Written Submission for the Pre-Budget Consultation in Advance of the 2019 Budget

Submitted by the Alberta Chambers of Commerce

The Alberta Chambers of Commerce Recommends the Government of Canada improves investment attraction and business competitiveness to enable economic growth by:

1. Establishing a Royal Commission to undertake a comprehensive review of the full range of taxing statutes guided by the principles of simplification, transparency, modernization, fairness, and reduction of compliance costs to position Canada as a more competitive tax jurisdiction than the United States for individuals and business;
2. Implementing an ongoing transparent cross-ministry cumulative cost assessment of all policy initiatives with an established and consistent business consultation process to ensure policy initiatives do not result in declining competitiveness through increased costs to investing and doing business in Canada;
3. Implementing the Standing Senate Committee on Banking, Trade and Commerce's recommendation to fund research into the University of Calgary's proposed Northern Infrastructure Corridor as a priority project through the National Trade Corridors Fund, pursuant to the strategic establishment of an integrated national Transportation Utility Corridor network which enables the efficient internal movement of goods and services and ensures the long-term viability and growth of Canada's export industries;
4. Building capacity among Canadian provinces, territories, and municipalities, in the assessment and use of Public-Private Partnerships (P3's) and alternative infrastructure funding models, and accelerate the deployment of capital dollars through the Canada Infrastructure Bank to support sustainable budgeting and the efficient coordination of capital investment by other levels of government; and,
5. Balancing the federal budget by limiting operational expenditure growth and maintaining a debt-to-GDP ratio below 30%, by making the financial contributions needed to reduce current levels of debt and sustain this ratio, and by negotiating government labour agreements due for renewal with a target of no operational cost increase.

Introduction

Canadian businesses are resilient and overcome many obstacles to grow, create jobs, and enhance the prosperity of communities in which they operate. This capability to support Canadians' prosperity is being challenged by pressures emerging within our country and from without. The Government of Canada is well positioned to support the economic growth required to sustain Canadian's prosperity by taking concrete and timely actions to alleviate the increasing regulatory and tax burdens which are currently discouraging investment and limiting business growth and competitiveness.

Recommendation #1 - *Establish a Royal Commission to undertake a comprehensive review of the full range of taxing statutes guided by the principles of simplification, transparency, modernization, fairness, and reduction of compliance costs to position Canada as a more competitive tax jurisdiction than the United States for individuals and business.*

The most significant changes to the United States tax code were implemented at the beginning of 2018. These changes decreased the US federal-state corporate income tax rate from 39.1% to 26%, slightly lower than the Canadian federal-provincial rate of about 26.7%.[1] Businesses competing with this new tax regime must simultaneously overcome the complexity and burden of the Canadian tax system.

Reducing our heavy reliance on economically damaging income and profit taxes, broadening the tax base, creating a more neutral business tax system and reducing compliance costs for taxpayers will enhance Canada's international competitiveness in light of the recent changes in the U.S. tax code. In 2017, the Federal Government proposed tax changes which would have undermined business' ability to plan and grow their businesses. The changes were singular and targeted, failing to look at the entirety of Canada's tax code based on clear, long-standing principles of good tax policy including:

- *Tax Neutrality*: Economic activities should bear similar tax treatment optimizing the use of resources in the economy.
- *Tax Equity or Fairness*: A tax system should distribute its burdens fairly based on two dimensions. First, people in similar economic circumstances should receive the same tax treatment. Second, the more an individual earns, the more income tax the individual should pay.
- *Efficiency*: The tax system should minimize adverse effects on taxpayer behaviour that undermine the efficiency of the economy.
- *Simplicity*: The system should be simple, transparent and easy to understand and comply with.

Canada has much to gain in optimizing the tax system with transparency and simplification to promote employment, productivity, and investments, ultimately leading to higher living standards for citizens. A Royal Commission, free of political interference, should be undertaken to conduct a comprehensive review of taxing statutes guided by these principles and restore Canada's competitiveness.

