GREATER VANCOUVER
BOARD OF TRADE

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President and CEO
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February 20, 2018

DELIVERED VIA MAIL AND E-MAIL [Bill.Morneau@canada.ca]

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

Dear Minister,

Re: 2018-2019 Pre-Budget Submission to the Government of Canada

The Greater Vancouver Board of Trade (the "**GVBOT**") respectfully submits the following recommendations to the Government of Canada for consideration in the 2018-2019 Federal Budget.

We have divided our commentary into four categories which reflect the priorities of the GVBOT Directors and our over 5,000 Member organisations in British Columbia, as well as the findings of the Greater Vancouver Economic Scorecard 2016 ("Scorecard 2016")[1].

1. **Tax Competitiveness**
2. **Gateway Vision**
3. **Human Capital**
4. **Fiscal Prudence**

We present the recommendations as critical steps in ensuring that - in the face of a changing world - our country is resilient, flexible, fiscally sound, economically competitive, and socially responsible.

Tax Competitiveness

The GVBOT supports the government's agenda of building a stronger middle class, and an economy for the future.

However, this requires a tax regime that encourages both job creation and entrepreneurship. The Department of Finance's proposed tax changes affecting Canadian Controlled Private Corporations (CCPCs) run counter to these objectives. The GVBOT has been a strong advocate for a thoughtful review of the overall tax system in Canada. Regrettably, the tax planning changes to private corporations announced to date are perceived to be piecemeal in approach and likely to result in adverse, unpredicted outcomes. Tax reform works best within an overarching economic vision that minimises a complex and challenging tax regime. The sheer number of small legislative changes and proposals in recent years has had adverse effects on Canada's business environment and thus on Canada's ability to attract and deploy capital.

[1] Greater Vancouver Board of Trade (2016). Greater Vancouver Economic Scorecard 2016, https://www.boardoftrade.com/scorecard2016/

Over 80 per cent of our Members are small to medium sized enterprises (SMEs). Through our #HitthePauseButton campaign, members of the business community sent over 10,000 emails in a single week to Members of Parliament outlining their concerns with the recent proposed. Over 28,000 emails were sent in the 4-week period leading up to the close of public comment on Oct 2, 2017. Our organization made a formal submission during this consultation period, listing our thoughts, concerns and constructive ideas in greater detail (attached as an Appendix). The Greater Vancouver Board of Trade also presented to the Standing Senate Committee on National Finance in November 2017. We fully support and echo the recommendations presented in the Standing Senate Committee's December 2017 report "Fair, Simple and Competitive Taxation."

We believe the plan to move forward with the majority of the proposed tax changes does not serve government's goals of building a stronger middle class and a socially and economically sustainable country. Despite minor adjustments announced in October and December, these measures still target legitimate and necessary tax planning structures that have been available to CCPCs for short, medium and long-term planning for decades. We remain hopeful that you will consider the legitimate fiscal planning requirements of CCPCs before proceeding with significant changes to income sprinkling and passive income, in light of the legitimate concerns and needs of the small business community.

The current approach does not come to terms with the likely effects of proposed changes on CCPCs in four ways: i) the key distinction between business owners and employees; ii) the increased costs of compliance and the costs of uncertainty for businesses; iii) the necessity of business flexibility; and iv) the disproportionate effects on women.

While we note our support for the announcement in Budget 2016 that the government will review the nation's tax regime to remove inefficient and ineffective taxation measures, we reiterate our request to take the time to comprehensively review the business – and personal – system of taxation in this country; a worthy undertaking to which we pledge our constructive engagement.

We continue to believe that tax competitiveness is crucial to attracting business investment and building an economy that is ready for the future. At the same time, our Members ask for greater certainty, simplification, and fairness – all key factors in attracting and retaining investment in Canada – within the tax system.

Recommendations:

1) Maintain personal and business tax competitiveness to enable our nation to globally compete for financial and human capital.
2) Halt the proposed changes to the CCPC tax regime, consult widely and deeply with relevant stakeholders, and re-evaluate the burden these changes place on SMEs.
3) Include tax system simplification as a key objective in the government's review of Canada's tax regime.

