

2019

FEDERAL PRE-BUDGET SUBMISSION

ABOUT THE ONTARIO CHAMBER OF COMMERCE

For more than a century, the Ontario Chamber of Commerce has been the independent, non-partisan voice of Ontario business. Our mission is to support economic growth in Ontario by defending business priorities at Queen's Park on behalf of our network's diverse 60,000 members.

From innovative SMEs to established multi-national corporations and industry associations, the OCC is committed to working with our members to improve business competitiveness across all sectors. We represent local chambers of commerce and boards of trade in over 135 communities across Ontario, steering public policy conversations provincially and within local communities.

Through our focused programs and services, we enable companies to grow at home and in export markets. The OCC provides exclusive support, networking opportunities and access to policy insight and analysis to our members. We also work alongside the Government of Ontario on the delivery of multiple programs, and leverage our network to connect the business community to public initiatives relevant to their needs.



The OCC is Ontario's business advocate.

Design: Sarah Fordham RGD, Senior Designer

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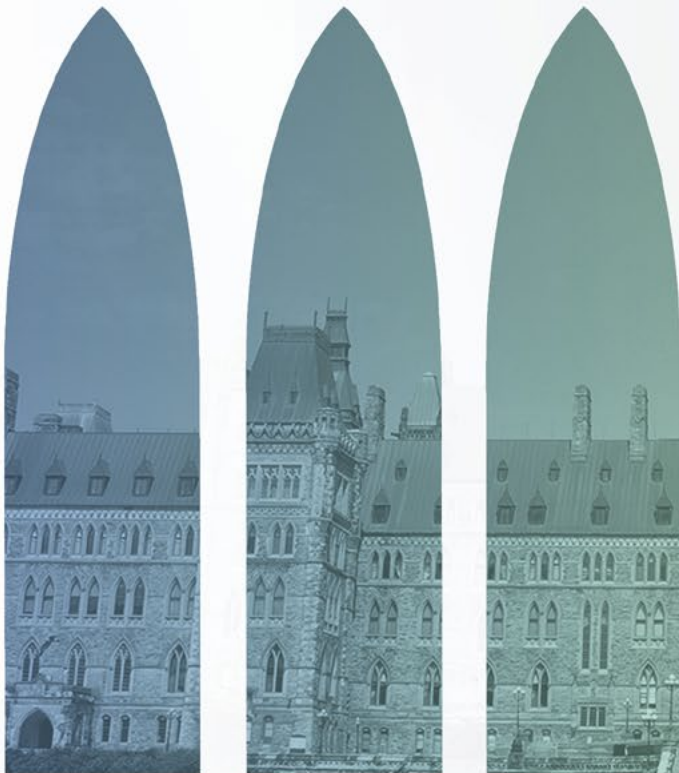
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Read the 2019 pre-budget submission authored by the Canadian Chamber of Commerce here:

http://www.chamber.ca/advocacy/federal-budget/2019_Pre-Budget_Submission.pdf.

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INTRODUCTION

For more than a century, the Ontario Chamber of Commerce (OCC) has been the independent, non-partisan voice of Ontario business. Our mission is to support economic growth by defending business priorities at Queen's Park, on behalf of our network's 60,000 members.

While Canada is a leader in attracting global talent and investment, we face increasing international competition. Our continued prosperity depends on our capacity to translate innovation into real economic growth. In this climate, competitiveness has become even more critical to our future.

The OCC believes that Canada requires an environment in which business can invest and innovate, and individuals can continuously develop in-demand skills. The 2019 Federal Budget should provide the necessary ingredients to foster such an environment.

This document contains eight recommendations under four priority areas, namely:

- Reforming Canada's tax system to enhance competitiveness
- Stewarding our transition to the knowledge economy
- Nurturing the innovation ecosystem
- Providing sustainable public drug coverage

We look forward to the 2019 Federal Budget and continuing to work with the Government of Canada on behalf of Ontario's business community.

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RECOMMENDATIONS

Canada's tax system is an essential tool to improve our competitive position, to attract and retain talent, and to support inclusive economic growth.

Dramatic tax reform in the U.S. has lowered their federal statutory corporate income tax rate to 21 percent (from 35 percent) and instituted innovative approaches such as accelerated depreciation. This change reduced the effective tax rate on new investment in that country to 18.8 percent, bringing the American rate below Canada's for the first time in over a decade.¹ We have now lost a critical competitive advantage vis-à-vis our much larger neighbour.

Historically, our competitive edge in attracting investment has rested on two pillars: a lower corporate tax rate and free trade. With the former pillar gone and the future of the latter currently uncertain, immediate action from both the Ontario and federal governments is necessary.

The OCC therefore recommends:

1. Reforming Canada's tax system to enhance competitiveness

1.1 That the government undertake a review of the Canadian tax system to increase our economic competitiveness.

It is time for a comprehensive review of Canada's tax system. This should include, but is not limited to the following:

- eliminating inefficient or poorly targeted tax credits;
- reducing complexities and inefficiency; and
- enticing new investments through a commitment to keeping corporate taxes low.

