Cambridge Chamber of Commerce

2011 Federal Pre-Budget Submission

Presented to: The Honourable Gary Goodyear, Minister of Science and Technology and Fed Dev Ontario, Member of Parliament for Cambridge and North Dumfries

2011 Federal Pre-Budget Submission

December 10, 2010

The Tax on Tax Grab

The Cambridge Chamber of Commerce has for a long time be advocating for the undoing of an unjust Canadian Tax policy that dates back to the adoption of the GST (Goods and Services Tax). While we agree that the application of this tax needs to be broadly applied and with reasonable equity, we also believe that the holders of this legislative change in public tax policy, must also ensure that it is applied as the legislation describes. A consumption tax based on the purchase being that of Goods and/or Service provided or supplied to the intended purchaser.

In Canada, we face a tax policy that in reality, speaks to the justice and fairness of this legislation. Petroleum consumption in Ontario is roughly 18 Billion litres per year. In every litre of gasoline the Provincial Government of Ontario places a flat rate tax of 14.7 cents per litre and the Federal Government of Canada places a 10 cent surtax on the same. These are flat rated taxes and do not fluctuate with the cost of the petroleum itself. Also, within a litre of gasoline pricing, is a Goods and Service Tax. While the Chamber concurs that it is appropriate that the GST/HST be applied to the consumption of gas, our deep concern is the application of that tax which falls between the legislative cracks. The practice of the Federal Government is to apply the overriding Goods and Service tax after the calculation of the cost of gasoline from the supplier and the applied flat Provincial and Federal taxes of (in total) 24.7 cents per litre.

Based on this information, and given that Ontario has just harmonized Goods and Services tax with Provincial Sales Tax, the consumer in Ontario now pays approximately 3.1 cents per litre of what we would determine is grossly unfair taxation, tax on tax. In the grand scheme of things, Ontario motorists and Businesses pay more than a half a billion dollars in unjust and unfair tax, in fact the Cambridge Chamber of Commerce would suggest that it is a moral impropriety for a government to place a tax on tax. It would also be our contention that in fact the application of this tax is not consistent with the intended legislation as the flat taxes applied by the Provincial and Federal Government is neither a Good or Service and to apply a Goods and Services Tax to this is a gross misinterpretation of the tax act itself.

The legislation speaks to the removal of the old Federal Excise Tax and replaces it with a consumption tax policy based on the purchase being that of a Good or Service, to equate Tax as either a good or service to the consumer is simply put, inappropriate.

Therefore, with the upcoming budget release, the Cambridge Chamber of Commerce asks that the Federal Government immediately remove the current Tax on Tax injustice at the Canadian gas pump and apply the GST/HST prior to the addition of any Provincial or Federal taxes on a litre of gasoline/propane/diesel/aircraft fuel sold in Canada.

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Continuing the Path to Corporate Income Tax Reductions

It has been rumoured that the proposed corporate income tax reductions scheduled for January 2011 down to 16.5% and January 2012 down to 15% may be sacrificed in order to help achieve a balanced budget. The Cambridge Chamber of Commerce certainly believes in living within our means and encourages our governments to work towards balanced budgets as soon as possible. However we would have grave concerns if some quarters of government are suggesting that it should be partially accomplished on the backs of business.

In our opinion, taking these reductions away at this time would certainly undermine the confidence of our business community in government. Most businesses require some form of certainty when planning for investments and if it is seen that our government is poised to renege on these planed reductions, it may have a direct impact on an already fragile economy. It is our position that reduction in Government expenditures could achieve similar results while maintaining a healthy environment for business to invest.

Increasing business income taxes or reneging on promised corporate tax rate reductions to raise additional revenue is economically destructive. Businesses have a critical role to play in sustaining economic growth by initiating new investments and hiring to expand productive capacity. Loose talk about canceling the reductions may cause companies to pull back. Businesses require certainty and predictability from their government to operate and invest with confidence. The University of Calgary's School of Public Policy estimates that giving up the planned three-point reduction in the federal general corporate income tax rate would result in a long-run loss of $47 billion in capital investment and 233,000 jobs, jobs that the Canadian economy can ill afford to lose.