Gateway Vision

Our economic vision for our region centres largely on Greater Vancouver's crucial role as Canada's Pacific Gateway. Ideally located to serve growing Asian markets, the region is a nexus of import-export activity for the entire country. About one fifth of Canada's total trade in goods flows through the Port of Vancouver.[2] Similarly, Vancouver International Airport plays an increasingly important role as a global transportation hub, having recently set new records of over 22 million passengers and 280,000 tonnes of cargo in 2016.[3]

[2] Port of Vancouver (2017); http://www.portvancouver.com/about-us/
[3] YVR Airport. http://www.yvr.ca/en/about-yvr/facts-and-stats

As ties between Canada and Asia continue to deepen and the federal government looks to liberalize trade with Asian markets, Greater Vancouver's strategic position will become more relevant in the global economy of tomorrow.

The GVBOT and our Members have been pleased to see the government make commitments to improve our trade infrastructure through the National Trade Corridor Fund and the creation of the Canada Infrastructure Bank. However, the deployment of these funds is lagging. More must be done to ensure these nationally important projects get underway, particularly those in the Asia Pacific Gateway. The National Trade Corridors Fund is a $2 billion fund, of which only $400 million (20 per cent) is made available for Gateway infrastructure *nationally* in the current funding round. Critical elements identified for the Greater Vancouver Gateway alone amount to $300 million. Sluggish deployment of infrastructure projects hampers our ability to develop the infrastructure necessary to tap into new global markets and slows our national growth projections (OECD, November 2017).

Recommendation:

1) Accelerate deployment of infrastructure funding, especially in the Asia Pacific Gateway – specifically, increase the National Trade Corridors Fund, and increase the current funding round from $400 million.
2) Rebalance the allocation of overall infrastructure funding to economically generative, trade-enabling infrastructure.

Human Capital

In order to improve our economic competitiveness, the GVBOT recognizes the importance of attracting, developing and retaining human capital. The Scorecard 2016 gave the Greater Vancouver region a "C" grade in both educational attainment and productivity levels. This indicates that there is room to improve labour markets in the region, for the benefit of the national economy. In our view, it should be a priority of the federal government to address the growing disparity between labour market supply and shifting labour market demands. Not only does the existing workforce require better support in adapting to change, but also Canada must strengthen its ability to attract, develop and retain the workers that businesses and our economy require to grow.

We support the further exploration and implementation of the growth strategies outlined in "Tapping Economic Potential through Broader Workforce Participation" and "Building a Highly Skilled and Resilient Canadian Workforce Through the FutureSkills Lab", both produced by the federal government's Advisory Council on Economic Growth. Acting on these strategies is particularly important as one of the most persistent challenges facing Canada is low labour productivity. Broader workforce participation may alleviate this issue.

With programs such as Express Entry, and the more recent improvements in service standards, the government has made significant strides in improving the ability of businesses to bring top-tier talent into Canada. However, there remains room for improvement in the recognition of foreign credentials. Leadership by government, collaborating with industry and education institutions to streamline and modernize credentials earned elsewhere would support enhanced access for foreign talent to take advantage of these improved systems and programs.

Greater Vancouver's low ranking in our Scorecard 2016 for productivity and educational attainment is a clear sign that investment in the development of our existing human capital and life-long learning is necessary to improve our national economic competitiveness. Investment in our post-secondary institutions to improve access to training in both academia and the trades, especially for women and Indigenous peoples, will boost productivity and continue to develop Canadian labour markets.

Furthermore, we are witnessing a widening gap between the skills needed by our Member businesses and those available in our workforce. For example, while Greater Vancouver continues to build a strong technology ecosystem, the number of new graduates with computer science and software engineering degrees has stayed stagnant. It is estimated that by 2021, BC's tech sectors will face a shortage of 30,000 workers. To build the economy for the future, we first need the workers of the future.

