

November 13, 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 80<sup>th</sup> Annual General Meeting (AGM) in Victoria. 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. In 2009, 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 the 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 with you directly in the near future.

**Fiscal Policy:** Delegates at the 2009 AGM unanimously agreed that the overriding goal for the federal government should be to restore Canada's economic health and enhance our country's long-term competitiveness. With this in mind, the Canadian Chamber calls on the Government to avoid structural deficits, dedicate future surpluses to reducing the debt, ensure the federal debt-to-GDP ratio falls below 35 percent by 2015, limit growth in program spending to no more than nominal growth in GDP, further reduce high marginal personal income tax rates, and continue to review and make improvements to Capital Cost Allowance rates.

**A More Efficient Tax System:** The Canadian Chamber calls on the federal government to ensure Canada's tax system is as neutral, simple, efficient and fair as possible. The Government must avoid ad hoc changes to tax legislation (i.e. special provisions and targeted tax benefits) that undermine the internal consistency of our tax system, and introduce

unnecessary complexity. It should also lessen Canada's heavy reliance on income and profit taxes, rely more on consumption-based taxes, and continue to reduce administration and compliance costs for all taxpayers.

**Reducing the Complexity of Canada's Tax Regime to Improve Competitiveness:** The Canadian Chamber urges the Government to identify opportunities to reduce Canada's overall tax burden; simplify the tax regime as it pertains to payroll deductions; and foster greater cooperation with provincial/territorial governments to harmonize and consolidate various aspects of Canada's tax regime.

**Taking Advantage of External Expertise in the Development of Policy and Legislation:** There has been a significant reduction in opportunities available to non-government taxation experts to influence policy, and assist in the development of legislation. Utilizing private sector taxation experts can provide policy makers and legislators a greater understanding of how proposed legislation will impact businesses and the broader economy. The Canadian Chamber urges Finance Canada to make greater use of experts from law, accounting, and industry through exchanges, advisory committees, or selective reviews.

**Tax Fairness Legislation and the Taxpayer's Ombudsman's Office:** Requests for a waiver of interest or penalty (fairness request) are required to be decided on a case-by-case basis so unique facts or circumstances are taken into account. The Minister of National Revenue conducts these reviews by acting through his delegates or staff at the CRA. If the taxpayer's fairness application is denied or only partially granted, a second level of impartial review may be requested. The Canadian Chamber proposes that second level reviews under the Fairness Legislation be conducted by the newly established Taxpayers' Ombudsman's office to bring fresh eyes to the case, and ensure an objective ruling.

**Taxation of Group of Companies:** The Canadian Chamber calls on the federal government to develop a formal system for transferring losses between members of the same corporate group with a defined common ownership. This would reduce administrative and compliance costs, increase cash flow within the corporate group, simplify Canada's corporate tax system, and make Canada's businesses more competitive. Federal/provincial/territorial cooperation is needed.

**Encouraging the Provinces to Replace their Retail Sales Tax with a Value-added Tax:** The Canadian Chamber welcomes the federal government's decision to provide transitional financial assistance to Ontario and British Columbia to support the move to a harmonized provincial sales tax. The Canadian Chamber urges the Government to redouble its efforts to persuade the remaining provinces that levy retail sales taxes to switch to a value-added tax.

**Increase the GST/PST 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 \$75,000 as of January 1, 2010 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.

**Elimination of Regulation 105 Withholding Tax (Payment for Services Rendered in Canada by a Non-resident):** It is becoming increasingly common for organizations to staff projects based on a global skill set. Withholding, tracking, reporting and remitting requirements, as set out in Regulation 105, are severe deterrents to Canadian organizations seeking to effectively procure global talent needed to effectively run their business. Additionally, the requirement drives an unintended result in that many nonresident suppliers merely increase their prices to account for the withholding taxes levied under this regulation. The Canadian Chamber strongly urges the Government to eliminate Regulation 105.

**Improving Access to Scientific Research and Experimental Development (SR&ED) Incentives in Canada:** In the current economic environment, many companies keen to conduct R&D do not have access to SR&ED investment tax credits (ITCs) because they are in a loss position. The Canadian Chamber recommends that the federal government expand refundability of SR&ED ITCs to all R&D performers. Moreover, for profitable Canadian subsidiaries of multinationals, SR&ED ITCs provide no direct incentive to maintain or expand R&D in Canada. ITCs reduce corporate income taxes payable in Canada making foreign multinationals less eligible to receive tax credits in their home country, increasing their income tax liability there. The SR&ED tax incentive program can be made more attractive to foreign investors by allowing corporations in Canada to offset the ITC against a pre-tax levy.

**Supporting the Ability of Canadian Companies to Invest in Foreign Subsidiaries:** Many Canadian parent companies strive to expand their operations globally. In doing so, they make significant investments in subsidiaries located outside of Canada. To protect these investments and limit risks, the parent company hedges the investment to limit foreign exchange loss that can otherwise accrue. The Canadian Chamber calls on the Government to allow foreign exchange gains and losses on hedges related to investments in subsidiaries located outside of Canada to be deferred while the asset continues to be held by the Canadian investor and the parent company continues to hedge the investment.

**Increasing Rental Inventory Through Fair Tax Treatment:** Employers are increasingly finding the issue of rental availability a hurdle to recruitment and retention. In some areas, low vacancy rates may affect the ability of business to grow. To expand the stock of rental housing, the Canadian Chamber urges the federal government to enact deferral of capital gains tax on the sale of real property, including rental property, when the proceeds of sales are reinvested within a twelve-month period into other real property investments, and defer the recapturing of the value of depreciated capital cost allowances on real rental property.

**Boosting the Economy by Supporting the Real Estate Development**

**Industry:** With the introduction of the GST, the federal government committed to reviewing regularly (i.e. at least every two years), and adjusting as necessary the threshold on New Housing Rebates. The failure to index GST rebate thresholds has eroded housing affordability across Canada, with homebuyers in larger high-cost centres particularly disadvantaged. The Canadian Chamber calls on the federal government to index the thresholds for the GST New Housing Rebate to the New House Price Index.

**Accelerating SME e-Business Adoption: Focus on Productivity &**

**Profitability:** Many of Canada's businesses realize the significant benefits of e-business adoption, but some may be missing opportunities for business growth and increased profitability. Focusing on successful e-business adoption among SMEs can boost Canada's innovation capacity, productivity and international competitiveness. While significant progress have been made to reduce Canada's marginal effective tax rate on capital, more can be done to create a conducive operating environment for SMEs to take advantage of e-business opportunities and create new e-business ventures.

**Federal Public-Sector Pension Benefits:** The unprecedented decline in global equity markets and long-term interest rates has significantly reduced the funded status of DB pension plans. The Canadian Chamber calls on the federal government to establish an expert committee to make recommendations on federal public employee pension plans to ensure a sustainable funding model, reduce the liabilities for the taxpayer without compromising the attraction and retention of high caliber public sector employees, and examine solvency and governance tests used to evaluate registered public sector pension plans.

The full text of these resolutions is attached. 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,

Perrin Beatty  
President and Chief Executive Officer

Attachments

c.c. Michael Horgan, Deputy Minister, Finance