

August 13, 2008

The Honourable James Flaherty  
Minister of Finance  
Finance Canada  
140 O'Connor Street  
Ottawa, Ontario K1A 0G5

Dear Minister:

**Re: 2009/2010 Pre-Budget Submission**

We are writing to provide you with the recommendations of The Vancouver Board of Trade (The Board) as you prepare the 2009/2010 federal government budget.

The Vancouver Board of Trade represents over 5,800 members, 70 per cent of whom are from small businesses with fewer than 50 employees. The Board consistently surveys its members to determine what is important to them; economic growth, lower taxes and securing greater value for government expenditures are always among their top priorities.

In last year's Board of Trade Report Card we gave your budget an overall grade of B, which was up from our prior year's grade of C+. This was mainly due to improvements you made in the area of tax reduction for business. However, we continue to have grave concerns regarding your government's significant increases in spending.

For the 2009/2010 federal budget we respectfully recommend:

**On Spending**

1. Continue to balance the budget.
2. Limit spending increases on remaining programs to the combined rate of population growth and inflation, or approximately 3.5 per cent
3. Continue the review of all federal government spending with the goal of finding at least a 5 per cent reduction in spending on a continuing basis. This should be re-applied to further personal income tax cuts and any additional direct program spending as part of the 3.5 per cent increase indicated in point two on an ongoing, annual basis.

4. After the review of federal government spending, subject all government expenditures to “value-for-money” reviews on a periodic basis to ensure Canadians’ tax dollars are being spent effectively and efficiently.

Further support for these recommendations are to be found in Appendix A.

### **On Tax Reduction**

While the federal government has taken strong measures to support business tax reductions, you have continued to ignore the heavy personal tax burden faced by Canadians as reflected in the OECD table in Appendix B. While we recognize the progress made by the government in this area, we still argue that it has not been enough and, therefore, recommend the following:

1. Decrease all personal income tax rates by at least 1 per cent.
2. Increase the income level at which the highest marginal personal tax rate applies to \$175,000 immediately and, to a more internationally competitive level of \$300,000 within the next five years.
3. Modify the application of the Dividend Tax Credit to ensure that eligible corporate dividends earned during the transitional period are not subject to higher levels of taxation when the full rate is introduced.
4. Introduce the capital gains rollover to allow capital gains taxes to be deferred where proceeds are reinvested.
5. Release, for consultation, a more modest legislative proposal with respect to the deductibility of interest on investments than the currently proposed Section 3.1 of the Income Tax Act.
6. Increase the RRSP redemption limit for first-time home buyers to \$30,000 per person.

### **On Debt Reduction**

1. Target a debt-to-GDP ratio of 25 per cent before the 2011/2012 fiscal year and target a debt-to-GDP ratio of 20 per cent before 2020.
2. Continue to include a minimum allocation of \$3 billion per year for debt repayment.

Further analysis on these recommendations may be found in Appendix C.

### **On Long-Term Economic Vision**

1. Ensure that federal budget decisions are made with a long-term vision in mind of increasing the standard of living and productivity of Canadians, including increasing the after-tax disposable incomes of Canadians.
2. Reduce federal taxes on income and profits as a percentage of GDP, from the highest of G7 nations (see the Chart in the Long-Term Economic Vision Appendix D) to the average level of G7 nations. To accomplish this, the government needs to make considerable progress in reducing personal income taxes as these now represent an

unacceptable 75 per cent of all income taxes in Canada per GDP as defined by the OECD.

We would be pleased to meet with you to discuss The Board's 2009/2010 federal budget recommendations and extend an open invitation for you to address the members of The Board.

Sincerely

Don Rix CM, OBC  
Chairman and Chief Elected Officer

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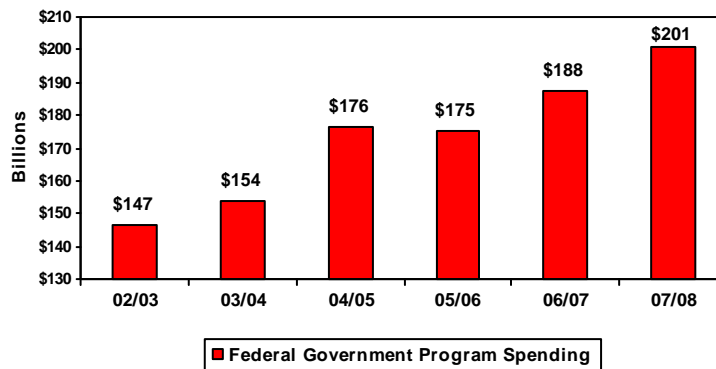
cc: The Right Honourable Stephen Harper, Prime Minister of Canada  
The Honourable Stéphane Dion, Leader of the Official Opposition  
The Honourable Jack Layton, Leader of the New Democratic Party  
The Honourable Gordon Campbell, Premier, Province of British Columbia  
The Honourable Colin Hansen, Minister of Finance, Province of British Columbia  
All Federal Opposition Finance Critics  
All BC Members of Parliament

## APPENDIX “A”

### Spending

We wish to reiterate one of our long-standing concerns regarding the unsustainable level of increase in federal government program spending. This issue has even greater gravity today since the Canadian economy is slowing and feeling the impacts of a weaker U.S. economy and ongoing global financial market turbulence.