Related to the availability of human capital, the GVBOT firmly joins those concerned about the state of housing affordability in the Greater Vancouver region. Escalating home prices limit the region's attractiveness to younger people, especially those between the ages of 25 and 34 - a demographically productive segment of the population. In turn, decreased access to skilled human capital risks deterring businesses from locating or growing in the Greater Vancouver region – about which we have ample anecdotal evidence.

The GVBOT welcomes the federal government's efforts to work with all levels of government to increase housing supply and housing diversity, and we commend the government for exploring solutions for affordable housing. However, we believe that the National Housing Strategy should be expanded to offer housing solutions focused on the attraction and retention of skilled labour.

We are particularly concerned about the extent to which the difficulty of retaining human capital will stunt investment in - and expansion of – the tech industry, a key driver of economic growth and innovation in Canada, and particularly our region. The government has made clear its ambition to incentivise innovation, particularly in the STEM fields. One of the nine finalists for the Innovation Superclusters program is the B.C. Tech Innovation Supercluster. Although it is one of the most promising sectors in B.C., its long term growth is dependent on the region's ability to affordably house and retain talent.

Recommendations:

1) Explore and implement the strategies outlined in "Tapping Economic Potential through Broader Workforce Participation" by the Advisory Council on Economic Growth.
2) Modernize and streamline foreign and provincial credential recognition schemes.
3) Increase funding for post-secondary research to fuel product commercialization and innovation, as well as post-secondary infrastructure spending.
4) Work with Greater Vancouver region municipalities to help close the housing affordability gaps identified in our report: Unlocking Supply: Housing Affordability and the Missing Middle[4].
5) Expand the National Housing Strategy to address Greater Vancouver's housing affordability challenges through the lens of attracting and retaining high skilled human capital.

Fiscal Prudence

In conjunction with the spending priorities outlined above, the GVBOT views it as an imperative that Canada preserves its global reputation of sound fiscal management by committing to maintaining the federal debt-to-GDP ratio at a prudent level, and by reducing the deficit as soon as possible. In Budget 2018, the federal government must clearly communicate and commit to a plan to return Canada to a balanced budget within a reasonable timeframe.

Prudent fiscal management offers government the flexibility necessary to withstand shocks and unforeseen needs, both social and economic. As outlined in our other priorities, we see smart and strategic federal spending as an important factor in the economic success of our country. However, maintaining a structural deficit during periods of economic growth limits government's ability to navigate times of economic and social distress.

[4] Greater Vancouver Board of Trade (April 2017). Unlocking Supply: Housing Affordability and the Missing Middle, https://www.boardoftrade.com/files/advocacy/2017-housing-report/housing-report-2017.pdf

Despite the country's strong economic performance in 2017, the GVBOT is concerned that the $14.9 billion spending over the next five years announced in the 2017 fall fiscal update is not founded on a prudent approach to forecast lower economic growth in the coming years. We urge prudent fiscal management and a commitment by the federal government to make significant progress in reducing the country's deficit to a more responsible and sustainable level. We strongly highlight the importance of presenting a viable economic plan that includes a route back to a balanced budget.

In addition, the GVBOT notes the rising household debt and real estate prices in Canada. The GVBOT encourages the government to continue its efforts to ensure discipline in the residential lending market, and its attempt to reduce taxpayer exposure to the housing sector.

Recommendations:

1) Maintain a fiscally responsible federal debt-to-GDP ratio.
2) Continue to make prudent economically enabling investments in infrastructure and human capital.
3) Develop and communicate a strategy to return Canada to a balanced budget within a reasonable period.

Conclusion

The GVBOT released Scorecard 2016 which ranked the Greater Vancouver region against 19 comparable international metropolitan regions on key economic and social indicators. The aim of the Scorecard is to measure Vancouver's strengths and weaknesses in attracting labour and business investment, and providing a sound foundation for prosperity and quality of life for businesses and residents alike. This report, and its subsequent iterations, will guide the research and advocacy work of our organization for years to come.

