



## **British Columbia Chamber of Commerce Submission on the Pre-Budget Consultations for Budget 2006 and Beyond.**

The British Columbia Chamber of Commerce (the BC Chamber) is a volunteer, not for profit association, which serves its members as the provincial federation of autonomous community chambers of commerce/boards of trade and corporate members.

The Chamber represents the views of 130 chambers of commerce and boards of trade, representing 31,000 businesses of every size, sector and region of the province. As such the Chamber truly is “The Voice of BC Business.”

Known to be in operations as early as March 1867, the Chamber was re-established in 1951 with a mandate to:

- Develop a true cross section of opinions of the British Columbia business community
- Present members’ opinions to government
- Promote trade and commerce
- Improve the economic and human well being of the people of British Columbia

Given our mandate – to advocate a policy framework that promotes a healthy and vibrant economy in which all British Columbians can grow and prosper – we are very pleased to have the opportunity to provide our recommendations on the priorities for Budget 2006 and beyond.

From measures to address the skills shortage through to taxation and government operations the Chamber was pleased to see commitments in the Conservative Party's 2006 federal election platform that were very much in keeping with the policy recommendations of the Chamber.

The Chamber recognizes that Prime Minister Harper has been clear in his focus on his five top priorities as outlined in the campaign – passing a *Federal Accountability Act*, cutting the GST, cracking down on crime, funding for childcare, and establishing (with the provinces) a waiting times guarantee in healthcare. The Chamber also recognizes that the government is focused on ensuring that Budget 2006 goes a long way towards accomplishing these goals.

Having said that the Chamber believes that there is still significant room for the government to move on some of the other issues and concerns expressed by our members that are outside these top five priorities.

A critical issue facing Canada is our dismal productivity performance and it is our hope that in the months ahead, the new government will turn its attention to putting in place a wide-ranging and comprehensive strategy aimed at increasing productivity growth in Canada. Improved productivity is the key to future prosperity and to closing the gap in living standards between Canada and the US. Increasing productivity is a key element in economic growth and prosperity, increased productivity not only means better salaries for workers, it also means better returns for businesses and also more investment for government.

The simple fact is that improving productivity is not about getting workers to work longer and harder, it is about getting workers to work better and smarter. Government has a critical role to play here in providing businesses with the tools and environment that encourages productivity improvements.

The most effective means of doing so is to outline measures that promote a skilled workforce, provide incentive to work, save and invest. The focus must be on enhanced training and education, reducing punitively high marginal tax rates, burdensome regulations, barriers to trade, and investing in productivity-enhancing areas (like education, training, technology and infrastructure – including border infrastructure) while ensuring that all government programs are delivered and managed in the most efficient and cost-effective manner.

We strongly believe that by undertaking the right investments and focusing on long-term goals, sound government policy can create favourable conditions that promote productivity-led growth that will raise the standard of living of Canadians in the years to come.

It is critical that the government undertake to play its rightful role in providing the macro-economic conditions necessary to attract investment and to promote economic growth and prosperity throughout Canada. To do this the government must develop a strategic vision for economic growth and provide clear direction on how this plan can be achieved.

We believe that the following recommendations provide the government with a platform to achieve this vision.

## **Addressing the Skills Shortage and the Coming Demographic Timebomb**

The fact that we are already experiencing a skills shortage is a widely accepted reality. However what is not so well understood is that this will be seriously exacerbated by the coming “demographic timebomb.” This phenomenon is one being faced by countries around the world as declining birth rates and longer life spans will result in a “greying” of the population.

In the case of BC the current population is approximately 4.1 million. However, the age cohorts indicate that the largest population increase through 2008 will be, in order of percentage increase, 55-64, 45-54 and 65+. The lowest increase is identified as the 0-14 age group. This has profound impact on our future workforce and the consequent utilization and future support of social programs.

A report produced for the Canadian Alliance of Sector Councils in February 2003, underscores how this situation is expected to have a profound effect on our local labour market. The study outlines how, for a number of years, Canada’s birth rate has been falling rapidly and, in the year 2000, stood at an all time low of 1.5 children per woman. It suggests that by the year 2026, one in five Canadians will be 65 years of age or older – up from one in eight in 2001. As such, it has been projected that, over the next ten years, the number of Canadian workers aged 55 to 64 will increase by more than 50 percent. Significant skilled labour shortages are to be expected when these baby boomers begin to exit the labour market as they turn 65. The demographic reality will present significant challenges for the economy as economic growth is challenged by the lack of workers.

