



Office of the President and  
Chief Executive Officer

Cabinet du président  
et chef de la direction

December 10, 2013

The Honourable James M. Flaherty, P.C., M.P.  
Minister of Finance  
Department of Finance Canada  
L'Esplanade Laurier  
140 O'Connor Street  
Ottawa ON K1A 0G5

Dear Minister:

In September, the Canadian Chamber of Commerce concluded its 84<sup>th</sup> Annual General Meeting (AGM) in Kelowna, British Columbia. A major highlight of the Chamber's AGM is the Policy Session. It is during the Policy Session that 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.

Our delegates issued a clear and decisive national policy mandate that we intend to pursue vigorously with the government over the coming months. This mandate includes a number of issues that fall within your portfolio:

**Fiscal Policy:** The Canadian Chamber urges the government to undertake a comprehensive review of Canada's tax system with the objectives of reducing its complexity and improving how Canada raises tax revenue. In many respects our tax system acts as a drag on the country's global competitiveness. Canada stands out as having a relatively high personal income tax burden which discourages work effort, saving, investment in education and skills training and entrepreneurial activities. Additionally, Canadian taxpayers spend far too much of their hard-earned money and time to comply with their tax obligations while governments spend billions of dollars each year administering and enforcing convoluted tax laws. Finally, Canada over-relies on income and profit taxes which are most harmful to the economy rather than taxes on consumption which are relatively easy to collect and least harmful for growth.

420 - 360, rue Albert St.  
Ottawa, Ontario  
K1R 7X7

 613.238.4000  
 613.238.7643

Chamber.ca  
info@chamber.ca

**Interest on Overpaid Taxes:** Our members have expressed concern regarding the gap between the taxable lower rate of interest paid on refunds and the higher non-deductible rate of interest charged on taxes owing. Additionally, they consider subsection 225.1(7) of the *Income Tax Act* – which forces large corporations to immediately pay one-half of any tax that has been reassessed, even though they may be disputing the reassessment – an unfair impediment to conducting business in Canada. This practice appears to be inconsistent with that of other major nations, including the U.S. and the U.K. Our members, therefore, call on the government to exclude any refund issued as a consequence of an amount paid pursuant to a notice of reassessment from the reduced interest rate rule and to repeal subsection 225.1(7) of the *Income Tax Act*.

**Increase the GST/HST Filing Threshold:** The participation threshold for the GST has remained at \$30,000 since introduced in 1991. The Canadian Chamber calls on the federal government to increase the threshold to \$100,000 as of January 1, 2015 and implement annual indexing. Increasing the threshold would lessen administration and compliance costs. It would also reduce the number of returns the CRA processes, the number of businesses seeking services, the number of input credit refunds, and the number of businesses subject to audit.

**The Treatment of Financial Services Under the GST:** The term “financial services” covers a broad range of activities including banking, financial securities, insurance, brokerage services and financial advisory services. These services are not treated the same under the GST. Some are taxable, others are exempt, and the degree of recovery of the GST on the inputs purchased by financial institutions used in the provision of services varies. This distorts the price of financial services relative to other goods and services and results in an uneven playing field between different types of financial services. The Canadian Chamber calls on the government to review the current GST treatment of financial services to reduce the distortions and level the playing field.

**Eliminate or Simplify Sales Tax Rebate Process to Motivate Non-Resident Tour Operators and Meeting Planners to Sell Canada:** To compete effectively in the international tourism market, our members recommend that the government return to the point-of-sale GST/HST Visitor Rebate program for Tour Operators and Meeting Planners whereby they sign an exemption form annually declaring they are non-residents of Canada, as are their clients and delegates.

**Controlling the Canada-U.S. Price Gap:** Canadian retailers are losing the ability to vie for business on the basis of cost. This is particularly true in competition

with retailers in the U.S., where Canadians do the majority of their non-Canadian shopping and where prices are often lower. The Canadian Chamber calls on the government to conduct a comprehensive review of Canadian tariffs, keeping in mind the impact on domestic manufacturing and Canada's ongoing trade negotiations, to ensure a level playing field between Canadian and American retailers and importers.

**Extending Advice Privilege to Qualified Non-Lawyer Tax Professionals:**

Solicitor-client privilege applies to communications between a lawyer and a client for the purpose of seeking or giving legal advice and which is intended to be confidential by the parties. In the case of accountants, it is generally accepted that the tax advice they provide is essentially the same as that provided by tax lawyers; however, CRA practices and the courts acceptance of them have created a disincentive for clients to be open in speaking with accountants. In the U.S., the U.K., Australia and New Zealand, communications with tax accountants are, to varying degrees, protected by an evidentiary privilege. The Canadian Chamber urges Finance Canada and the CRA to work with the legal and accounting community to come up with a reasonable legislative solution under which privilege would be extended to all qualified tax professionals.

**Fair Tax Treatment of Limited Liability Companies (LLCs) by the Canada Revenue Agency (CRA):**

Canadians investing in the U.S. may not use the flexible and tax-advantaged LLC because, unlike the U.S., the CRA continues to treat the LLC as a corporation rather than a partnership. This results in classic double taxation to Canadian investors. Our members recommend that the government allow an LLC to elect how it wishes to be treated for Canadian tax purposes – either as a partnership or a corporation – but after entity classification election is made, it cannot change its mind.

**Innovation in Canada: Preserve and Strengthen the Scientific Research and Experimental Development (SR&ED) Investment Tax Credit (ITC) Program:**

Our members believe the measures implemented to streamline and improve the SR&ED ITC program will harm Canada's capacity to innovate and our nation's overall competitiveness. Our members urge the government to reverse the SR&ED ITC to pre-2012 levels and index it with inflation; identify the SR&ED program as vital to economic growth and not alter it without significant accountability to stakeholders and industry; consult with major industry representatives at least 12 months prior to legislative changes taking place; and introduce a more coordinated approach with Finance Canada, the CRA and Industry Canada.

