THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

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Hon. Joe Oliver P.C., M.P.
Minister of Finance
90 Elgin Street
Ottawa, ON K1A 0G 5

Dear Minister:

In September, the Canadian Chamber of Commerce concluded its 85th Annual General Meeting (AGM) in Charlottetown, PEI. A highlight of the Canadian Chamber's AGM is the Policy Session, where the resolutions submitted by local chambers of commerce and boards of trade from across Canada are debated and voted on by accredited delegates. Once approved, these resolutions become policy of the Canadian Chamber for the following three years.

In 2014, our delegates issued a clear and decisive national policy mandate that we intend to pursue vigorously with the federal government over the coming months. Our renewed national policy mandate includes the following issues which fall within your portfolio:

An Innovation Box Approach in Canada

The growth rate of patent registrations and the ratio of patented ideas to commercialized products in Canada lags our trading partners. An alternative approach is needed to encourage business investment in innovative processes to improve productivity, economic growth and incomes. An "innovation box" approach 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 in Canada. This would encourage companies to locate intellectual property activity and the new high-value jobs associated with the development, manufacture and exploitation of innovation inside Canada. The reference to "box" comes from having to tick a box on the tax form that indicates this type of revenue is being claimed.

If properly designed, it would promote and enhance the innovation capacity of sectors that leverage science and technology innovations throughout Canada. Firms in all sectors across Canada will have a greater incentive to adopt, commercialize or otherwise exploit the output of the R&D process here in Canada.

Finally, an "innovation box" approach would complement the existing SR&ED Investment Tax Credit program—firms would have an incentive to base their R&D activities in Canada AND to commercialize them in Canada.

The Canadian Chamber of Commerce recommends that the federal government consult with business and industry leaders to define what intellectual property would qualify and implement by 2016-2017 an "innovation box" approach to encourage more business investment in innovation processes in Canada. We also recommend that the federal government ensure that any such regime adopted in Canada delivers the clarity and simplicity that encourages participation/ innovation from both SMEs and large companies.

Making the Accelerated Capital Cost Allowance for Computer Equipment Permanent

We recommend that the federal government permanently change the Capital Cost Allowance (CCA) depreciation period for computer equipment, to a period of two years (as reflected in the recent accelerated CCA program).

Tax Provision Threshold Indexing

The Canadian Chamber recommends that the government revise existing tax provision thresholds to reflect increases in pricing and inflation, ensure the thresholds and limits adequately reflect economic conditions and are updated to reflect the same benefits and gains as intended when originally introduced. In particular, these should include revisions to the rebate of the GST under the Excise Tax Act (ETA), the Income Tax Act restriction on capital cost allowance class 10.1 (specifically luxury automobiles), and the "small supplier threshold" for registering for the GST under the ETA. We also recommend that new and existing tax provisions contain thresholds and limits and are introduced and/or updated with annual indexation as an integral part of the provision.

Small Business Deduction (SBD)

We recommend that the federal government remove the $10 million taxable capital limitation to the SBD. The current approach to limiting the SBD is punitive and fosters inequality amongst businesses and industries in Canada. Corporations and/or industries that are highly leveraged due to the cost of the equipment used in business or the high cost of inventory that must be maintained (e.g., automobile dealerships) are put at an unfair disadvantage. It would be possible for two similarly profitable companies in similar industries to have significantly different tax burdens entirely based on how they financed their growth. In addition, with the introduction in 2006 of the Eligible Dividend Regime and the General Rate Income Pool, private companies retain more profits within the corporation. While this is a positive change, it will increase a private company's taxable capital and serve to exaggerate the limitation of the SBD.

Fiscal Policy

The Canadian Chamber of Commerce recommends that the federal government re-examine how it raises revenue and the types of taxes it levies. Economic performance and competitiveness can be improved by ensuring that Canada's tax system is as neutral, simple, efficient and fair as possible. The government should appoint an advisory panel (similar to the Advisory Panel on Canada's System of International Taxation) to identify ways to reduce the complexity of Canada's tax system. This should include a comprehensive review of the hundreds of exemptions, deductions, rebates, deferrals or credits that are part of the federal tax system to determine which ones are inefficient and wasteful. The panel should be supported by a secretariat and rely on the Department of Finance, the Canada Revenue Agency and the Auditor General of Canada for information and data regarding the current system. Secondly, it is crucial to reduce Canada's heavy reliance on income and profit taxes, and rely more on consumption-based taxes, like the GST/HST. Now the federal books are balanced, we recommend that the federal government:

- Reduce the 15 per cent rate that applies to the first $43,953 of taxable income (2014) to 14 per cent, and the 22 per cent rate that applies to taxable income between $43,954 and $87,907 to 21 per cent.