These issues have particularly serious implications for our rural communities, since many of the businesses that represent the backbone of local economies are SME’s that lack the capacity to deal with the impending labour shortage. The Chamber feels that the current situation requires a coordinated response from all stakeholders that focuses on two key areas;

1. Increase the skills base of the workforce
2. Increase the number of workers in the economy

### **Increase the skills base of the workforce**

The government is to be commended for its focus on skills and training in its election platform. Given the urgency of the situation the Chamber believes that these commitments must form a priority for the government and action must be included in Budget 2006.

Addressing current and future skills shortages has become the #1 concern among regional and national business and industry groups across the country. This is a national challenge that will affect the Canadian economy, regional economies and virtually all major industrial and occupational sectors in Canada. The Government of Canada has a pivotal role in this issue given its responsibility for Employment Insurance and the national economy and labour market.

Human resources have become our country’s most valuable and scarce resource. The Canadian

tax system needs to reflect this. Our tax framework supports companies who invest in research and development, purchase manufacturing equipment, etc. Why should it not reward those who invest in our most important capital?

With this in mind the Chamber recommends that the government develop a program and a timetable for the introduction of its election commitments by implementing;

1. a national training tax credit program to encourage the creation of new apprenticeship spaces,
2. a Tools Tax Deduction of up to \$500 for existing tradespeople that eliminates red tape for the self-employed and provides tax fairness for the employed.
3. an Apprenticeship Job Creation Tax Credit of 10 per cent of an apprentice's wages for two years to a maximum of \$2,000 to support businesses that establish apprenticeship positions to create more jobs in the trades.

### **Increase the number of workers in the economy**

While increasing the skills base of the existing workforce is critical the key is immigration. Net international migration is now the single largest contributor to population growth and it is estimated that by 2011 a full 100% of the net labour force growth in BC will be through international immigration. The challenge is the fact that the current immigration system is simply not ensuring that the immigrants we attract are being used to their full capacity.

The provincial and federal level of government must take a coordinated approach to addressing this concern. Areas the Chamber believe must be immediately addressed are, increasing the capacity of the provincial nominee program in all provinces to provide the ability to increase capacity to attract new immigrants, the need for a fast track credential recognition and assessment process to ensure immigrants can fully utilize their skills, the need to provide education overseas to better prepare immigrants for integration into Canada, and a shift of resources away from processing family class immigrants to cut the wait time for skilled and economic immigrants from its current 18-24 months.

One of the goals of the federal government must be to ensure that Canada receives the skilled immigrants it needs and helps immigrants to achieve their full potential in the Canadian labour market and society. Failure to achieve this goal is an abdication of the government responsibility to enhance the economic welfare of the people of Canada. However, we have serious concerns regarding the government's ability to deliver on this goal, both in terms of the capacity of the government, but more importantly through the structures currently put in place to process applications.

Immigration services abroad are provided through a network of approximately 80 offices in Canadian Embassies, High Commissions and Consulates. The visa offices may process applications differently depending on the application and the visa office. The length of time it takes to process an application can also be different in each mission or visa office. The reality is that we resource visa offices in different countries to varying extents, the effect of which is to slow down immigration from some countries while speeding up immigration from others.

Approximately 50% of cases emanating from Africa and Asia are processed in thirty-three months, while it takes twelve months from Europe and twenty-one months from the Western Hemisphere. In some cases, the wait can be up to five years or more, depending on the location.

The massive backlog of unprocessed visa applications has rendered the federal system sclerotic. Estimated at up to 120,000 in 2003, and not getting any smaller, this backlog is responsible for the lengthy wait times at the various overseas offices. Such delays have created an unofficial quota system by discouraging residents in certain countries from applying to Canada.

Also putting Canada at the bottom of the list for hotly sought-after immigrants are policies that force the holders of temporary work visas (immigrants who have entered the country legally and are currently working) to leave the country in order to apply for permanent residency status. The European Union allows workers with five years of service to stay on a permanent basis, without having to leave and return.

If Canada is to have a viable immigration policy, it needs a system that gives potential immigrants assurance that their applications will be processed in an efficient manner within a reasonable and predictable period of time. Otherwise, they will look to other countries.

