

January 23, 2009

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

Dear Minister:

In October, the Canadian Chamber of Commerce concluded its 79th Annual General Meeting (AGM) in Québec City. One of the highlights of 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 the country are debated and voted on by accredited delegates. Once approved, these resolutions become the policy position of the Canadian Chamber of Commerce for three years. This year our delegates issued a clear and decisive national policy mandate that we intend to pursue vigorously with the federal government over the coming months.

Beyond those issues we have already brought to your attention, our renewed national policy mandate includes a number of additional issues that fall within your portfolio. Accordingly, we would like to discuss these issues with you directly in the near future.

Fiscal Policy: Delegates attending our Annual General Meeting spoke with a strong voice on the need for the Government to provide further tax relief to individuals and businesses. We call on the federal government to raise the Working Income Tax Benefit (WITB) to \$750 for individuals and \$1,500 for families; further reduce personal income tax rates across all income tax brackets, but particularly for low- and modest-income families; raise the threshold at which the top marginal personal income tax rate kicks in to \$200,000; continue to review and make improvements to Capital Cost Allowance rates; continue to encourage provinces to speed up the phase out of provincial capital taxes; and diligently work with the provinces that levy retail sales taxes to harmonize with the GST. Canada's success going forward will hinge on smart tax policies that increase the incentive to work, save and invest, and encourage entrepreneurs to fund capital investments and take risk.

Canada's Path to Strong Economic Growth and International Competitiveness:

Among 80 countries surveyed, Canada ranked as having the 11th highest average marginal effective tax rate (METR) on capital as of 2007. The METR applicable to the services sector was the 6th highest. Unlike many industrialized countries, Canada imposes a much higher METR on this sector than that imposed on the manufacturing sector. This is hampering Canada's competitiveness. The Canadian Chamber strongly urges the federal government to work with the provinces/territories to reduce METRs on capital in the service industry so they are better aligned with those in the manufacturing sector.

Small Business Deduction: Canadian Controlled Private Corporations (CCPCs) are provided with tax incentives to encourage their success and growth, which the Canadian Chamber fully supports. The 2004 federal budget effectively eliminated the Large Corporations Tax (LCT) and increased the base level deduction to \$50 million from \$10 million. While this was a welcome change, for the purposes of calculating the Small Business Deduction (SBD) limit, the base for calculating LCT and the \$10 million base deduction were still left in place. By reducing the eligibility to claim the SBD for companies with a larger capital base, certain sectors are penalized. The Canadian Chamber strongly urges the Government to eliminate the reduction to the SBD for the LCT capital base.

The Role of Taxation in Enhancing Canada's Productivity Through Encouraging Skills and Training for Small Business:

A number of recommendations were put forward at our Annual General Meeting to utilize the tax system to encourage training and skills development. These recommendations include: providing a tax credit to firms that provide training as part of the federally accredited training program; increasing the Federal Apprenticeship Job Creation Tax Credit to match the highest provincial apprenticeship tax credit; providing an immigrant Workforce Investment Tax Credit to employers who hire and provide job specific language training to an immigrant for their first job in Canada in their field; and developing a mechanism that provides an increased level of tax credit for small and medium sized businesses.

Implementation of Tax Law Changes and Retroactive Legislation: The announcement of tax rule changes with no legislation makes it difficult for individuals and businesses to plan their affairs when they have no assurance as to what form the law will take, whether it will be implemented, and how it will apply. The Government must refrain from making announcements with respect to changes in tax law if it does not intend to introduce legislation with six months. If the legislation is not issued until later, then changes should be made effective at a later date, and not the date on which the original announcement was made. The Government must also specify its rationale for adopting retroactive amendments to tax legislation by defining what constitutes "clarifying amendments" and "exceptional circumstances".

Investing in Canada's Transportation Infrastructure: Canada's national transportation infrastructure contributes greatly to Canada's productivity. It also plays an important role in reducing costs to business. We strongly urge the federal government to specifically allocate funding for its proper maintenance and upgrading.

GST Applied to Local Government Infrastructure: Much of Canada's infrastructure - transit, roads, highways, bridges, and water and sewage - are nearing

the end of their natural lifespan. The cost of addressing the infrastructure deficit is beyond the ability of local governments. Delegates at our Annual General Meeting recommended that the federal government return 100 percent of all fuel tax collected to the province/territory in which it is collected, and that the federal government work with local and provincial/territorial governments to develop a comprehensive national catalogue of the infrastructure shortfalls facing communities across Canada.

Encourage Mature Workers' Participation in the Labour market by Amending the Canada Pension Plan (CPP): A number of recommendations were proposed by delegates at our Annual General Meeting with respect to the CPP. These included increasing the earning exemption for GIS benefits, and reducing the percentage claw-back from 50 cents on the dollar; maintaining the full Age Credit amount for net income below \$66,692; and increasing the annual individual net income thresholds that can be earned before repayment of Old Age Security pension amounts.

Reducing Airport Rents: Airport rent paid to the federal government not only stifles airport expansion and dampens economic growth, but also represents a significant cost passed to consumers. Airport rents inhibit Canada from becoming a true gateway into North America. Furthermore, they place airports and air carriers at a competitive disadvantage to other modes of transportation and international carriers. We urge the federal government to move to eliminate airport rents. In the interim, it should take steps to amend the rent formula for all airports by eliminating debt financing costs, and the Airport Improvement Fees used to offset the capital requirements, from the definition of revenue for the purposes of calculating the rent due.

Growing the Availability of Alternative Fuels in Canada: The Canadian Chamber encourages the federal government to take meaningful steps to join other leading jurisdictions in promoting the use of green alternative fuels. It should provide exemptions from provincial fuel road taxes and federal fuel excise taxes for alternative lower-emission fuels; and provide incentives through tax credits for the installation of alternative fuel infrastructure such as natural gas, hydrogen, propane, E85 ethanol, bio-diesel and/or biobutanol pumps at filling stations.

Federal Alignment of Liens Policies with Provincial Counterparts: Finance Canada plays an important role in developing criteria for the removal of outstanding tax liens on properties. Federal liens that remain on derelict properties serve as a significant deterrent for individuals who wish to purchase the land for the purpose of redevelopment. We call on the federal government to allow for the removal of federal liens against a property by establishing and maintaining lien policies that are in alignment with those of provincial/territorial governments. The Canadian Chamber also encourages the Government to work with provincial/territorial governments to establish and maintain a nationally consistent, coordinated approach to removing Crown liens and tax arrears on qualified properties.

Foreign Trade Zone: Foreign trade zones (FTZs) offer a flexible, streamlined, and profitable approach to the movement of goods and services that will encourage Canadian businesses to take advantage of manufacturing, storage, distribution, value-added, domestic and re-export trade opportunities. An effective and efficient FTZ program will ultimately increase Canada's competitiveness in the global supply chain. We recommend that the federal government take appropriate measures to implement a well published and easily accessed FTZ program that embraces the

application and enforcement concepts in Canada's Export Distribution Centre (EDC) program.

The full text of these resolutions is attached and we hope that we will have an opportunity to discuss these 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, reading "Perrin Beatty". The signature is written in a cursive style with a large initial "P" and a long, sweeping underline.

Perrin Beatty
President and CEO

Attachments

CC: Rob Wright, Deputy Minister, Department of Finance Canada
Ted Menzies, Parliamentary Secretary to the Minister of Finance, Department
of Finance Canada