Business Council of Canada

Remarks to the Senate Standing Committee on Banking, Trade and Commerce

Study on new and emerging issues for Canadian importers and exporters in North American and global markets, Brian Kingston, February 15, 2018

Mr. Chair, committee members, thank you for the invitation to take part in your study on new and emerging issues faced by Canadian importers and exporters in relation to their international competitiveness.

The Business Council of Canada represents the chief executives and entrepreneurs of 150 leading Canadian companies, in all sectors and regions of the country. Our member companies employ 1.7 million Canadians, account for more than half the value of the Toronto Stock Exchange, contribute the largest share of federal corporate taxes, and are responsible for most of Canada's exports, corporate philanthropy, and private-sector investments in research and development.

In the Council's pre-budget submission, we urged the government to implement a comprehensive strategy to strengthen Canadian competitiveness to generate long-term economic growth and ensure a better life for all citizens.

Not long after we submitted this letter to the finance minister, Canadian competitiveness was delivered a major blow in the form of the United States' sweeping tax reform package. Among other things, the U.S. tax package slashed the federal corporate income tax rate from 35 per cent to 21 per cent, allowed for full expensing of investments in machinery and equipment and introduced new international tax rules.

Meanwhile, Canada's combined statutory corporate tax rate has been creeping higher due to increases at the provincial level. As a result, Canadian companies now pay rates higher than those borne by their competitors in most OECD countries.

Even more concerning than Canada's comparatively high statutory tax rates is the marginal effective tax rate (METR) on new business investment. For more than a decade, Canada's METR has been well below that of the United States, a factor that has encouraged companies to invest and create jobs in Canada rather than across the border. With the adoption of the tax reform bill, however, the United States' METR has plummeted from 34.6 per cent to just 18.8 per cent, undercutting Canada's METR of 20.3 per cent.

Honourable Senators, the significance of US tax reform and implications for Canadian importers and exporters cannot be understated. Canada must move quickly to shore up its competitiveness.

The combination of US tax reform and elevated uncertainty around US trade policy is already having a serious effect on foreign direct investment in Canada. According to the Bank of Canada, greenfield foreign direct investment into Canada has declined since mid-2016 – especially from Europe but also from the United States – a possible sign of the effects of the uncertainty around trade policy. Trade-policy uncertainty is expected to reduce the level of investment by about 2 per cent by the end of 2019.

The Bank projects that U.S. tax reform will reinforce these uncertainty effects and dampen investment growth further. Firms may decide to redirect some of their planned investment spending from Canada to the U.S. to benefit from the lower corporate taxes, subtracting a further 0.5 per cent from the level of investment by the end of 2019.

Yesterday in a letter to Minister Morneau, John Manley, President and CEO of the Business Council, urged the government to take decisive action now to bolster private-sector confidence in the Canadian economy, discourage capital flight and increase incentives for new business investment.

The most direct way to accomplish this would be to include in Budget 2018 a temporary tax measure allowing companies to immediately deduct the full amount of capital expenditures rather than amortizing those expenses over several years. Other options to consider include:

1. Announcing an immediate cut to the corporate tax rate coupled with a commitment to ensuring that Canada's average combined statutory rate falls below the OECD average over the medium term;

2. Eliminating the so-called "available-for-use" requirement so as to allow companies to deduct the cost of investments as the money is spent rather than being forced to wait until projects are complete;

3. Delaying the implementation of new rules on passive investments held by private corporations, to allow for a detailed economic analysis of the impact on business investment and growth.

With that I conclude my remarks.

Thank you for the opportunity to address your Committee.