The priorities outlined in this budget submission reflect the results of the 2016 Scorecard, Member consultations and surveys of the business community. Once Budget 2018-2019 is released, it will be analysed against the benchmarks in Scorecard 2016 and the priorities set out in this submission.

The Greater Vancouver Board of Trade's recommendations are made in the spirit of encouraging the federal government to continue to build on the strength of our provincial economy and to pursue the benefits that a strong economy brings to all citizens. We support fiscal policy and performance that appropriately balance the needs of businesses with those of the residents who rely the goods and services from both the public and private sectors. On this note, we commend the federal government on aspects of economic and social policy that have been introduced over the past year.

We look forward to the opportunity to work with you to further strengthen our country's economy and meaningfully address the critical challenges documented in the Scorecard.

Sincerely,

Greater Vancouver Board of Trade, per;

Iain J.S. Black, ICD.D
President and CEO
CC:
Federal Cabinet Ministers
Members of Parliament, Greater Vancouver Region

Appendix 1: GVBOT Comments – Tax Planning Using Private Corporations

October 2nd, 2017

DELIVERED VIA E-MAIL [fin.consultation.fin@canada.ca]

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

Dear Minister,

Re: Tax Planning Using Private Corporations

On behalf of The Greater Vancouver Board of Trade (the "GVBOT"), we respectfully submit this letter in response to the Government of Canada's call for consultation regarding the proposed changes to Canadian Controlled Private Corporations taxation.

Our commentary reflects the interests and priorities of the GVBOT Directors, and our over 5,000 Members from across the Greater Vancouver region. Of these Members, over 80% identify as small or medium-sized enterprises (SMEs). SMEs are the backbone of our economy, accounting for 98% of businesses and 55% of private-sector employment in British Columbia, and 70% of private-sector employment in all of Canada.

The GVBOT supports the Government's agenda of building a stronger tax-code which grows our economy. However, the GVBOT believes the measures proposed by the Government target legitimate and necessary tax planning structures that have been utilized by small businesses for decades. These structures provide necessary incentives for healthy and vibrant business cultivation and encompass the fundamental tools that all businesses utilize to plan for the risks they undertake. The GVBOT advises the Government to "Hit the Pause Button" and take a more holistic approach in developing a set of tax reforms to strengthen Canada's small business community.

In this letter, we outline the concerns of our Membership, some of which were voiced at a special, Member-only meeting on Friday, September 15th, 2017 entitled 'Proposed Tax Changes: Protecting Small Business'.

Over the past month, we provided our Members with an online platform to help them contact their MPs regarding these changes. With over 25,000 emails sent so far, the response from our Membership has been unprecedented in our organization's 130-year history.

Our commentary is divided into four areas: i) the distinction between business owners and employees, ii) costs of compliance and uncertainty, iii) the necessity of business flexibility, and iv) the disproportionate effects on women. This letter concludes with recommendations.

Section 1: Distinction between Business owners and Employees

We commend the Government for its mandate to support small businesses and create a stronger middle class. However, the proposed tax changes will have significant, unintended effects on all SMEs, particularly middle-class, family businesses.

1.1. Distinction between Business Owners and Employees

The proposed legislation is based on an over-simplified comparison between business owners and employees. Businesses should not be subject to similar conditions as their employees, as they operate under different circumstances. Small business owners undertake significant risk when investing substantial amounts of time and capital into their businesses. These are risks not undertaken by employees, and the tax code should reflect these important differences. Young businesses, in particular, depend on surplus profits for business growth. Changes to the tax system that subject them to greater financial and regulatory burdens could severely impact their chances of success, and ability to provide employment.

1.2. Unaccounted Risk on Family Units

An entire family unit often shares in the risk of a family SME. Prescribing a "reasonable" amount that a family member may attain for their contributions is complex and may not be quantifiable in monetary units. This measure does not account for the fact that consequences for a business' success or failure are shared by the entire. From stay-at-home spouses to financial and lifestyle sacrifices, family members contribute to business formulation and growth in many ways which fall outside of the "reasonableness" test proposed by the Government.

