House of Commons
Chambre des communes
Canada

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

(•) **an organization** **Organization name:** Deloitte LLP

or

( ) **an individual** **Name:** _____

Topic: Innovation and commercialization

*Recommendation 1: Please provide a short summary of your recommendation.

We strongly endorse a focus on innovation and commercialization in order for Canada to achieve sustained economic growth. Enhancement to productivity is essential to ensuring Canada's prosperity. To this end, making the SR&ED investment tax credit (ITC) refundable for all corporations carrying on business in Canada will encourage innovation. As well, introducing an angel tax credit will enhance financial support for early stages of innovation when risks are higher. Further, introducing a patent box model to encourage companies to retain and commercialize patents in Canada should be considered.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

unknown

5 or more years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

For full refundability of the ITC, the cost to the Government would mainly be a timing difference – paying for the ITCs today instead of some point in the future. As discussed more below, refundability will have a positive impact on R&D expenditures, total spending in Canada and GDP.

Based on the success of British Columbia's angel tax credit (ATC), introducing a federal ATC should not result in any long term cost to the Government.

A study of a patent box regime should include an analysis of the potential cost to the Government.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

By addressing Canada's lagging productivity, corporations would be able to be more globally competitive and the standard of living for all Canadians would be improved. The recommendations above will be of particular benefit to the knowledge-based industry; a sector that will contribute significantly to Canada's productivity and economic growth. This sector is currently experiencing many challenges in achieving success in Canada - low rate of innovation in comparison to other countries, increased competition and shortage of talent.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

With the aging population in Canada, an increasingly smaller subset of the population will be responsible for improvements in living standards. Thus, continued economic growth and improvements in living standards will only be sustained through ongoing, persistent improvements in the productivity of our workforce. The recommendations above enable the Government to support improvement in productivity and thus, living standards.

Topic: Personal taxation

Recommendation 2: Please provide a short summary of your recommendation.

To address Canada's aging population and skills shortage, a key focus must be attracting and retaining the individuals most likely to drive economic innovation and improve Canada's productivity. Accordingly, the Government should focus on enhancing the competitiveness of the personal tax regime by increasing the threshold at which the top rate of tax begins. In addition, the Government should consider other non-tax measures to encourage immigration to Canada of educated, productive and innovative individuals by increasing overall immigration targets and sharpening existing immigration programs

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

unknown

5 or more years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The suggested enhancements can be scheduled gradually over a period of 5 to 10 years starting when the budget is balanced, but a signal of this intention now would be attractive to Canadian residents and potential immigrants. To the extent that the adjustment to the top threshold resulted in an overall reduction in personal income tax collected, the shortfall could be recouped with consumption taxes, which are low by global standards.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Enhancing the competitiveness of the personal tax regime will help corporations attract and retain the skilled individuals needed to improve productivity and drive economic growth.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Canada will be able to better compete in attracting and retaining talent relative to other relative to other countries where the top tax rate is applied at a higher threshold.

Topic: Business taxation and regulatory issues

Recommendation 3: Please provide a short summary of your recommendation.

We recognize that Canada has taken necessary steps to address tax evasion and will be party to certain G20 initiatives, in light of the recent global focus on tax transparency and base erosion and profit shifting. However, we are concerned about the broad scope of the Stop International Tax Evasion program introduced in budget 2013, as the CRA website currently indicates that the program will cover both evasion and avoidance. We recommend that the program be limited to tax evasion.

We encourage the Government to balance the need to prevent BEPS with maintaining Canada's competitiveness.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

unknown

5 or more years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

The refinement of the Stop International Tax Evasion (SITE) program to focus on the illegal activity of tax evasion will benefit both taxpayers and the CRA.

The maintenance of the competiveness of Canada's tax regime will benefit the Canadian economy and Canadian multinational enterprises.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

The concepts of tax evasion and tax avoidance are often inappropriately commingled. The two concepts are very different - tax evasion is a crime while tax avoidance, in and of itself, is not. Since tax laws are often complex and proper interpretation is often unclear, the scope of tax avoidance is often resolved by the courts. It is ultimately up to the courts to distinguish between abusive tax avoidance and acceptable tax planning. We believe that including tax avoidance with illegal tax evasion is inappropriate and misleading not only within the SITE program but in general as well.

Please use this page if you wish to provide more explanation about your recommendation(s).

Recommendation 1 - Innovation and Commercialization:

We invite you to review our report series The future of productivity for our insights into the importance of productivity to Canada's economic growth.

According to our estimates in the article "Innovation and the SR&ED program" in the Canadian Tax Foundation 2010 Annual Conference report, introducing full refundability of the ITC for all companies is estimated to generate at least $520 million in additional R&D spending just from companies that currently claim SR&ED incentives but do not include SR&ED in making their R&D investment decisions. Total spending across the Canadian economy is estimated to increase by $1.1 billion. These increases will result in a positive GDP impact of almost $650 million and an increase in total employment of almost 9,400 full-time jobs.
Since 2003, British Columbia has successfully provided a provincial ATC as part of its Equity Capital Program. A study by the provincial government suggests that the ATC has increased the total amount of early stage investment in the province by 50-70%. Based on an evaluation of that program in 2010, the provincial ATC is estimated to generate $2.91 in federal and provincial consumption and income taxes for every dollar of credit claimed. British Columbia's successful experience suggests that the introduction of a federal ATC would not result in any long term cost to the federal Government as the credit would generate more tax revenue than the actual cost. However, to address potential concern over spending under the program, the government could follow the B.C. program and introduce a cap.

Recommendation 3 - Business taxation and regulatory issues:

We encourage the Government to consider Canada's economic stability and growth in considering measures to address BEPS, and to ensure that Canada remains competitive vis a vis its important trading partners. Unilateral actions which could adversely impact competitiveness should not be undertaken unless Canada's trading partners are in fact implementing corresponding changes at the same time. For example, we recognize that the introduction of a patent box may not be congruent with the Organisation for Economic Cooperation and Development's (OECD) BEPS initiative. However, with certain of Canada's trading partners (e.g., the United Kingdom) proceeding with the implementation of such a regime, Canada may be at a competitive disadvantage without one.

*Please note that at least one recommendation must be provided