



Certified General
Accountants Association
of Canada

100 – 4200 North Fraser Way
Burnaby, British Columbia
Canada V5J 5K7

Tel: 604 605-5006
Fax: 604 683-6483
www.cga.org/canada

From the Office of the President & CEO

December 7, 2010

Honourable Jim Flaherty, P.C., M.P.
Minister of Finance
House of Commons
Ottawa, ON
K1A 0A6

Dear Minister:

As you prepare for the 2011 federal budget, and in conjunction with the public consultations underway concerning the next phase of Canada's Economic Action Plan, the Certified General Accountants Association of Canada (CGA-Canada) would like to take the opportunity to highlight the importance of small and medium size enterprises (SMEs) to Canada's economy.

CGA-Canada is encouraged by this government's solid understanding of the important role the SME sector plays in Canada's economic recovery, productivity, competitiveness and long-term stability.

To unlock the potential of the SME sector, the needs of SMEs should be at the top of the public policy agenda. In these uncertain times – and through efficient and effective public policy-making – the government must work with stakeholders to ensure a vibrant, growing, competitive and innovative SME sector.

Therefore, the central recommendation put forward by CGA-Canada for Budget 2011 is –

That the Government of Canada provide further and meaningful support to SMEs and entrepreneurs by improving the taxation and regulatory environment for Canadian businesses.

CGA-Canada believes that governments have an important role to play in creating the right conditions for Canada's SMEs to be even stronger performers, and we are pleased to share some of our key recommendations and strategies to unlock the potential of the SME sector and to ensure its growth, competitiveness and success as an engine that fuels Canada's economy. These strategies emanate from the Forum on SME Issues, convened by CGA-Canada and CPA Australia, which examined financial and regulatory challenges facing the SME sector in Canada and Australia in the aftermath of the global financial crisis. These themes also reflect work just completed with CPA Ireland on entrepreneurship. In addition, these themes were integral to CGA-Canada's Dialogue with Parliamentarians, which

involved discussions with each of the four national caucuses on the challenges and opportunities faced by Canada's SMEs. Finally, these strategies are the basis of CGA-Canada's recent pre-budget brief to and appearance before the House of Commons Standing Committee on Finance.

First, CGA-Canada recommends the federal government appoint an independent panel of experts to review Canada's tax regime to ensure the system is simple, fair and efficient. Moreover, it should be a forward-looking process that positions Canada competitively for the challenges of the 21st century.

While personal and corporate income tax rates have come down in recent years, Canada's tax system has kept on growing. It is unnecessarily complex, cumbersome, labour-intensive, costly to administer, full of red tape and difficult to understand. On an international scale, Canada's system is among the most complex in the world – this hurts our economy and imposes a formidable challenge to industry and in particular to Canada's SMEs.

Now is the time to modernize Canada's tax regime. Moreover, other countries are taking steps to make their tax systems simpler, fairer and more efficient – including Australia with its Henry Tax Review, the U.K. with its new Office of Tax Simplification, and the United States with the work underway by the President's Economic Recovery Advisory Board to overhaul and streamline the American tax system.

Therefore, CGA-Canada proposes that the federal government appoint a panel of experts to modernize Canada's tax regime, consult widely, and provide third party advice and an action plan to the Minister of Finance.

The federal government is no stranger to the process of striking panels or task forces on significant public policy issues. Recent examples include the Advisory Panel on Canada's System of International Taxation, the Expert Panel on Securities Regulation in Canada and the Task Force on Financial Literacy.

Second, CGA-Canada recommends that you consider introducing a "sunset provision" for unlegislated tax proposals, to be approved by Parliament.

CGA-Canada believes the federal government ought to improve the way it manages the process governing technical amendments to the *Income Tax Act*.

Frequently, too much time lapses between measures being announced and actually implemented. In the interim, taxpayers, professional accountants and even the CRA prepare for this government policy – which involves maintaining records and forms, often for many years, not knowing if the legislation will come forward if at all. The current process is uncertain and unpredictable. And, as the Auditor General has pointed out, the lack of clarity in the *Income Tax Act* makes it very difficult for taxpayers to assess how much income tax they owe.