The Chamber recommends that Budget 2006;

1. Provide resources to improve the process time for skilled immigrants
2. Create a fast track credential assessment and recognition process in concert with the provinces
3. Revise the process for temporary workers applying for permanent immigration by simplifying the process as well as by allowing these workers to remain in Canada while their application is being processed.

## **Fiscally Responsible Government**

The Chamber has been a consistent voice calling for government to institute a program of fiscal responsibility that focuses on the need to ensure government spending remains sustainable, debt reduction is structured with specific targets and that the taxation regime in Canada becomes a competitive advantage.

### **Program Spending and Debt**

The pace of government spending remains an issue of significant concern for the Chamber given that year on year increases in the Budget surplus have driven ever increasing federal government program spending, this has seen program spending projected to reach 11.8% in 2004-5 and has averaged out at 6.6% over the last four to five years. Increases of this magnitude are totally unacceptable and quite clearly unsustainable.

As a new administration the Chamber believes the federal government has an ideal opportunity to send a clear message that this government believes in the importance of balanced budget and fiscal responsibility. The Chamber believes that this message would best be illustrated by announcing in Budget 2006 a commitment to ensuring that real per capita program spending will remain constant and will not increase by more than the rate of growth of the population plus inflation – around 3%.

Moreover, the federal government must end its practice of last minute (i.e. fiscal year-end) new spending initiatives. In his 2001 Report, the Auditor General of Canada stated that “*a scramble at year-end is not the way to ensure economy, efficiency and effectiveness in the use of public funds*”. Discipline in spending is essential to ensure that the federal government does not slide back into a deficit position. Discipline in spending would also ensure that future budgets leave room and provide the flexibility for action on debt and taxes.

While Canada’s debt-to-GDP ratio is moving in the right direction the Chamber believes that more can, and must, be done. While there is generally no accepted ideal or “optimal” debt-to-GDP ratio (research provides little guidance on this issue), Canada should strive to reduce its net federal debt-to-GDP ratio to the 30% level in the short-term and substantially lower than that in the longer-term.

Reducing the net public debt would increase national saving by freeing funds for investment and lowering the cost of capital. Savings generated from further debt reduction could also be applied to lowering Canada’s high tax burden and/or further debt reduction. Last, but not least, lower debt levels would reduce the exposure of government programs and taxes to fluctuations in interest rates and would enable Canada to better meet the requirements of an aging population going forward.

### **THE CHAMBER RECOMMENDS**

That Budget 2006:

1. continue the policy of fiscal restraint at least until the debt-to-GDP ratio has fallen below 30%;
2. introduce more concrete debt reduction objectives going forward;
3. rebuild the normal Contingency Reserve and economic prudence as soon as possible. Continue to allocate the contingency fund to debt reduction. If the economy performs as forecast, the reserve for economic prudence should also be committed to debt reduction;
4. allocate any unanticipated surplus arising at year-end to debt reduction;
5. limit growth in government spending to approximately 3% per annum based on anticipated growth in population plus inflation (i.e. keep real per capita spending constant over the medium term);
6. undertake a thorough review of all programs and continue to review all programs every two years to determine where the payoffs are the greatest and to identify areas where spending can be reduced or eliminated; and
7. end the practice of last minute (i.e. fiscal year-end) new spending initiatives.

## **Tax Policy**

In recent years, both the federal and many provincial governments have taken steps to reduce personal and corporate income tax rates. The Chamber views this as a positive development. Lower personal income tax rates will increase the incentive for workers to save and invest, to increase work activity and effort, as well as attracting new workers to Canada.

However, more needs to be done.

The overall tax burden in Canada – revenues from all levels of government as a share of GDP – remains substantially higher than in the United States. The degree to which Canada's tax system can compete with that of our southern neighbour is vital in light of the large trade flows – goods, services and capital – between the two countries to say nothing of our need to remain competitive to retain and attract workers.

The Canadian economy operates in a global environment which requires Canadian businesses to compete with businesses around the world. High corporate taxes limit the ability of Canadian businesses to expand and create employment for Canadian citizens. As such, we were disappointed with the decision taken by the previous administration to rescind the corporate tax cut announced as part of Budget 2005.