Recommendation #2 - *Implement an ongoing transparent cross-ministry cumulative cost assessment of all policy initiatives with an established and consistent business consultation process to ensure policy initiatives do not result in declining competitiveness through increased costs to investing and doing business in Canada.*

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[1] O'Riordan, Fred, Mintz, Jack. (2018). *How US tax reform will affect Canada's competitiveness*. EY Tax Services. Retrieved July 18, 2018 from https://www.ey.com/ca/en/services/tax/how-us-tax-reform-will-affect-canada-competitiveness

Layering costs, at all levels of government, are hampering the competitiveness of Canadian business. Analysis by the Edmonton Chamber of Commerce illustrates the large costs facing businesses from all levels of government. They estimate Edmonton's manufacturing and corporate services sector businesses saw their costs increase by $336,000 between 2014 and 2018 due to policies implemented at the federal and provincial level. [2]

Cost increases that reduce business competitiveness have come from several measures in the last year. The expansion of the Canada Pension Plan will increase businesses' contributions beginning in 2019, while recent changes to Canada's employment insurance system could also result in greater premium costs.

73% of businesses surveyed by the Calgary Chamber indicated their costs will increase due to the implementation of federally mandated carbon pricing, only 21% of those businesses plan on passing the carbon costs to their customers[3]. With the recent economic downturn, many small and medium-sized businesses do not believe their customers can or are willing to pay higher prices. Therefore, they are reluctant, or unable, to pass the cost increases on to their customers. Many business owners – along with their workers and investors – have had no choice but to "eat" a large portion of the costs. In many circumstances, the higher costs paid by the business means there are less available funds to reinvest in wages, jobs, or business growth.

A price on carbon may be the most cost-effective way to reduce GHG emissions. However, carbon pricing has been implemented during tough economic times, creates market distortions, and is being layered on top of other regulations and interventions including new methane standards and a mandated coal phase-out.

Recommendation #3 – *Implement the Standing Senate Committee on Banking, Trade and Commerce's recommendation to fund research into the University of Calgary's proposed Northern Infrastructure Corridor as a priority project through the National Trade Corridors Fund, pursuant to the strategic establishment of an integrated national Transportation Utility Corridor network which enables the efficient internal movement of goods and services and ensures the long-term viability and growth of Canada's export industries.*

Canada's oil industry currently realizes lower prices because of existing infrastructure limits exports to destinations outside of the United States, which receives 99% of Canada's oil exports[4]. If infrastructure provided a wider set of options for Canadian exports, businesses would receive the best price for their goods and have more opportunities to grow their production. Canada must overcome obstacles such as regulatory red tape and obstruction by local political interests in order to see this outcome achieved.

In June 2017, The Standing Senate Committee on Banking, Trade and Commerce published a report "National Corridor: Enhancing and Facilitating Commerce and Internal Trade". It highlights the significant challenges Canada faces in optimizing trade opportunities and long-term economic development: limited

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[2] Edmonton Chamber of Commerce Calculations in "Considering the Cumulative Effect of Cost Increases from all Levels of Government," Alberta Chambers of Commerce Policy Book 2015-17 Policy Book, https://chambermaster.blob.core.windows.net/userfiles/UserFiles/chambers/2087/CMS/2017_Policies/2015-17-Policy-Book.pdf. Data retrieved from KPMG, "Competitive Alternatives," https://www.competitivealternatives.com/default.aspx.

