

SUBMISSION TO THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE

PRE-BUDGET CONSULTATION 2015

AUGUST 6, 2014



leadership beyond finance

FEI CANADA 2015 PRE-BUDGET CONSULTATION

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Mr. James Rajotte
Chair, Standing Committee on Finance
House of Commons
Ottawa, ON K1A 0A6

Financial Executives International Canada (FEI Canada) is a voluntary professional membership association, comprised of 1,600 of Canada's Chief Financial Officers and other senior finance executives who work in all industries and sectors across the country. The recommendations were prepared by volunteer members who serve on the organization's Policy Forum.

Executive Summary

We have focused our comments on the areas outlined in the call for submissions:

1. Balancing the budget

Now that the government has achieved a balanced budget, FEI Canada encourages the government to maintain this balance and use any surplus to either pay down the federal debt or to invest in the long-term growth of the economy. The government should seek continued improvements in process efficiencies, simplifying the Income Tax Act and reducing the cost of administration.

We believe with its surplus projections, the government should consult with industry leaders on how to best use these monies to invest in economic growth, employment and debt reduction.

FEI Canada supports the government's recently stated target to reduce the federal net debt to GDP ratio to 25% by 2021. This debt reduction should be achieved without raising corporate or personal income taxes and without increasing the burden upon provincial balance sheets.

2. Retirement planning

FEI Canada continues to encourage the Government to help Canadians plan for their retirement years by examining options to enhance the national framework on adequate retirement income for Canadians. One component of this framework would be the recommendation of a modest expansion of the Canada Pension Plan.

3. Innovation

FEI Canada recommends the government use part of its surplus to fund investment pools to promote growth in emerging technologies and know how, by allowing companies engaged in commercial innovation activities to issue flow-through shares to fund development and related commercialization expenses. Expenditures incurred up to product commercialization should be eligible for this flow-through to encourage the private sector to fund costs associated with converting ideas into marketable products.

FEI Canada also recommends the Government create a task force to review the heightened risk of Cyber Security threats and implement standards to protect the Canadian economy.

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4. Infrastructure

FEI Canada recommends the government invest in the long term growth of the economy, including investment in new sustainable technologies and infrastructure, by leveraging Public-Private Partnerships.

5. Improving Canada's taxation and regulatory regimes

FEI Canada suggests cost savings could be achieved by simplifying the federal Income Tax Act by removing certain complexities and administration embedded in this act. For example, a mandatory settlement process at the field audit level should be required and consolidated GST returns should be allowed. This would save administrative costs for both the government and taxpayers, particularly small and medium sized enterprises which are key drivers of the economy.

Canada's CFOs and other senior financial executives applaud the federal government's perseverance towards the creation of a common securities regulator.

6. Employment

Employment opportunities will be enhanced by the removal of interprovincial barriers preventing mobility of skilled workers across the country.

FEI Canada remains a strong supporter of government initiatives to improve productivity and foster economic growth, while maintaining a responsible fiscal balance. We are encouraged by government's leadership in reaching out to the business community to seek advice. We appreciate the opportunity to be included in these consultations and would welcome the opportunity to continue to do so in the future.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Michael Conway".

Michael Conway, FCPA, FCA, ICD.D
President and CEO
FEI Canada

A handwritten signature in black ink, appearing to read "Peter Effer".

Peter Effer, CPA, CA
Chair
FEI Canada Policy Forum

A handwritten signature in black ink, appearing to read "Tim Zahavich".

Tim Zahavich, CPA, CA
Chair
FEI Canada

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1. Balancing the federal budget to ensure fiscal sustainability and economic growth

As senior financial executives, we lead process improvement initiatives to enhance efficiencies in our organizations, while improving the opportunity to grow. Our membership therefore agrees fiscal restraint should remain a top priority. FEI Canada recommends the federal government maintain its budget in balance and use any surplus to either pay down the debt or to invest in the long term growth of the economy.

With its surplus projections, the government should consult with industry on how to invest in economic growth and employment and be transparent on how it intends to achieve what it thinks is a reasonable level of national debt in the medium term. FEI Canada supports the government's recently-stated target to reduce the federal net debt to GDP ratio to 25% by 2021. In order for Canada to remain globally competitive and accessible to domestic and global investment capital, this debt reduction should be achieved without raising corporate or personal income taxes and without increasing the burden upon provincial balance sheets.

2. Supporting families and helping vulnerable Canadians by focusing on health, education and training

We continue to encourage the Government to help Canadians plan for their retirement years by examining options to enhance the national framework on adequate retirement income.

We believe there are two options to do this; one is to permit voluntary incremental contributions by employees to the Canada Pension Plan, without requiring employers to match these amounts since such additional employer costs could slow economic growth and reduce employment opportunities.

The other option would be to consider a modest expansion of the Canada Pension Plan (CPP) for employees and employers. As detailed in a white paper drafted by FEI Canada's pension committee entitled: [Time for Action – CPP Expansion: A critical part of the solution](#), reasons for CPP expansion include:

- Leveraging the CPP across Canada allows seamless retirement planning in support of labour mobility.
- As a non-voluntary expansion of CPP, all workers will receive expanded future benefits. This can provide an appropriate level of retirement income to the majority of Canadians who are not part of company-sponsored pension plans, and are not saving effectively for retirement.
- If employers have a mandatory retirement plan, there should be an option to delink employee and employer matching contribution rates.
- Increases in future benefits would be based on a “fully-funded” model on an actuarial determined basis.
- Professionally managed, the CPPIB has access to large alternative funds that can secure higher returns, improving plan performance and funding status.
- Enhancing the CPP would have minimal implementation costs as the current infrastructure is already in place.

