIFYING THE TAX SYSTEM WOULD BE FOR THE GOVERNMENT TO CONTINUE THE WORK COMMENCED LAST YEAR ON TAXATION OF CORPORATE GROUPS.

AS WE STRESSED IN OUR COMMENTS DURING THE CONSULTATION PROCESS, A TAX LOSS TRANSFER SYSTEM FOR CORPORATE GROUPS WOULD MAKE THE SYSTEM MORE FAIR, AS TAX PLANNING IS GENERALLY NOT AFFORDABLE FOR SMALL COMPANIES.

ALLOWING COMPANIES TO FILE ONE CONSOLIDATED TAX RETURN WOULD FURTHER REDUCE THE ADMINISTRATIVE BURDEN FOR EVERYONE INVOLVED: CORPORATIONS AND THE TAX DEPARTMENT.

IN CONCLUSION,

WE BELIEVE OUR RECOMMENDATIONS WILL FOSTER INNOVATION, STREAMLINE
GOVERNMENT AND REDUCE TIME SPENT ON COMPLIANCE,
SO WE CAN FOCUS ON GENERATING ECONOMIC ACTIVITY AND JOB CREATION.

THANK YOU.