**Applying the Accelerated Capital Cost Allowance (ACCA) for Oil Sands, Upgrading, the Mining and Petrochemical Industries:** The oil sands have been Canada's economic engine over the past decade. Ultimately, the effective integration of oil sands, refining and petrochemical industries will improve this economic engine's output for decades to come. However, these capital intensive industries face competition from other jurisdictions and confront considerable higher operating costs due to labour and regulatory controls. The ACCA for oil sands and mining projects plays an important role in helping the industry confront these challenges and seize new economic opportunities. Fairness also dictates that standalone upgraders receive similar tax measures as those directly associated with upstream supply projects, and that value-added sectors, like the petro-chemical industry, be treated similarly to other manufacturing sectors and be eligible for ACCA.

**A No-nonsense Credit Card Processing Approach:** Many businesses accepting credit card payments are unclear about the inner workings of merchant services providers (MSPs). This results in having to pay higher fees for credit card acceptance than is necessary. Several MSPs currently try to entice businesses to switch service providers solely on the premise of lower rates; however, as most businesses are unaware of the actual Merchant Discount Rate (MDR) they are misled to believe that a lower MDR results in savings on their actual credit card transactions. On the contrary, the MSP is losing money on every transaction and, thus, has to recoup its losses through the card brand fee and/or non-qualified surcharges, which can vary substantially across different service providers. Our members call on the government, in consultation with the banking industry, to change from voluntary to mandatory the code of conduct introduced in April 2010 for the credit card and debit card industry thereby ensuring that all parties are required to abide by and comply with the existing code's guidelines for greater transparency, disclosure and flexibility.

**Employment Insurance (EI) Reform:** The desired long-term goals of EI reform are to improve fairness of the system, reduce work disincentives, promote labour force mobility, and ensure program costs do not create a drag on economic activity and job creation. To meet these goals, the Canadian Chamber recommends that the government remove the social-programs aspects of EI (including training-related benefits) from the premium structure; gradually reduce the employer EI premium rate to equal that paid by employees while maintaining the employee portion at current levels; implement a system that allows for over-contributions by employers to be refunded; and ensure equal access to benefits across Canada by standardizing eligibility requirements and benefit duration.

**Deferral of Capital Gains Taxation:** During Election 2006, a key Conservative Party election promise called for the elimination of the capital gains tax for individuals on the sale of assets when the proceeds are reinvested within six months. Our members urge the government to re-consider this proposal with a view of adopting it. A number of implementation proposals are offered in the attached resolution.

**Tax Provision Threshold Indexing:** Many tax thresholds have not kept pace with inflation. Bracket creep costs taxpayers millions of dollars each year. The Canadian Chamber calls on the government to ensure that new and existing tax provisions with thresholds and limits be introduced with annual indexation as an integral part of the provision.

**Facilitating Structural Change in Canadian Manufacturing:** The 2013 budget noted that the temporary Accelerated Capital Cost Allowance (ACCA) advances concrete support to businesses in the manufacturing and processing sectors to help them purchase new equipment and machinery to remain globally competitive. With this in mind, our members call on the government to make this measure a permanent component of our national tax system for all types of Canadian processing and manufacturing, including mining and oil and gas. Additionally, we urge the government to work with provincial/territorial governments to develop a blueprint for manufacturing competitiveness – one that seeks to create a world-class manufacturing sector and leading innovator companies, focuses on expanding access to global markets and supply chains, and ensures access to a highly skilled workforce.

**Canadian Services Strategy:** The services sector is a vital component of the Canadian economy, accounting for more than 70 per cent of GDP and employment. Increasingly, services are being sold and procured on a global basis. Given the integral role that services play in the Canadian economy and Canada's focus on expanding its presence in international markets, the government is urged to adopt a comprehensive services strategy focussed on five pillars – awareness, metrics, research, education and trade barriers. The attached resolution offers specific recommendations in these areas.

**Protecting Canada's Infrastructure (Asset Management):** Infrastructure is an enabler of economic activity and defines the modern liveable city. Businesses call for action from all levels of government to meet the challenges in financing the necessary repair, replacement and upgrade of Canada's infrastructure. Specifically, that the government ensure long term funding programs are

sustainable, flexible, predictable and designed to support, renew and replace ageing infrastructure, including transportation infrastructure, in communities across the country. Any future investments must keep pace with the growing needs created by economic and population growth. Our members also call on the government to direct funding towards community asset-needs assessment to ensure best value for capital allocation – funds for studies and assessments should not compete with funds allocated for capital investments. Finally, federal investments must help build capacities of cities and communities to plan, build and maintain their infrastructure assets over the long term and that part of this capacity building should focus on the development of asset management plans that contain accurate information on the state of existing assets.

**Canadian Air Transport Funding - Security:** Since its inception, the Canadian Air Transport Authority (CATSA) has faced many challenges that have hindered its ability to function in a cost effective manner. Because CATSA plays an integral role in the functionality of Canadian airports, it is critical that its operations are managed effectively and efficiently. Without proper management, trade and tourism opportunities will be stifled in the communities served by the aviation industry. The Canadian Chamber calls on the government to acknowledge that counter-terrorism measures are an issue of national security concern and assume responsibility for funding all of these measures through general tax revenue.

The full texts of these resolutions are attached. I hope that we will have an opportunity to discuss them with you in the near future. My Assistant will be calling your office to set up a meeting.

Sincerely,

A handwritten signature in black ink that reads "Perrin Beatty". The signature is written in a cursive style with a large initial 'P'.

Perrin Beatty  
President and Chief Executive Officer

Attachments