1.3. Strengthen Existing Legislation

Each Provincial "Business Corporations Act" includes the concept of "personal services business." This is intended to restrict an individual's ability to incorporate for the purpose of sheltering employment income. The "kiddie tax" also restricts the ability to shift passive income to children to take advantage of lower tax rates. Adding to the existing legislation increases the complexity, uncertainty, and the regulatory burden on small businesses. Enforcing and revising the rules that currently exist will provide a more adequate response to preventing people from using tax "loopholes" through corporations.

Section 2: Costs of Compliance and Uncertainty

Landscape changes, such as these tax proposals, require a complete overhaul of current business procedures, which will inevitably lead to greater uncertainty and compliance costs. Many business owners will be required to completely restructure their personal and corporate finances, at a significant cost. The changes proposed are complex and will add unnecessary compliance fatigue.

2.1. The Costs of Compliance

Compliance costs associated with these changes will weigh heavily on both taxpayers and business owners with a disproportionate impact on small businesses. CRA auditors and the government will need to make resources available to assist businesses in the transition to the new tax system. For small business owners, much of the time exerted to comply with this changes will take place after normal business hours, increasing unnecessary stress, and draining resources that would be otherwise used in economically productive activities. The opportunity cost of time that could be time spent expanding their business and growing the economy will be high.

2.2. Uncertainty of Legislation
The proposed legislation regarding reasonability, particularly assessing past labour and capital contributions, introduces a significant degree of uncertainty. Uncertainty will freeze business activities until owners can be sure of future projections, and how these changes will impact their tax structures. This will stifle entrepreneurship, innovation, and growth. Three activities which are necessary for creating a diverse and vibrant economy.

2.3. The Consequence of Retroactive Legislation
A healthy and sustainable economy requires transparency and certainty. Retroactive legislation is a clear violation of this and deters the entrepreneurial spirit, making business owners risk averse. More specifically, broadly worded anti-avoidance provisions that can apply to *bona fide* business transactions undertaken prior to the announcement of the proposed legislation should be re-worded and narrowed in scope to target those taxpayers, who are abusing the intent and spirit of the tax legislation. We ask for a revision of the scope of the proposed legislation to hone-in on bad-actors.

Section 3: Business Flexibility and Innovation

The GVBOT commends the Government for placing innovation front and centre in its federal agenda through various initiatives, particularly the Innovation Superclusters Program. The rewards of strengthening our technology ecosystems will allow Canada to grow prosperously and sustainably. However, by suppressing innovation and entrepreneurship, the GVBOT believes the proposed tax changes are inconsistency with the Government's own agenda. Businesses in B.C. must already plan for the cumulative impacts of higher minimum wages and carbon taxes, increased personal income taxes and uncertainty due to North-American Free Trade Agreement (NAFTA) negotiations. The cumulative affects these changes will severely stunt business growth and innovation, and hamper Canada's overall competitiveness.

3.1. Hedge Against Risk
Passive income is retained in a business to hedge against risk, plan for further growth and accumulate capital that can be used to expand the business and/or plan for retirement. The GVBOT is concerned that the Government is dictating where businesses should hold their wealth and incentivizing owners to take capital out of the business despite being crucial to small business survival. These practices are critical to planning for the natural business cycle and surviving during lean years. Eliminating the incentive to save surplus revenue in a business could result in severe unintended ramifications for businesses and their owners alike.

3.2. Plan for Retirement
Currently, shareholders of corporations are able to use passive investment income to provide a stream of income for retirement. Legislation that will impact existing corporate structures and limit after-tax income available for retirement, may essentially deny small business owners and their spouses the ability to retire when anticipated or afford the retirement they had planned for.

3.3. Retain Flexible Business Practices
We acknowledge that the Government encourages business owners to use registered plans such as TFSAs and RRSPs for business profits in lieu of passive investments in corporations. TSFAs and RRSPs are important tools to save for retirement. However, small businesses often operate within tight margins and require the flexibility to save and move capital around. Many registered plans limit the movement of

accumulated capital, and therefore reduce flexibility and functionality of passive investment capital that entrepreneurs require to succeed and expand.

