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Canadian Tax Alert

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Release of pre-budget consultation report

On December 14, 2012, the House of Commons Standing Committee on Finance (the Committee) released its pre-budget consultation report entitled *Jobs, Growth, Productivity and Demographic Change: Challenges and Opportunities for Canada*. The report outlines the Committee's recommendations after considering responses from the public (including **Deloitte**) to five specific questions.

Having regard to the global economic environment and its potential impact on Canada's economic stability, the report recommends restricting new spending and calls for the federal government to continue its commitment to return to balanced budgets. Further, the report endorses the maintenance of a competitive tax regime by retaining the recently lowered corporate tax rates and providing for competitive personal tax rates. Other recommendations include measures to:

- Support employment and reemployment
- Promote skilled trades and help skilled workers move between provinces and territories more easily
- Modernize Canada's immigration system to a "fast and flexible" system better focused on labour market needs
- Work with provinces and territories to implement pooled retirement pension plans
- Examine ways to improve Canada's international tax competitiveness, including through the recommendations of the Advisory Panel on Canada's System of International Taxation
- Encourage international trade through treaties and trade agreements
- Continue to follow through with recommendations of the Red Tape Reduction Commission
- Ensure Canada's competitiveness by continued support of research and development; direct savings generated by the streamlining and scaling back of the scientific research and experimental development program to more direct support for innovative private-sector businesses
- Enhance access to venture capital financing
- Promote the development and use of clean energy
- Extend the temporary 15% mineral exploration tax credit for flow-through share investors for another year

- Eliminate inefficient fossil fuel subsidies in accordance with Canada's recent G-20 commitment
- Explore opportunities to support the oil & gas sector
- Examine tax provisions in relation to estate and succession planning and their impact on the transfer of family-owned businesses
- Better equip the Canada Revenue Agency (CRA) to combat tax evasion while working with law enforcement agencies to prosecute tax evaders
- Conduct a review of the tax system to ensure its fairness as well as neutrality by closing tax loopholes that allow certain taxpayers to avoid paying their fair share of tax
- Consider ways to simplify the Income Tax Act to reduce the complexity and inefficiency of its administration

Deloitte's tax policy vision for Canada

Deloitte supports the Committee's focus on budgetary balance and low taxes coupled with recommendations to strengthen Canadian businesses, job opportunities and, importantly, productivity and international competitiveness. We believe that in the upcoming budget, the government should take steps to address Canada's lagging productivity as discussed in our report, ***The future of productivity: An eight-step game plan for Canada***. In our **pre-budget letter** to Minister Flaherty, we provided the following recommendations for the 2013 federal budget:

1. Foster business innovation through improvements to the SR&ED program.

The scientific research and experimental development (SR&ED) program should be improved by extending refundability of the investment tax credit to all businesses. Expanding the refundable credit to all corporations would appropriately reward the risks inherent in carrying out R&D in Canada, and would help attract foreign companies seeking global investment opportunities.

2. Spur a "start-up economy" with improved financing support

We believe that an angel tax credit should be introduced to improve support for the early stages of innovation when risks are higher. This will help to build an environment that fosters innovation and entrepreneurship, leading to job creation and economic growth.

3. Attract and retain the world's most talented people

To ensure competitive personal income tax rates as recommended by the Committee, we believe that the personal taxes should be lowered to retain productive individuals in Canada and to attract immigrants with the requisite skills to support Canada's long term economic prosperity. In particular, there should be an increase to the threshold at which the top rate of tax applies.

4. Enhance certainty through tax administration

Certainty in tax law and administration is important to attracting and retaining corporate investment and global talent. Accordingly, we recommend the timely introduction and advancement of tax proposals with explanatory notes, the timely enactment of legislative amendments contained in comfort letters and a reduction in administrative red tape and filing complexities. We commend the government for recently releasing long-awaited technical amendments and for issuing more expansive technical notes accompanying draft legislation. As well, recent red tape reduction initiatives undertaken by the CRA are welcome.

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