As shown in the chart below, over the last five completed fiscal years, federal program spending has increased from \$147 billion per year to \$201 billion per year – an increase of 36.7 per cent or, a compounded average of 6.5 per cent per annum.

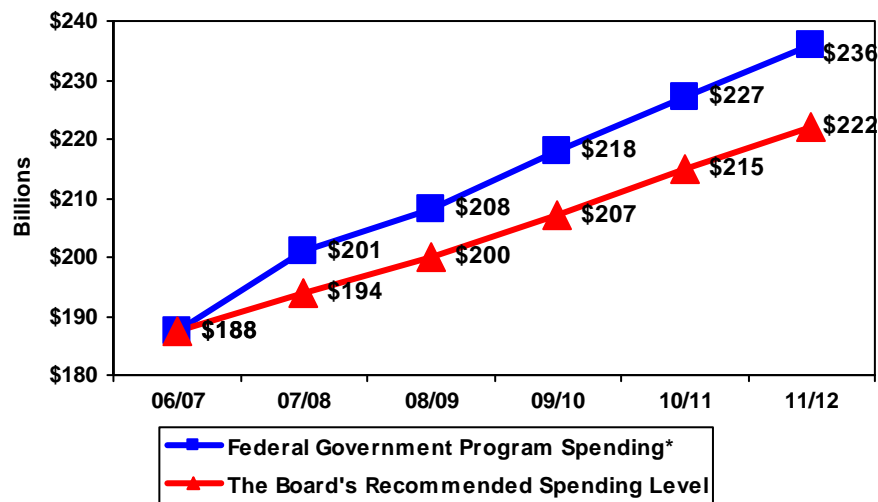


The Board was pleased that federal program spending for 2005/2006 leveled off compared to 2004/2005. However, this was made possible, in part, by the fact that 2004/2005 spending included approximately \$10 billion of one-time expenditures and 2004/2005 spending was an extraordinary 14 per cent higher than 2003/2004.

The spending increases of previous years are a serious concern because they have not led to increased productivity or any significant increase in the standard of increased standards of living for Canadians. The Board has consistently recommended that federal government program spending increases be limited to population growth and inflation (or approximately 3.5 per cent annually). If this had occurred since 2002/2003, total program spending in 2007/2008 (\$201.3 billion projected actual) would have been approximately \$175 billion or approximately \$26 billion less than the actual spending of \$201.3 billion. **To put this in perspective, \$26 billion savings is equivalent to a 25 per cent across-the-board personal income tax reduction or a reduction in the GST down to 1 per cent.**

The government has reported spending increases based on calculations that compared forecast spending for the current budgetary year to actual spending in the previous year. We believe this is misleading the Canadian public and falls short of the standard for prudent fiscal management. Actual spending has significantly exceeded forecast spending. Carrying these excesses forward into future years creates built in structural budget overruns. Fortunately, excess revenue has offset excessive spending, reducing the apparent year-over-year increase in the rate of increase. We believe this is an unsustainable practice since revenue windfalls cannot be expected on a consistent basis. A more prudent and transparent approach would be to compare current year's forecast spending to the forecast spending of the previous year. This approach would eliminate budget overruns from future year's spending forecasts. We are concerned about the way in which the government states relative spending on a year-over-year basis.

In addition, spending increases at rates higher than population growth plus inflation are unacceptable. In 2007/2008, the government projected annual program spending of \$201.3 billion which was to increase to \$234 billion by 2011/2012. If The Board's recommendations were followed, federal government spending in 2011/2012 would be \$222 billion or \$14 billion lower than the projected levels. We do not believe it is sustainable to have average annual spending increases of 4.5 per cent.



The federal government must do a better job of controlling expenditures. Government spending is growing at a much faster rate than Canadian after-tax disposable incomes. In the interest of fairness, the federal government

should return some of Canadians' hard-earned tax dollars in the form of tax reductions.

The government should also ensure that each program has measurable performance objectives, wherever possible, which would be monitored at least annually. As part of the implementation of measurable performance objectives, the government should work to continually improve its internal productivity and ensure that performance measures are developed and used to track productivity.