- Raise the threshold at which the top federal marginal personal income tax rate kicks in to $200,000 from $136,270. As a result, income in the $136,270 and $200,000 range would be taxed at a rate of 26 per cent, down from 29 per cent.

Technical Amendments, Implementation of Tax Law Changes and Retroactive Tax Legislation

In 2009, the Auditor General of Canada looked at how the Department of Finance develops legislative amendments and discovered that there is a backlog of some 400 technical amendments—one that continued to grow in the years that followed. The Auditor General recommended that the government regularly develop and release draft technical amendments so that taxpayers and tax practitioners know what changes will be made and can provide input to the Department.

The Canadian Chamber recommends that, provided that sufficient consultation has taken place, the Department of Finance should make announcements with respect to changes in tax law only if it intends to introduce enabling legislation within six months. If the coming into force of legislation is later, then and change/change(s) should be effective at the later date and not the date on which the original announcement was made. The federal government should also:

- Clearly specify its rationale for adopting retroactive amendments to tax legislation.
- Actively expand opportunities to draw on the experience and advice of non-government experts from law, accounting firms and industry to assist in the development of legislation when either the government or tax community identifies a problem.

Pertinent Loan or Indebtedness

In 2012, in response to several submissions (including one from the Canadian Chamber of Commerce) in connection with certain newly-proposed Budget tax measures, the Department of Finance introduced an exception from the shareholder benefit rules and the foreign affiliate dumping rules for a pertinent loan or indebtedness. In general, where a loan or indebtedness qualifies and is elected to be treated as a pertinent loan or indebtedness, such rules do not apply as they otherwise would. Instead, interest income is imputed for Canadian tax purposes to the extent that the actual interest earned is less than what would have been earned under a specified percentage.

We recommend that the federal government revise the prescribed interest rate in Regulation 4301(b.1) to be equal to the applicable Government of Canada 90-day T-bill rate, unrounded, plus two percentage points.

Taxation of Corporate Groups

Many developed countries have a formal system to consolidate the tax reporting of corporate groups or to otherwise transfer corporate profits and losses among related companies. Canada does not. Instead, various tax planning strategies are used to directly or indirectly transfer tax attributes between related entities. Techniques include intercompany financing arrangements, mergers of related companies, transfers of property between related corporations and the wind-up (dissolution) of a subsidiary into its parent company. The Canadian Chamber recommends that the federal government continue to work with provincial/territorial governments to implement a formal loss transfer system with the following design attributes:

- Degree of Common Ownership: To allow more corporate groups to participate, base it on >50 per cent common ownership of votes and value and use the concept of "affiliated person" as the basis for determining a control group.
- Eligible Groups: Exclude trusts and Canadian branches of non-resident corporations. Limit it to domestic subsidiaries of corporate groups.

Recognizing and Devising Strategies to Counteract the Generous Incentives Offered by Competitor Jurisdictions

Canada's international competitors are increasingly using very aggressive techniques to lure Canadian businesses, causing job losses here at home and weakening the Canadian economy. The federal government has a responsibility to both fully understand the impact that competitor jurisdictions' business attraction efforts are having on the Canadian economy and devise strategies to counteract them. The Canadian Chamber recommends that the federal government in coordination with businesses and chambers of commerce from across Canada, undertake an expedient review of the full impact – in terms of both GDP losses and job losses – that competitor jurisdictions' business attraction efforts are having on Canada's economy.

Tax Credits for Supporting Growth in Canada's Music Industry

The Canadian Chamber of Commerce recommends that the federal government implement a music tax credit that mirrors existing film and television tax credits, which would mitigate risks in artist and repertoire (A&R) and marketing investments as well as provide a stable economic environment for industry growth and job creation.