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3. Increasing the competitiveness of Canadian businesses through research, development, innovation and commercialization

Innovation:

FEI Canada recommends the government use part of its surplus to fund investment pools to promote growth in emerging technologies and know-how. The investment criteria and its ultimate disbursement should be considered after due consultation with industry leaders.

Economic growth driven by job creation is enhanced when innovation is fostered. Innovation creates products and services for use and sale by Canadian companies, which leads to increased productivity and employment.

FEI Canada suggests the federal government allow companies in all industries engaged in innovation to issue flow-through shares to access capital, to fund development and related commercialization expenses. This would be similar to the program existing in the resource and mining industries. Companies issuing such shares would renounce qualifying SR&ED expenses and tax credits to shareholders who would claim these amounts on their tax returns, thereby simply transferring tax deductions and tax credits from one taxpayer to another.

Expenditures incurred up to product commercialization should also be eligible for this flow-through to encourage the private sector to fund costs associated with converting ideas into marketable products. This program would benefit start-upss which are not yet earning taxable revenue in excess of innovation expenses and particularly help similar public innovative companies that are not entitled to refundable SR&ED tax credits. This recommendation should attract investable capital from idle private sector cash that could be deployed to increase innovation activity in Canada which, in turn, should reduce reliance on government-funded programs and increase economic activity and employment.

FEI Canada also recommends the government proactively educate businesses on various funding programs available. For more information, please see the report produced by FEI Canada's research foundation, entitled: [The funding of innovation in Canada](#).

Cybersecurity:

FEI Canada produced a study on [Cyber Security and Business Continuity](#) highlighting serious concerns with respect to the readiness of Canada's IT infrastructure; risks that could impact both the corporate world and the public domain. The risk of not proactively planning and managing cybersecurity continues to increase primarily in companies and governments managing critical infrastructure networks such as electrical grids, transport systems and financial networks. We recommend the government create a task force to review this area of high-risk and to implement cybersecurity standards and a policy protecting Canadians and the network infrastructure upon which our economy and national security depends.

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4. Ensuring prosperous and secure communities, including support for infrastructure

FEI Canada suggests the government invest in long-term growth of the economy, including investment in infrastructure, by leveraging a Public-Private Partnership model.

Should the government need to enhance the ability to finance such infrastructure projects, it could consider increasing its collaboration with pension funds to stimulate investment by the latter in long term projects to fund pension liabilities. The tax free status of pension funds will allow for a lower cost of capital.

5. Improving Canada's taxation and regulatory regimes

FEI Canada suggests the government should simplify the Income Tax Act by removing certain complexities and administration embedded therein. This would save costs for both the government and taxpayers, particularly small and medium-sized enterprises which are key drivers of the economy. For instance:

- Withholding taxes constitute barriers to the free flow of capital and discourage investment. FEI Canada believes Canada should strive to eliminate withholding taxes on the payment of dividends between Canada and the US and other major trading partners to encourage investment capital for Canadian businesses. Such a measure is consistent with the previously introduced removal of withholding tax on interest paid to the US.
- The government should immediately allow a company to elect to include capital losses in its eligible capital expenditure pool. In the near term, a company should be allowed to transfer non-capital losses and net capital losses, at least, to another related company operating within the same provincial tax jurisdiction and, when feasible, to any related company within the same corporate group, rather than, for those who can afford to, undertake costly corporate reorganizations to achieve the same result.
- For GST purposes, companies should be allowed to elect to claim input tax credits in a related company similar to the election currently available that allows another taxpayer to remit GST, which would result in a form of consolidated tax return filings. This would simplify both taxpayer reporting and government audits of the GST by reducing the number of relevant GST returns that would be filed and audited with no change to the net tax collected.
- Lastly, introducing legislation requiring a mandatory settlement process at the field audit and/or the objections level, for both income tax and GST, would reduce tax audit dispute costs for both government and taxpayers.

FEI Canada also suggests the government continues its efforts to achieve a National Securities Regulator, as this would result in an efficient securities system for both corporations and the regulator. We encourage the government to continue to strive towards this important goal, which will enhance Canada's global competitiveness and benefit all business by offering a streamlined process.

6. Maximizing the number and types of jobs for Canadians

Employment opportunities will be enhanced by the removal of interprovincial barriers preventing mobility of skilled workers. 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. The federal government should 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.

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About FEI Canada

Financial Executives International Canada (FEI Canada) is an all-industry professional association for senior financial executives. With eleven chapters across Canada and 1,600 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. Follow us on Twitter @feicanada or see feicanada.org

The **Policy Forum** is the national advocacy committee of FEI Canada, comprised of more than 60 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 Policy Forum is formulated to address the following areas: accounting standards, governance and risk, treasury and capital markets, taxation, pensions, private company issues and information technology. In addition to advocacy, Policy Forum is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving these areas.