2013 Pre-budget Consultation

A Submission to the House of Commons Standing Committee on Finance

Chartered Professional Accountants of Canada
Certified General Accountants Association of Canada

August 2013

CPA CHARTERED PROFESSIONAL ACCOUNTANTS CANADA
COMPTABLES PROFESSIONNELS AGRÉÉS CANADA

CGA CERTIFIED GENERAL ACCOUNTANTS
COMPTABLES GÉNÉRAUX ACCRÉDITÉS

2013 Pre-budget Consultation

A Submission to the House of Commons Standing Committee on Finance

Introduction

In June 2013, the House of Commons Standing Committee on Finance launched a two-stage process to its pre-budget consultations: (a) an on-line submission to provide up to three quantifiable recommendations to the Finance Committee, and (b) pre-budget hearings in the fall, focused on six themes identified by the Finance Committee.

We are pleased to present the 2013 pre-budget submission developed collaboratively by the Chartered Professional Accountants of Canada (CPA Canada) and the Certified General Accountants of Canada (CGA-Canada). The brief was submitted on-line to the House of Commons Standing Committee on Finance on August 2, 2013.

CPA Canada and CGA-Canada are currently in discussions to unify under the CPA Canada banner. CPA Canada was officially formed through the unification of the national offices of the Canadian Institute of Chartered Accountants (CICA) and The Society of Management Accountants of Canada (CMA Canada) and became operational April 1, 2013.

Our recommendations to the House of Commons Standing Committee on Finance have been developed in accordance with the format and wording limitations requested by the committee for this year's annual pre-budget consultations. For the on-line submission, the Finance Committee requested information about:

- The recommendation
- The expected cost or savings resulting from implementation of the recommendation
- The manner in which the federal government could fund the recommendation
- Groups of individuals, sectors or regions that would benefit from, or be harmed by, implementation of the recommendation
- General impacts that would result from implementation of the recommendation

Our three recommendations for the 2014 federal budget included in the format determined by the standing committee are:

Tax simplification

The federal government should undertake a comprehensive review of Canada's tax system to reduce its complexities and inefficiencies.

Standard Business Reporting

The federal government should explore opportunities to adopt Standardized Business Reporting that involves coding data in a standard format, normally, XBRL (eXtensible Business Reporting Language) to reduce red tape and taxpayer compliance costs and enhance data collection.

Patent Box

The federal government should implement a "patent box" to incent Canadian companies to develop and commercialize their innovations in Canada.

As the House of Commons Standing Committee on Finance intends to hold pre-budget hearings this fall on the following six themes, CPA Canada and CGA-Canada will have the opportunity to provide more in-depth analysis on recommendations and priorities for the 2014 federal budget:

1) Focusing on fiscal sustainability and economic growth
2) Helping vulnerable Canadians, including Aboriginal Canadians, youth, persons with a disability and newcomers
3) Supporting research and innovation, including through tax incentives
4) Ensuring prosperous and secure rural and urban communities
5) Improving government efficiency, including through reducing red tape
6) Maximizing employment opportunities for Canadians

For more information, please contact:

Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto ON M5V 3H2
Phone: (416) 977-3222

Certified General Accountants Association of Canada
1201-350 Sparks Street
Ottawa ON K1R 7S8
Phone: (613) 789-7771

Recommendation 1: Tax simplification

The federal government should undertake a comprehensive review of Canada's tax system to reduce its complexities and inefficiencies. To chart the course towards a simpler tax system, the federal government should appoint an independent expert panel with a broad mandate to provide advice to the federal government – including short-term and long-term options – on ways to streamline and modernize Canada's tax system. As well, the government should consider creating a permanent independent tax simplification office which would review existing and proposed measures. Such an initiative would ensure continuous oversight of the complexity of tax legislation.

Federal funding

Expected cost $5M to $9.9M, based on costs of previous expert panels in Canada and the UK Office of Tax Simplification.

A simpler tax system brings lower compliance costs, puts more money into Canadians' pockets, sparks investment and provides administrative savings to government.