One area in which The Board has specific concerns regarding government spending is in the area of health care. We are concerned that additional spending on health care may not lead to improved outcomes. The Board calls on the federal government to work with the provinces to ensure that meaningful reform of the Canadian healthcare system is undertaken. In part, this reform should be guided by the more successful healthcare models of some European countries that have demonstrated that universal, publicly funded healthcare systems can operate more efficiently at a lower cost while involving the private sector more fully to produce superior outcomes and eliminate waitlists. In addition, the federal government should change the Canada Health Act as required and work to persuade the provinces to change their legislation to allow greater involvement of the private sector in order to respect the rights of Canadians to access timely, high quality healthcare. In The Board's view, the status quo is unacceptable.

As we discussed in our recommendations, efficient and contained spending will ensure that future spending is sustainable and priority areas such as infra-structure, cleaning up the environment, reducing the debt and improving health care can be enhanced.

## APPENDIX "B"

### Tax Reduction

The Board continues to be concerned that Canada's taxation of income and profits remains the highest of all G7 nations (see the OECD chart in the Long-Term Economic Vision section). Canada's high taxation of income and profits is of concern because these taxes are the most harmful to the economy as they discourage working, saving and investing. As recommended above, the federal government's tax objective should be expanded to target a reduction of Canada's taxes on income and profits as a percentage of GDP to an amount no higher than the average of G7 nations.

Regarding, corporate tax reductions, we are pleased that the government has made considerable progress in this area.

To work towards achieving this objective vis-à-vis the G7 and to ensure that Canadian after-tax incomes grow, The Board is continuing to recommend significant personal income tax reductions. By holding spending increases over the long-term to no more than the combined rate of population growth and inflation, significant additional tax reductions will be possible without jeopardizing the federal government's ability to maintain a balanced budget.

#### ***1.1 The Board recommends a decrease in all personal income tax rates.***

Canada's personal income tax rates continue to be higher than other G7 nations and substantially higher than the rates applicable in the United States. The Board recommends that the government reduce all personal income tax rates by 1 per cent (e.g., where the tax rate is 22 per cent, it would be reduced to 21 per cent). These reductions should be phased in as soon as they are affordable. In addition, the government should continually work to increase the income level where income taxes begin to apply. Implementation of these reductions will be a step forward in reducing Canada's taxation on income and profits and will encourage Canadians to work, save and invest, and will allow the economy to grow at a greater rate and provide additional funding for Canada's important social programs.

#### ***1.2 The Board recommends that the highest marginal personal tax rate threshold be increased to \$175,000 immediately and over time to an internationally competitive level of \$300,000 within a reasonable period of time.***

Canada competes for talent with the United States. The area where our personal tax system is the least competitive as compared to the United States is the level where the highest tax bracket starts to apply. In the United States, a taxpayer is not in the highest tax bracket until his or her annual income reaches approximately \$300,000 US, whereas in Canada this highest tax bracket applies at approximately \$118,000.

The heavy tax burden placed upon high-income earners impedes our ability to attract and retain highly skilled personnel and others who make a substantial contribution to our society and economy.

**1.3 The Board recommends that the Dividend Tax Credit be modified so that taxes on dividends remain flat**

In the 2008 budget, the taxes on dividends paid by eligible corporations will increase over the next five years. The Board believes that this policy is a move in the wrong direction and is inconsistent with federal government's overall objective of reducing Canadian income taxes. We therefore recommend that the federal government modify its Dividend Tax Credits to ensure that eligible corporate dividends are not subject to higher levels of taxation over the budget projection period. (Please refer to our letter dated June 18, 2008 addressed to the minister).

**1.4 The Board supports the proposal to allow capital gains taxes to be deferred where proceeds are reinvested.**

Currently, many Canadians do not dispose of poorly performing investments and reinvest the proceeds in more productive assets because they would realize capital gains and have to pay a portion of their proceeds as taxes. This system, where investors are penalized for ensuring their investments are optimally efficient, stifles new investment and generally impedes the flow of capital, to the detriment of the economy as a whole. Accordingly, The Board supports the government's election platform promise to allow capital gains rollovers because this will benefit the economy.

**1.5 The Board recommends that the government release, for consultation, a more modest legislative proposal with respect to the deductibility of interest than the currently proposed Section 3.1 of the Income Tax Act.**

On October 31, 2003, the federal government released proposed Section 3.1 of the Income Tax Act. Proposed Section 3.1 would have a significant impact on the deduction of interest and could have a severe impact on borrowing for investment purposes. Consultations regarding the draft legislation ended in August 2004, and the federal government announced in February 2005, that it would release an alternative proposal for comments. More than two years later, the alternative proposal has not been released and corporations and other investors have been operating under uncertain tax rules. The Board recommends that the federal government release a more modest proposal for comment as soon as possible so that the uncertainty in this very significant area can be resolved.