With this in mind we were pleased to see the government's commitment to reduce the general business tax rate from 21% to 19% by 2010, along with the business surtax to be eliminated on January 1, 2008. The Chambers believes that the timeframe outlined by the government is

neither ambitious, nor necessary. Therefore the Chamber urges the government to ensure that measures are introduced in Budget 2006 that begin to address this critical issue.

### **Personal Income Taxes**

The Chamber places a high priority on the government further reducing personal income taxes. Canada's personal income tax (PIT) burden (i.e., personal income tax revenue-to-GDP ratio) is the highest among G7 nations at 14.6%. The comparable ratio in the United States is 11.8%. The top marginal personal income tax rate in Canada (federal/provincial combined) averages 45.4% compared to 42.8% in the United States. Moreover, Canada's top marginal tax rate kicks in at a much lower level of income than the top marginal rate in the United States.

The marginal tax rate is the tax that is imposed on the next unit of economic activity. As such, marginal taxes greatly influence economic decisions - they govern the choice between working more or taking more leisure and between consuming more or saving more. High marginal tax rates on labour reduce the incentive to work and stay in Canada. Going forward, Canada will face the increasing challenge of attracting and retaining skilled workers that are essential to our international competitiveness. In order to attract and retain highly skilled and productive human capital, much more needs to be done in providing tax relief for individuals at the top end of the tax spectrum. Similarly, more needs to be done in terms of providing tax relief for low-income earners. For these individuals, high marginal tax rates discourage work effort because many of the public benefits they receive end up being clawed back.

High marginal tax rates also discourage personal saving by reducing the ability and incentive to save. If we want a bigger "pie" to divide among Canadians, we must save more now. A higher saving rate increases the country's capital stock, boosts productivity growth and, therefore, economic growth and standard of living.

### **Business Taxation**

For corporations, profits earned are very sensitive to tax rates since they can easily be shifted among countries. In Canada, the average general corporate income tax rate is 38.3%. This includes federal tax of 26.12% (the federal surtax of 1.12% is included) plus provincial/territorial tax. In the United States, the combined federal/state effective corporate income tax rate averages 39% (the federal-only rate is 35%; state and local corporate income tax rates average about 4.0%).

Despite the fact that the average general corporate income tax rate in Canada is, at present, lower than that of the United States, this is not a time for complacency. Business tax reform is proceeding in many OECD countries. Jack Mintz of the C.D. Howe Institute put it well when he wrote, "*Canada should aim to create a distinctive Canadian advantage for businesses to locate here to serve the North American market.*" Foreign direct investment is crucial. Not only does it create new jobs but it can also lead to an infusion of innovative technologies, management strategies and workplace practices.

Given the need for Canada to become more competitive, The Chamber urges the federal government to continue reducing corporate income taxes beyond the current plan as fiscal conditions permit.

Withholding taxes can have a significant negative impact on the economy and on innovation. Withholding taxes can impede cross-border capital flows and act as a tariff on the importation of capital and/or knowledge. For example, US investors may require a higher rate of return on their savings in order to invest in Canada. Indeed, taxes withheld on interest payments are frequently shifted to the borrower, thereby, increasing the cost of capital. Similarly, withholding taxes on royalties can raise the cost to Canadian business on accessing foreign technology, a key component to the innovation process.

#### THE CHAMBER RECOMMENDS

That the federal government:

1. immediately re-instate the corporate tax cuts announced in the 2005 Budget.
2. allocate most of the planning surplus to tax reduction to make Canada more competitive internationally;
3. lower personal and corporate income tax rates and raise the high income threshold to make Canada more competitive with the United States and more attractive to investors, entrepreneurs and highly skilled labour; and
4. eliminate withholding taxes on investment income flowing out of Canada and into Canada on a bilateral Canada-U.S. basis.

The Chamber calls on the government to show the vision and leadership that are essential to tackle the significant issues that are faced by Canada as it strives to address the challenges we face in building an economy that lays a foundation for sustainable long term growth and prosperity.

The Chamber believes that Budget 2006 must send a clear message to the business community and to international investors that Canada has a vision for the future and has a clear plan of how we can achieve this vision.

The Chamber believes that Budget 2006 is both an ideal opportunity, and more importantly has the potential to be a defining moment in the mandate of the new government. Our members expect the government to show that when it comes to government finances and fiscal responsibility Canada has elected a government that understands that action is more important than rhetoric.