Business Council of Canada

Remarks to the House of Commons Standing Committee on Finance

October 5, 2018

Mr. Chair, committee members, thank you for the invitation to take part in your pre-budget consultations.

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.

First, let me begin by congratulating the Prime Minister, his Cabinet, Chief Negotiator Steve Verheul and the team at Global Affairs Canada on achieving a successful outcome in the North American trade negotiation.

The agreement provides much-needed certainty and clarity for investors in all three countries, enabling companies to move forward with job-creating projects and expansion plans. We hope and expect that the Government of Canada and the US Administration will continue talks aimed at lifting the illegitimate tariffs on Canadian steel and aluminum exports, to the serious detriment of producers, manufacturers and consumers.

In the Council's pre-budget submission we asked the government to introduce a comprehensive strategy to improve competitiveness, diversify trade and attract private sector investment. Only one in seven CEOs surveyed by the Business Council express confidence in the competitiveness of Canada's business climate. According to the survey, the tax and regulatory burden combined with concerns about the availability of talent are the most important factors affecting company investment plans in Canada.

Among other recommendations, we have called on the government to undertake a comprehensive review of Canada's tax system with the goal of strengthening the incentives for investment and growth. The need for a comprehensive review has only been intensified by the implementation of the US *Tax Cuts and Jobs Act*.

Canada's tax competitiveness has slipped over the past decade as other countries have moved to reform their tax systems. Canada's average combined federal/provincial corporate tax rate sits over three percentage points higher than the average of the 36 member countries of the Organisation for Economic Cooperation and Development (OECD): 26.8 per cent compared to 23.7 per cent.

Effective January 1, 2018, the United States reduced its federal corporate income tax rate from 35 per cent to 21 per cent and allowed for full expensing of investments in machinery and equipment. The reform package also introduced new international tax rules that encourage multinationals to shift capital to the United States.

These changes have given the United States a significant tax advantage over many advanced economies but in particular Canada, given our country's proximity and high level of dependence on the U.S. market. According to a study we commissioned by PwC Canada on the implications of US tax reform, failing to respond to these changes threatens 635,000 Canadian jobs and $85 billion in GDP.

The PwC study finds that tax reform has made the United States "a substantially more attractive place to locate capital-intensive businesses". The capital-intensive sectors most at risk in Canada from U.S. tax reform are chemicals, machinery manufacturing, plastic and rubber manufacturing, transportation manufacturing and mining and food manufacturing.

All else being equal, these sectors as a whole would likely face a significant shift in investments from Canada to the U.S. over the next 10 years. Ontario, Alberta and Quebec would be most hurt because of their relatively high concentrations of capital-intensive businesses.

To counteract the negative effects of U.S. tax reform, PwC identifies a number of policy options, including:

- gradually reducing the combined federal/provincial statutory corporate tax rate to 20 per cent from the current average of close to 27 per cent;

- introducing a temporary 100 per cent depreciation allowance for business spending on equipment, structures and "acquired intangibles" such as patents, trademarks and copyrights;

- increasing Canada's federal personal income tax brackets to more closely align with U.S. personal tax brackets;

- enhancing Canada's system of tax credits for business spending on research and development;

- introducing a special tax incentive (known as a “patent box”) for innovative companies that locate their research and development operations in Canada.

I look forward to any questions you may have. Thank you for the opportunity to address your Committee.