[3] Calgary Chamber of Commerce. (December 14, 2017). The Layered Costs of Government Policies. Retrieved January 12,2018 from https://www.calgarychamber.com/sites/default/files/user/files/Layered%20cost%20assessment%20doc_0.pdf

[4] Natural Resources Canada. (January 26, 2018). *Crude Oil Facts*. Energy Facts – Natural Resources Canada Website. Retrieved July 18, 2018 from http://www.nrcan.gc.ca/energy/facts/crude-oil/20064

access to tidewater for exports, a lack of ports and routes in Canada's North and regulatory approval processes that impede development, particularly for large projects that cross provincial boundaries.[5]

One of the key recommendations of the Senate Committee was to fund research being conducted by the University of Calgary School of Public Policy and the Centre for Interuniversity Research and Analysis of Organizations (CIRANO) proposing the development of a Northern Corridor right-of-way in Canada's north and near-north reaching all three Canadian coasts. The proposed 7,000 km Transportation/ Utility Corridor (TUC) could accommodate road, rail, pipeline, electrical transmission, and communication infrastructure, enhancing opportunities for geographically distributed economic development and access to new markets.[6]

Broadly shared economic growth, improved competitiveness, and future development will be determined by our ability to recognize and undertake visionary plans to continually improve transportation, communications, and energy infrastructure. The business community believes the federal government can provide strong leadership by acquiring all the right-of-ways needed for this kind of farsighted planning and infrastructure investment needed to enable Canadians' long-term prosperity.

Recommendation #4 - *Build capacity among Canadian provinces, territories, and municipalities, in the assessment and use of Public-Private Partnerships (P3's) and alternative infrastructure funding models, and accelerate the deployment of capital dollars through the Canada Infrastructure Bank to support sustainable budgeting and the efficient coordination of capital investment by other levels of government.*

The Canadian Infrastructure Bank (CIB) is a positive development for all orders of government. The CIB will attract institutional investors, such as international pension funds, providing a new stream of revenue for investments in public infrastructure. Alternate infrastructure funding models, like the CIB and public-private partnerships (P3s), will become increasingly important as they provide opportunities to replace aging infrastructure without increasing Canada's public debt and enhance the ability for every level of government to develop trade-enabling infrastructure which decreases the costs of and increases opportunities to export goods to market.

Recommendation #5 - *Balance the federal budget by limiting operational expenditure growth and maintaining a debt-to-GDP ratio below 30%, by making the financial contributions needed to reduce current levels of debt and sustain this ratio, and by negotiating government labour agreements due for renewal with a target of no operational cost increase.*

Most recent projections indicate Canada's deficit will be nearly $20 billion for the 2017-18 year, and the federal government anticipates deficit spending past 2023. In the last year, despite strong economic growth and windfall revenues beyond those anticipated in the 2017 Budget, the Federal Government has chosen to increase spending rather than reduce the deficit. During the same period, analysis by the

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[5] Standing Senate Committee on Banking, Trade and Commerce. (June 2017). *National Corridor: Enhancing and Facilitating Commerce and internal Trade.* Retrieved July 18, 2018 from https://sencanada.ca/content/sen/committee/421/BANC/reports/CorridorStudy(Final-Printing)_e.pdf

[6] Fellows, G. Kent and Sulzenko, Andrei. (May 2016). *Planning for Infrastructure to Realize Canada's Potential: the Corridor Concept.* University of Calgary: School of Public Policy Research Papers, Volume 9, Issue 22. Retrieved July 18, 2018 from https://www.policyschool.ca/wp-content/uploads/2016/06/northern-corridor-sulzenko-fellows.pdf

Organization of Economic Cooperation and Development has indicated Canadians' financial well-being is vulnerable because of high levels of household debt, which create a risk to economic growth.[7]

The parallel between the two spending trends is important because leadership starts at the top. Fiscal restraint is the appropriate behaviour for elected government leaders to model. Avoiding inter-generational debt so to create opportunities for future generations makes sense; increasing the long-term debt burden on Canada's economy will not encourage growth in either investment or trade and will ultimately deter the investments needed to facilitate Canadians' shared long-term prosperity. Alberta business wants to see a path to balance that best facilitates our economic competitiveness.

[7] Deen, Mark. (November 23, 2017). *Canadians are the most indebted in the world, OECD says, as it warns on rising debt risk*. Article from the Financial Post website. Retrieved July 18, 2018 from http://business.financialpost.com/personal-finance/debt/canadians-are-the-most-indebted-in-the-world-oecd-says-as-it-warns-on-rising-debt-risk