THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

Budget 2015

Priorities for the 2015 Federal Budget

We sincerely thank the Standing Committee on Finance for soliciting views on the 2015 federal budget and for the opportunity to provide recommendations. The Canadian Chamber network is the largest, most broadly-based business association in Canada representing 200,000 businesses of all sizes, in all sectors of the economy and in all regions of the country. Our members create the jobs, pay the taxes, power the growth and contribute the leadership that provides the quality of life we enjoy in our country.

Executive Summary

Based on extensive advice from members, the Canadian Chamber of Commerce has nine key recommendations for the 2015 federal budget that will support prosperity, competitiveness and innovation and that align with the government's priority themes:

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

1. Create an "innovation box" regime that would reduce the normal corporate tax rate for income derived from patented inventions developed in Canada.

Maximizing the number and types of jobs for Canadians

2. Improve the mobility and employment of skilled trades workers across Canada by changing tax policy to address the relocation costs of skilled trades workers.

3. Increase apprenticeship completions by creating a financial incentive for those employers who retain apprentices in their third or fourth year of training.

4. Invest in labour market information to close the skills gap.

5. Assess the impact of recent changes to the Temporary Foreign Worker Program.

6. Establish a Development Finance Institution (DFI) to promote private sector trade and investment in developing countries

Ensuring prosperous and secure communities, including through support for infrastructure

7. Develop a long-term, transparent and predictable infrastructure strategy.

Improving Canada's taxation and regulatory regimes

8. Conduct a comprehensive review to create a streamlined, broad-based tax system with lower rates and fewer tax credits for individuals and corporations.

9. Push for a comprehensive internal trade agreement that is even more ambitious than our major trade agreements

Recommendations

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

1. **Create an "innovation box" regime in Canada that would reduce the normal corporate tax rate for income derived from developing and commercially exploiting patented inventions and other intellectual property connected to new or improved products, services and related innovative processes to the benefit of Canada.**

   Canada still lags many countries in terms of total spending and commercializing new technologies. More needs to be done, particularly when governments around the world are looking at adopting tax incentive regimes to encourage companies to exploit and commercialize intellectual property in their jurisdictions.

   A number of countries (the U.K., Belgium, Luxembourg, France, Spain, Hungary, Ireland, Switzerland and China) have adopted a "patent box" tax regime that sharply reduced the normal corporate tax rate on income derived from the exploitation of patents. In lieu of a broad tax credit, such as the scientific research and experimental development tax (SRED), which provides general tax relief on R&D activities, a business that creates a patent or new idea in Canada would see the revenues that arise from that idea taxed at a much lower rate.

   An "innovation box" regime would encourage companies to locate intellectual property activity and the new high-value jobs associated with the development of innovation in Canada. It would promote and enhance the innovation capacity of sectors that leverage science and technology innovations. Firms in all sectors would have a greater incentive to adopt, commercialize or otherwise exploit the output of the R&D process here in Canada.

Maximizing the number and types of jobs for Canadians

2. **Improve the mobility and employment of skilled trades workers across Canada by changing tax policy to address the relocation costs of skilled trades workers.**

   To fill short-term labour market needs in remote locations, companies may offer allowances or reimbursements for housing, travel and child care costs in order to attract Canadian workers. These payments are considered taxable benefits for employees. In other instances, employers may be unable to offer sufficiently attractive relocation packages to entice Canadian workers to move on a temporary basis. This may be the case with small firms that are subcontractors competing for work on large-scale projects.

While the challenges to mobility are not restricted to skilled workers, the human resource demands of projects in the resource sector suggest that Canadian workers' temporary relocation should be encouraged as much as possible. Given that the government is constraining the TFW program in the hopes employers will incent Canadian worker mobility with higher wages, it is frustrating that the Crown itself opportunistically taxes these incentives. Instead, measures should be taken to overcome the costs of skilled tradespeople relocating for short-term employment opportunities.

The government should introduce a change in tax policy to address the relocation costs of skilled trades workers who would be willing to move on a temporary basis for employment.

3. **Increase apprenticeship completions in the skilled trades by creating a financial incentive for those employers who retain apprentices in their third or fourth year of training.**

   To address the large number of uncompleted apprenticeships, the government should create a financial incentive for those employers who retain apprentices in their third or fourth year of training to support the policy goal of increasing the number of certified trades workers. This incentive should be in addition to (and not in lieu of) the existing tax credit for employers for their level 1 and 2 apprentices.