CGA-Canada acknowledges the Government of Canada has released a number of draft legislative proposals to address the backlog of technical changes to be made to the *Income*

Tax Act – as many as 400 technical changes are needed, according to the Auditor General of Canada in her Fall 2009 Report. While we are pleased that the federal government is taking action to move the legislative process forward, CGA-Canada believes there is a better way to address unlegislated proposals and bring more certainty to the process. In Britain, when a tax policy change is announced, the change must be incorporated into the very next *Finance Bill* and/or a separate piece of legislation, and if the legislation is not passed within 12 months, the measure is deemed to have lapsed. CGA-Canada submits Parliament ought to consider the introduction of a “sunset provision” for unlegislated proposals. This initiative would bring greater clarity and predictability to tax legislation, reduce the burden of compliance and amount of paperwork for SMEs, and generally strengthen Canada’s tax system.

Third, further to the 2010 budget commitment to strengthen taxpayer fairness, CGA-Canada supports the introduction of a Canadian taxpayer fairness code. We applaud the recent announcement made by National Revenue Minister Keith Ashfield that taxpayers will be provided with written reasons for decisions made by the Appeals Branch of the Canada Revenue Agency. This is a good step and the federal government should go beyond the appeals process and extend the guaranteed right to Canadian businesses to receive written tax rulings insofar as CRA interpretations are concerned. This would strengthen transparency and accountability as well as facilitate compliance. The Government of British Columbia has established a well-defined Taxpayer Fairness and Service Code that contains the right to request and receive complete, accurate, clear and timely information in writing.

Fourth, governments must take immediate and aggressive action to reduce the overall regulatory burden on SMEs, drawing on the expertise of the private sector and professional organizations. While there have been initiatives at the federal level, there is more work to do. For instance, the government needs to deliver on its 2010 budget commitment to establish a Red Tape Reduction Commission. We further submit that until the Red Tape Reduction Commission and the newly-created Advisory Committee on Small Business and Entrepreneurship complete their reviews, a moratorium on the net increase of federal regulatory requirements ought to be put in place.

Canada’s governments need to get much more serious to achieve meaningful results in reducing the overall regulatory burden on SMEs – which continues to cost businesses about \$30 billion a year.

Government efforts thus far have been fragmented and insufficient, while the end results have been excessive and duplicative. The federal government should take a leadership role and work with the various regulatory players to clarify and streamline areas of jurisdictional overlap.

Canada’s governments could turn to the Council of Australian Governments (COAG), where all levels of Australian governments discuss and agree on approaches to reduce regulatory overlap between jurisdictions. COAG demonstrates that forging multi-level inter-governmental relationships can be crucial in moving the regulatory reform agenda ahead. A pan-Canadian arrangement or formalized structure of collaboration among the levels of government to tackle the regulatory burden would likely bring lasting economic benefits on a national scale to this country.

Last, but not least, all governments must continue working towards revitalizing the Agreement on Internal Trade (AIT). While there is no question that progress is being made, there is still unfinished business on the agenda. We need to remove the barriers – once and for all – that limit Canada’s interprovincial trade and labour mobility, and harm our international reputation as a place to do business. Finally, we must strengthen the “person-to-government” dispute resolution mechanism to ensure consumers and businesses have an effective voice in matters concerning an open, efficient and stable domestic market.

In sum, to create a more supportive taxation and regulatory environment that would enhance the ability of the SME sector to grow and thrive, as well as fulfill its traditional role as an engine that fuels Canada’s economy, Budget 2011 should include the following measures:

1. Appoint an independent panel of experts to undertake a comprehensive review of Canada’s tax regime, with a view to ensuring the system is simple, fair and efficient
2. Implement a “sunset provision” for unlegislated tax proposals
3. Introduce a Canadian taxpayer fairness code to strengthen transparency and accountability in tax matters
4. Take immediate and aggressive action to reduce the overall regulatory burden on SMEs
5. Accelerate efforts to revitalize the AIT through eliminating barriers to interprovincial trade and labour mobility and putting in place an effective dispute resolution mechanism

Minister, thank you for your consideration and we look forward to continuing to work with you, your staff and officials on matters of mutual concern and interest.

Yours sincerely,

Original signed by

Anthony Ariganello, CPA (Delaware), FCGA
President and Chief Executive Officer