A review of Canada's tax system could be funded through ongoing savings from the government's plan to control spending and improve the integrity of the tax system. Budget 2013 estimates that initiatives to combat tax evasion/avoidance will increase revenues by $4.4 billion over five years. In addition, the CRA recovered $40 billion in tax debts in 2011-12. Spending reductions and increased revenue collection would offset the cost of establishing an expert panel and independent office on tax simplification.

Intended beneficiaries

Implementing this recommendation would benefit:

- Taxpayers – increased ability to self-assess and calculate taxes owed; lower compliance costs
- Tax professionals – greater clarity in the application of tax provisions; more certainty with tax planning
- Businesses – improved efficiencies; less red tape, lower compliance burden, more time to devote to productive endeavours; less aggressive tax planning
- Federal Government – administrative savings; clearer, more decisive explanations/interpretations from CRA officials; increased taxpayer compliance rates; more secure tax base and predictable revenue
- Tax Court, the Federal Court of Appeal and the Supreme Court – reduced backlog, as less tax cases will go to trial

General impacts

Canada's tax system is a key driver of the economy. A complex tax system acts as a barrier to jobs, growth and long-term prosperity. By some estimates, taxpayers and businesses spent up to $25 billion in 2011 to comply with Canada's tax code, or 1.4 per cent of Canada's GDP. This foregone activity and lost productivity negatively affects the economy. A simpler tax system brings lower compliance costs, puts more money into Canadians' pockets, sparks investment and provides administrative savings to government that can be used to deal with other challenges, or reinvested to boost and sustain economic growth.

Other relevant comments

The need to simplify Canada's tax system has been acknowledged by the House of Commons Standing Committee on Finance and the Standing Senate Committee on Banking, Trade and Commerce. In its 2011 and 2012 pre-budget reports, the Finance Committee called on the federal government to explore ways to simplify the Income Tax Act (ITA). The Finance Committee has also recommended that a royal commission or expert panel be established to undertake a comprehensive review of the ITA. In addition, the Senate Banking Committee recently suggested that the responsible Minister consider the possibility of undertaking a task force or a Royal Commission of Inquiry to make income tax law simpler "in the most efficient manner and according to the wishes of the majority stakeholders" (Twelfth Report, June 2013). Many jurisdictions around the world with sophisticated tax systems – notably Australia, the United Kingdom and the United States – have sought advice from independent experts, conducted consultations and are actively taking steps to simplify and modernize their respective tax codes. Canada has much to gain from the experiences of our global partners, and much to lose in not taking similar actions.

Recommendation 2: Standard Business Reporting

We recommend the government explore opportunities to adopt Standardized Business Reporting (SBR) to reduce red tape and taxpayer compliance costs and enhance data collection. SBR involves coding data in a standard format, normally XBRL, yielding one time reporting that can be shared among departments. The adoption of SBR will reduce both the compliance burden and costs for business. It will also enhance the efficiency and accuracy of the data collection process, resulting in cost savings to government. A cross-departmental study and cost study should be undertaken, with the results forming the basis for developing a detailed implementation plan.

The adoption of SBR will reduce both the compliance burden and costs for business. It will also enhance the efficiency and accuracy of the data collection process, resulting in cost savings to government.

Federal funding

Estimate based on Australia's initial cost: $170 million.

Based on international experience, savings from adopting SBR are expected to exceed the initial cost of investment. Australia launched its SBR program at an implementation cost of $170 million, with combined estimated future annual savings to business and government of $500 million. Although data on the proportion that pertains to government is not available, Australia estimates that government savings will exceed the initial investment within three to five years. We recommend conducting a full cost/benefit analysis to help guide the decision on the specific form and magnitude of a program for Canada.

Intended beneficiaries

The adoption of SBR would benefit businesses of all sizes in Canada, the federal government and Canadian taxpayers. The Canadian Federation of Independent Business identified compliance costs as

a significant issue for Canadian business. SBR reduces compliance costs and red tape because businesses are able to file individual items of data only once. Governments can process coded data more quickly, share it more readily between departments, and less human intervention can enhance data integrity. The resulting reduction in government costs could lead to enhanced public service in other areas and/or reduced taxes.