A recent Music Canada report notes that tax credits have played a critical role in the growth of the film and television industry, most notably a 43 percent increase in the value of production from 1996 to 2000. The implementation of tax credits has allowed that industry to survive the 2008 recession and the appreciation of the Canadian dollar.

According to the report The Next Big Bang: A New Direction for Music in Canada released in 2013 by Music Canada, the commercial music industry experienced sharp declines in revenue due to online piracy combined with a "widespread erosion of respect for the value of music and the investment required to develop artists' careers." However, signs of a reversal were evident in 2012 when global recorded music revenues escalated for the first time in more than a decade. This new direction should provide a significant incentive for all levels of government in Canada to fully capitalize on emerging economic opportunities across the domestic music industry.

Enhancing access to the Registered Disability Savings Plan for disabled employees

At the end of 2013, there were just 68,833 Canadians who had applied/been approved for a Registered Disability Savings Plan (RDSP). This number is low considering it is estimated that 500,000 Canadians are potentially eligible for the RDSP. The application process is a significant impediment because of the intense, cumbersome paperwork that is required. The process could be improved if the federal government were to:

- Investigate and implement a cross-linked application process to enable those with recognized disabilities to have access to both a provincial/territorial disability support program and the Disability Tax Credit (DTC) under one application.
- Review all existing recipients of a provincial/territorial disability support program to determine eligibility of the DTC based on timing of the last tested application.
- Create a national program to provide employers a workable linkage to the RDSP program for employees with disabilities.

The Locked-in Estate Trust - A Response to Canada's Retirement Income Challenges

The Canadian Chamber of Commerce recognizes the severity of the pension reform issue in Canada and is recommending the creation a new financial instrument, the Locked-in Estate Trust (LEIT), that could provide seniors with income now from their valuable estates and at the same time allow them to utilize family wealth to ensure that their children and grandchildren are able to receive private pension income when they retire. This could be fashioned similarly to the Charitable Remainder Trust which is widely used and promoted in the United States.

A LIET would provide a creative solution to our demographic reality in which the size of the retired population will soon far outweigh the ability of the working population to adequately sustain it. It also has the potential to remove some of the anticipated strain on the government's ability to provide Old Age

Security and Guaranteed Income Supplement funding to Canadian seniors as baby boomers exit the workforce. A LIET would also provide an investment vehicle that could ensure financial independence for subsequent generations of Canadians.

Due to the complex nature of this instrument and its inherent benefit to federal fiscal policy, the Canadian Chamber recommends that the federal government convene a special committee to determine the feasibility of implementing a LEIT in the context of Canada's overall pension plan framework, and that this study and review be completed within a two-three year period.

Review Wealth Transfer Tax Provisions

The Canadian Chamber recommends that the federal government immediately undertake a comprehensive review of the tax provisions affecting estate and succession planning to determine whether the existing tax regime appropriately considers transfer of family-owned businesses.

It is expected that about half of Canada's current business owners will retire within the next 10 years and that a significant amount of wealth will be transferred by these individuals to their adult children, spouses, common-law partners or siblings. According to CIBC World Markets, an estimated $1.9 trillion in business assets are poised to change hands in the coming 5 years, a number that could increase to an estimated $3.7 trillion by 2022. In many circumstances, certain provisions in the Income Tax Act do not accommodate the transfer of wealth in an efficient manner. This is particularly true where business assets are involved in the transfer. As a result, the capital of the business is eroded through the imposition of income taxes thereby reducing profitability and impairing growth, re-investment and, in some situations, jeopardizing the well-being of the business. Given that small business is a significant economic driver, it makes sense that tax policies be engineered to facilitate ownership transfers, particularly among family members, rather than jeopardizing their financial well-being. Implications of significant tax hits could also extend to employees of family-owned businesses who could face lay-offs as a result of business closures or the staff reductions that may be needed to maintain the viability of a family business.

Copies of the complete texts of these resolutions are attached. I hope to discuss them in more detail with you or your staff. My assistant will be contacting your office to schedule a meeting.

Sincerely,

Perrin Beatty
President and Chief Executive Officer

Attachments