**1.6 The Board recommends that the RRSP redemption limit for first time home buyers be increased to \$30,000 per person.**

The RRSP redemption limit for first-time home buyers has remained at \$20,000 since the program was first introduced in the early 1990's. RRSP contribution limits have increased since that time. There have also been

significant increases in housing prices in many areas. An increase in the RRSP redemption limit for first time home buyers will assist these home buyers in acquiring homes and reducing their financing costs.

## APPENDIX "C"

### Debt Reduction

Canada's success in reducing the level of its debt-to-GDP ratio from 68 per cent to an estimated 29.9 per cent is a remarkable achievement. Reducing debt and the related interest expense is important because of Canada's aging population. Seniors generally have lower incomes than working-age Canadians. Today, approximately 13.1 per cent of the population is over 65 years of age. In 25 years, seniors are expected to comprise 25 per cent of the population. Working-age Canadians, who provide most of the taxation revenues, will comprise approximately 62 per cent of the population rather than approximately 70 per cent today. There will be fewer tax dollars and they will need to go further. As a result, as pointed out by the OECD, interest expenditures must be reduced in anticipation of the changing profile of the Canadian population. Lower debt will also reduce Canada's exposure to any future periods of slow economic growth or increasing interest rates.

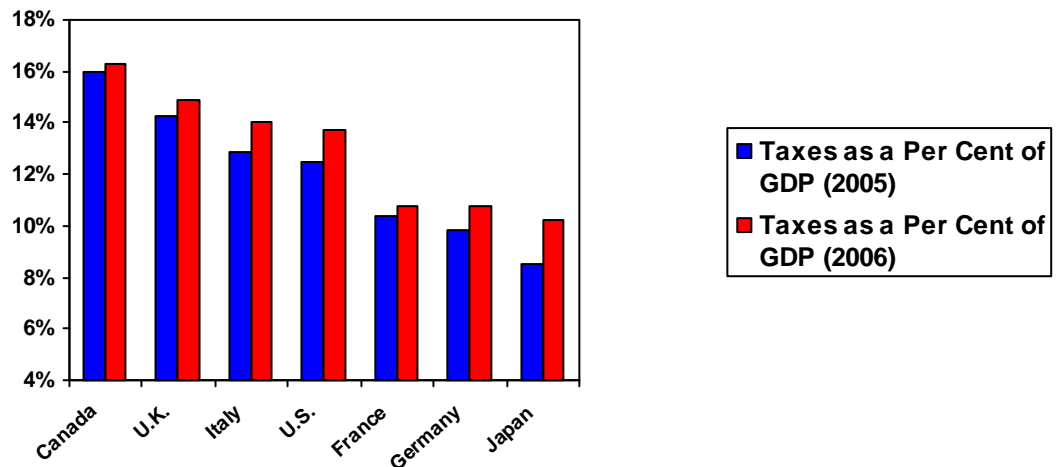
***The Board recommends that the federal government continue to target a debt-to-GDP ratio of 25 per cent by or before the 2011/2012 fiscal year and that the government target a debt-to-GDP ratio of 20 per cent by or before 2020. The Board also recommends that the federal budget continue to include a minimum allocation of \$3 billion to be used for debt repayment.***

## APPENDIX “D”

### Long-Term Vision

It is important that the federal budget be developed in the context of a long-term vision. The Board has consistently recommended that the vision of the federal government should be to increase the standard of living of Canadians to the highest of G7 and significantly increasing the after-tax disposable incomes of Canadians. According to the TD Bank in a 2005 study, Canadian after-tax disposable incomes had increased only 3.6 per cent over the fifteen year period from 1989 to 2004. This is a serious concern.

In November 2006, the federal government presented the Advantage Canada plan which contained its vision for Canada. In October 2007, the federal government presented its Economic Statement. Broadly speaking, The Board supports these plans and believes they will lead to improved standards of living for Canadians. However, under these plans, the federal government’s objective is for Canada to have the lowest taxes on new business investment and the lowest corporate taxes of G7 nations are much too limited, as shown in the chart below.



Source: OECD Revenue Statistics - 2007

Amongst G7 nations Canada has the highest taxes on income and profits as a percentage of GDP. The tax objectives for the federal government should not be focused solely on new business investment and corporate taxes; they should also ensure that:

- Canada’s overall tax system is competitive,
- Businesses remain and grow in Canada and,

- Canadians are not discouraged from working, saving and investing.

Accordingly, The Board recommends that the federal government's vision be expanded to include the objective that Canada's taxes on income and profits as a percentage of GDP be no higher than the average of the G7 nations.

To accomplish this, the federal government must make considerable progress in reducing personal income taxes. Personal income taxes were \$113.5 billion in 2007/2008 and represented the largest component (75 per cent) of Canadian income taxes.