General impacts

SBR will enable Canadian businesses to save significantly on compliance costs. These savings will allow businesses to reallocate resources to other priorities, leading to greater opportunities to expand business and hire new employees, thereby generating the jobs that result in additional tax revenues (personal and corporate) for government. Less onerous and less costly business reporting may also lead to a higher rate of new business formation. Frustration currently experienced by private business owners over government red tape will also be reduced.

Other relevant comments

There is similar acknowledgement of the need to reduce red tape and compliance costs for taxpayers. In its 2012 pre-budget recommendations, the Finance Committee called on the federal government to "continue to implement the recommendations of the Red Tape Reduction Commission, such as the "One-for-One" Rule, to reduce irritants to business that impede growth, competitiveness and innovation. This could include exploring the possibility of standardizing business reporting language, known as XBRL, to reduce compliance costs for taxpayers and enhance federal data collection". We continue to support this recommendation.

Standardized Business Reporting (SBR) involves submitting data collected through CRA returns, Statscan forms and other regulatory forms, in a standard format. The preferred format in other countries (e.g. Australia, Netherlands, Denmark, Finland and Ireland) has been eXtensible Business Reporting Language (XBRL). This format enables data to be identified and processed with limited human intervention, which saves human time and increases accuracy. SBR reduces the number of data points that are reported (its adoption in Australia reduced the number of data points from 26,537 to 5,923).

Recommendation 3: Patent Box

The federal government should implement a "patent box" to incent Canadian companies to develop and commercialize their innovations in Canada. A patent box is a regime that rewards innovative companies by providing for a lower rate of tax on profits earned from the exploitation of patents. This would encourage companies to develop and commercialize their R&D in Canada. Canada's lower tax rate should be competitive with countries which have implemented a patent box (e.g., UK, France, Belgium and Switzerland). A patent box will improve productivity and mitigate the risk of Canadian companies commercializing their innovations abroad.

Federal funding

Expected annual cost of $1.2 to $1.5 billion.

Based on UK estimates of administration ($500 million) and cost of forgone tax revenue ($1 billion). More businesses will stay in Canada and new business will be attracted to Canada. The foregone revenue from a lower tax rate (10% as in the UK) would be more than offset by the revenue generated by increased business. The SR&ED program could be re-balanced so that costs are allocated between R&D and commercialization (estimates indicate that tax expenditures related to the SR&ED program are in the $2 to $2.5 billion range).

The patent box is a public policy initiative that will foster productivity and encourage Canadian companies to commercialize in Canada.

Intended beneficiaries

Canadian businesses that patent their innovations will benefit directly by paying a lower rate of tax on profits earned from the exploitation of their patents. Individuals will benefit through increased employment opportunities, as companies will be incented to locate high-value jobs within Canada. In addition, a patent box will attract research from outside of Canada, as well as bring new business to Canada.

General impacts

The patent box is a public policy initiative that will foster productivity and encourage Canadian companies to commercialize in Canada. The objective of a patent box is to incent companies to retain and commercialize existing patents and to develop new patented products. This encourages companies to locate high-value jobs associated with the development, manufacture and exploitation of patents within Canada, and is complementary to research and development programs. The productivity growth that comes from increased commercialization leads directly to an improvement in the standard of living for all Canadians.

Other relevant comments

Despite generous support from the federal government, Canada's productivity continues to lag behind other countries. The OECD ranks Canada 17th in the world for productivity, the Conference Board of Canada notes that Canada remains near the bottom of its peer group for innovation (April 2013) and the Science, Technology and Innovation Council states that Canada's gross domestic expenditures on R&D have declined (State of the Nation 2012). The C.D. Howe Institute supports a patent box model, suggesting that businesses receive less tax relief for conducting R&D and more for commercializing the output of the R&D process, providing "a pull, rather than a push, into R&D activity". (Commentary No. 379, April 2013). We recommend that that the SR&ED program be re-balanced to incorporate commercialization through a "patent box" incentive.