The Federal Government needs to look at efficiencies internally rather than simply going back to the trough of the taxpayer. It costs businesses tens of billions of dollars each year to comply with their tax obligations, the lion's share of the burden carried by small and medium sized enterprises. These costs are the result of excessive paperwork due to the complexity of the tax system, frequent changes in tax legislation, different rules across jurisdictions and dealing with multiple audits. Streamlining will create government efficiencies that reduce costs, thereby allowing the government to continue its path to fair corporate taxation. Today, the cost and time associated with tax compliance stifles investment, productivity and economic growth, growth that will fuel higher government revenues that again offset losses in revenue due to tax cuts. We expect this government to keep their word, and continue on its planned reductions of corporate income tax.

We at the Cambridge Chamber of Commerce recommend that the budget maintain these proposed decreases and that the Federal Government issues a statement to that affect as soon as possible. By ensuring that current and 2012 decreases will remain part of the government's fiscal plans it will surely assist in creating a positive atmosphere for investment.

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Consolidated Tax Returns

In 2009 the Edmonton Chamber of Commerce, submitted a report with respect to consolidated tax returns for groups of related companies not being allowed in Canada. The report was submitted at the Canadian Chamber's AGM in 2009. This particular report was adopted that year and has since been referenced by the Canadian Chamber in their submission to the Committee on Finance, November 2nd, 2010 which outlined some of the tax disadvantages facing Canadian businesses.

The issue with respect to the ability of filing consolidated tax returns relates to the competitive disadvantage of Canadian businesses in international markets and the complexity of our own taxation system. As noted in the Honourable Perrin Beatty's submission, Canada is the only G7 country that does not have a formal system that allows the transferring of losses between related companies. It was also noted in the Edmonton Chambers report and the Canadian Chamber submission that over 2/3rds of the OECD member countries allow for consolidated tax returns.

While we recognize that the CRA allows various methods of transferring losses within a group of affiliated corporations by means of loans and purchasing of preferred shares, we find these methods to be complex, confusing and cumbersome for businesses to administer, where their time would be better spent on developing product lines and markets.

We at the Cambridge Chamber of Commerce recognize the difficulty in implementing tax reforms, especially those that affect multiple jurisdictions across this country. We also recognize that this particular issue cannot be addressed totally as a budget item. However we are of the opinion that it is important enough to be addressed immediately and that whatever mechanism is necessary be put into place to start a dialogue to help reform our tax laws that would ensure Canadian businesses are on a level footing with their global competitors.

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Economic Stimulus

In the past we have been asked to submit our recommendations in dealing with the state of the economy, and in fact were in particular asked to comment on what priorities we would place on the government's initiatives to stimulate the economy.

In those conversations and submissions, we were clear in the fact that while community infrastructures were an acceptable mechanism to create employment, they were also temporary solutions for employment. Once the projects are completed, the jobs are generally ended as well. The Minister of Finance reported that 70 - 80% of the economy was made up of Consumer spending. The cash for clunkers and home improvement tax credits were very successful campaigns, given the size of them. Yet the great majority of the government spending on the stimulus was focused on the temporary measure of infrastructure employment.

We will also point to the fact that Canada was not as severely hit as most countries, but none the less, there are still unhealthy unemployment levels, and we have not seen "recovery growth". Much of this has to do with the fact that consumer stimulus was largely left out of the equation.

The U.S. has had a terrible rate of success on their infrastructure investment, and in fact most pundits suggest it was a total failure. We should also note that we realize much of our economic success is in exports and those have been lagging due to the poor performing economic stimulators around the world.

We also see that the Prime Minister has announced an extension to those infrastructure projects to the fall of 2011 in spite of the fact they were due to expire in March. While we think many of those projects are important and are meritorious, we were disappointed in this announcement, as we believed the balance of the unused funds could have been applied to a new consumer incentive program.

Suffice it to say, the Cambridge Chamber of Commerce is supportive of the continuation of a consumer based stimulus program, and would encourage the government to allow the March date to expire for infrastructure projects, and implement a consumer based stimulus similar to that of the home improvement tax credit.