3.4. Deterring Innovation

The Government has made clear their ambition to incentivise innovation, not deter it. The GVBOT believes the proposed changes are likely to reduce fundamental start-up funding. Business owners often make passive investments in start-ups and discouraging these investments by means of a higher tax rate will starve start-ups of the funding they require to get off the ground. We are particularly concerned about how the proposed changes will stunt the investment in — and expansion of — the tech industry, a key driver of economic growth and innovation in Canada, particularly B.C. The Greater Vancouver region already fares poorly in attracting venture capital and seed funding for its rapidly growing tech sector. As found in the Greater Vancouver Economic Scorecard 2016, for every US$1 million of GDP, the region receives 0.003% in venture capital, earning it a ‘C’ grade relative to its competitors. Montreal also earned a C grade, while Toronto, Calgary and Halifax earned ‘D’ grades. Canadian companies have long struggled with attracting necessary capital investment, and these tax changes stand to exacerbate the issue.

Section 4: Disproportionate affects on woman

The GVBOT commends the Federal Government’s constant support and mandate to advance women in all areas of society and business. The GVBOT believes however, that the proposed changes to income sprinkling and passive income fail a gender-based analysis and disproportionately affect women.

4.1. Income Splitting Disproportionately Affects Women

Only one third of Canadian incorporated businesses are majority owned by women. The proposed legislation will likely disproportionately affect women from utilizing spousal income sprinkling and therefore benefiting from business ownership, despite being equal partners in all other aspects of their lives and finances. As outlined previously, all spouses share in the risk of businesses formulation and growth, and these contributions are not always quantifiable in a reasonableness test.

4.2. Women Pay for their own Maternity Leave

Female entrepreneurs often use passive income investments to fund their maternity leave. This includes ensuring their businesses remain functioning, protecting the income of all employees, and allowing themselves to earn income while they take leave. This is a fundamental tax tool which allows women equal and fair compensation for owning their own business. The proposed tax changes will severely limit this practice.

Recommendations

The GVBOT believes that the Government must ‘Hit the Pause Button’ and take a comprehensive approach to the tax reform, including a more inclusive consultation with stakeholders.

1. “Hit The Pause Button”

Pause. Extend the consultation period. Include more consultations with the business community.

Considering the broad-based implications of the proposed changes, we believe the consultation period is far too short. We ask the government to launch discussions with the business community that address the limitations in the proposed policies. Allow time for businesses to fully comprehend the implications to their livelihoods and create a more inclusive forum for meaningful discussion.

A pre-written legislation proposed prior to a consultation process hinders policy change that will ultimately benefit the Canadian economy and citizens. In addition, the way the proposed changes have been communicated vilifies businesses for their current tax practices, although such activity has been the norm for decades. The Government has worryingly termed these legitimate practices as “loopholes.” Some of these policies were introduced by the Government as far back as 1972, after an extensive review by the 1966 Carter Commission. Incorporated businesses are not taking advantage of loopholes, but planning their affairs in a tax-efficient manner that respect the existing policies introduced by Government. Again, we recommend an extension of the consultation period to address the concerns of businesses.

2. Review, Strengthen and Simplify Current Legislation

The GVBOT recommends the Government consider a comprehensive review of the Canadian tax system to help further the Government’s mandate of creating a stronger Canadian economy. Simplifying legislation will also help businesses comply without increased burden and risks.

The Greater Vancouver Board of Trade has worked on behalf of our region’s business community to promote prosperity through commerce, trade, and free enterprise for 130 years. Our mission is to work in the enlightened interest of our Members to promote, enhance and facilitate the development of the region as a Pacific centre for trade, commerce, and travel. The Board strives to enable and empower its Members to succeed, grow and prosper in the global economy.

Sincerely,

Greater Vancouver Board of Trade, per;

Iain J.S. Black ICD.D
President and CEO

CC:
Federal Cabinet Ministers
Members of Parliament, Greater Vancouver Region