4. **Invest in labour market information to close the skills gap.**

   The skills gap and mismatches in Canada are challenging employers, educators and governments to respond. Unfortunately, Canadian employers and policymakers currently lack sufficiently granular and reliable labour market information (LMI) in several areas. To address these shortfalls, the government should expand the Job Vacancy Survey from the level of economic regions to the local/CMA level, wherever possible; reintroduce and upgrade the Workplace and Employee Survey; renew the Youth in Transition Survey; review and sustain the National Graduate Survey and the Five-Year Follow-up of Graduates on a longer-term basis; and ensure the Minister of Employment and Social Development, as chair of the Forum of Labour Market Ministers, leads and facilitates the collection and coordination of data from key stakeholders, among other measures.

5. **Assess the impact of recent changes to the Temporary Foreign Worker Program.**

   Given the major changes to the program in 2014, it is possible that businesses may need to retrench their operations and lay off Canadian employees if insufficient numbers of foreign workers are available to fill labour market needs. The government should assess the business and employment impacts of the program changes and application processing time and institute flexibility, in particular, with respect to the refusal to process certain applications in areas of unemployment at or higher than six per cent and with respect to the per-employer cap on low-wage workers.

6. **Establish a Development Finance Institution (DFI) to promote private sector trade and investment in developing countries**.

   Every other country in the G-7 already has such an institution and a Canadian DFI could work hand-in-hand with developing countries, the private sector, the Trade Commissioner Service and other government agencies to identify opportunities for projects and support their implementation while retaining poverty reduction as the overarching objective. The initial capital injection would be an investment in building a new Canadian institution that could be leveraged to raise additional funds. To be effective, the organization would require strong capabilities in both development policy and private sector finance.

Ensuring prosperous and secure communities, including through support for infrastructure

7. **Develop a long-term, transparent and predictable infrastructure strategy.**

   Over the past 30 years, investments in core public infrastructure have dropped off significantly. The result is that many of Canada's roads, bridges and water systems are collapsing. According to the Federation of Canadian Municipalities, 30 per cent of municipal infrastructure is at risk. Congestion is also a major problem—some estimates place the cost to the Canadian economy at close to $15 billion per year—and three of our largest cities, Vancouver, Toronto and Montreal, are among the most traffic-congested cities in North America.

   There is a strong correlation between infrastructure investment and productivity. Our research has found that a sustained 10 per cent annual increase in infrastructure investment has the potential to reduce the costs of manufacturing by five per cent.

   Canada needs a long-term infrastructure investment strategy that must:

   - Be predictable and transparent, a permanent fixture of federal expenditures much like health and public safety
   - Encourage the use of asset management plans
   - Increase coordination between the various levels of government and with the private sector
   - Increase partnerships with the private sector, where applicable
   - Focus on areas with the greatest return on economic productivity, such as trade enabling infrastructure

Improving Canada's taxation and regulatory regimes

8. **Conduct a comprehensive review to create a streamlined, broad-based tax system with lower rates and fewer tax credits for individuals and corporations.**

   Canada's tax system is in urgent need of reform. It has become increasingly complex, multi-layered, and a costly challenge for Canadian businesses of all sizes. The World Economic Forum's Global Competitiveness report cites tax rates and regulations as two of the top five challenges to doing business in Canada. A streamlined and more efficient tax regime would free up time and capital for Canadian companies so they can focus on growing their business, investing and creating jobs.

   According to a study by the Fraser Institute, the costs of complying with the Canadian tax system are estimated at $14 to $18 billion per year. A comprehensive review could overhaul Canada's tax system to reduce its complexity by reviewing and clarifying the language used in tax law; recommending changes to existing legislation that does not achieve its purpose or entails costs that outweigh the revenue being raised or protected; and evaluating all tax preferences (credits, deductions, exemptions, rebates) with a view of eliminating those that are not cost effective or are not achieving their intended purpose. The increase in revenue from eliminating credits could then be used to lower rates.

9. **Push for a comprehensive internal trade agreement that is even more ambitious than our major trade agreements.**

   The greatest improvement to the Canadian regulatory environment would be a reduction in internal trade barriers. Accordingly, the Canadian Chamber of Commerce would like to see a comprehensive internal trade agreement that is no less ambitious than our major trade agreements (such as CETA/Canada-South Korea). This agreement should include the principal of mutual recognition so that goods and services are able to be sold between the provinces even if there are minor differences in regulations or standards. Any exception must be in the interests of consumers and should be supported by evidence-based rationale. Provinces should work towards a common regulatory framework to reduce costs and red tape. The agreement must be transparent and enforceable with an accessible and affordable dispute resolution mechanism.