1.2 That the government amend the safe harbor provision of the Income Tax Act to allow Canadian firms to provide services to non-resident funds.

Our tax rules limit Canadian companies' ability to provide services to foreign funds and to attract foreign investment into Canadian funds. This is a threat to knowledge economy jobs and reduces the tax base.

Canada's safe harbor rule is intended to allow non-Canadian funds to employ Canadian service providers (e.g. fund managers) without the risk of the funds' income being taxed in Canada, if conditions are met. However, this provision is too restrictive compared with equivalent rules in other countries.

The federal government should amend the rule by:

- expanding the definition of qualified investment;
- extending the one-year seed capital period;
- extending the list of designated investment services;
- amending the limitation on affiliated persons; and
- eliminating the complete prohibition against Canadian investors.

These amendments would expand the market for Canadian services and allow for economies of scale to be realized which are on par with the global economy.

2. Stewarding our transition to the knowledge economy

Developing and ‘future-proofing’ Canadians’ technical and soft skills is a prerequisite for competing in the global market. To date, the federal government has done an admirable job of implementing an agenda focused on modernizing the labour market; however, more must be done.

The OCC therefore recommends:

2.1 That the government identify and allocate the resources necessary to enhance experiential learning opportunities.

Both the federal and Ontario governments have made strides to support work-integrated learning. However, to ensure that every student graduates with a co-op, internship, or other meaningful work placement, government must achieve significant industry ‘buy-in’ by helping employers better understand the benefits of integrating youth into their business.

The government should develop funding and programming models that satisfy the following:

- better equip employers with the resources they need to finance and manage student employees;
- support the expansion of opportunities at small businesses and not-for-profits, which often have fewer resources to dedicate to experiential learning;
- make use of post-secondary institutions, chambers of commerce/boards of trade, employment planning councils, workforce development boards, and the public sector, to develop regionally-relevant opportunities.

2.2 That the federal government develop a governance framework to address deficiencies in the quality and dissemination of labour market information (LMI).

The inadequacy of current LMI is a challenge for policymakers who depend on this data to inform their decision-making on programs such as the Temporary Foreign Worker Program or Employment Insurance.² Canada’s LMI collection, analysis, and dissemination has not kept pace with the ‘big data’ revolution in business, nor with the burgeoning use of highly detailed and high-frequency data that tracks outcomes, choices, and preferences among individuals.

To rectify that, the government should do the following:

- improve the relevance of the National Occupation Classification (NOC) by reviewing it comprehensively every five years rather than every 10 years;
- allocate appropriate funding to Statistics Canada for collection, analysis, and dissemination of LMI;
- ensure robust means of data collection, such as the long-form census, are venerated within government for the value they provide to business and society.
- establish formalized partnerships between provinces, industry, post-secondary institutions, and the public sector to share LMI, avoid duplication of data, and collaboratively strategize on labour market challenges. The Forum of Labour Market Ministers should have a role in facilitating such partnership.

2.3 That the government amend the Canada Ontario Job Grant (COJG) subsidy to allow access for small business owners.

The COJG has helped rural small businesses give the local workforce an arsenal of sought-after, transferable skills since 2014. However, business owners with a controlling interest are not eligible to participate in funded training through this grant.

Allowing small business owners to qualify for the COJG would give them much-needed tools to successfully grow their business and strengthen the local labour market. Further, given the success of the program, the government should continue to offer the grant after the initial six-year program ends in 2020.

2.4 That the government increase the annual allocation to the Ontario Immigrant Nominee Program (OINP).

Despite the unmet need for labour in Ontario, the number of economic immigrants to our province has been in steady decline. In 2013, Ontario received 47,628 economic class immigrants, a decrease from 49,185 in 2012.³ This year, Ontario received an OINP allocation of 6,600, an increase from the 6,000 nominations allocated in 2017.⁴ While this makes Ontario the largest recipient of economic class migrants, the amount is disproportionate to the province's population. In 2016, Ontario received only 29 percent (or 45,110) of Canada's 155,745 economic class immigrants, while making up 38.3 percent of the population.⁵

For this reason, we recommend that the Canadian government work with the Government of Ontario to introduce greater flexibility and increase Ontario's nomination allocation to be proportional to the size and economic needs of the province. This should be part of a country-wide increase in the number of economic immigrants admitted to provincial nominee programs.

3. Nurturing the innovation ecosystem

Canada's continued growth and prosperity depends on our capacity to translate new ideas into real economic gains. Government can support this capacity by creating an environment that lets promising firms thrive.

While Canada ranks as a global leader in entrepreneurship, particularly for early stage projects, there is a growing consensus among business leaders that the nation has a critical gap in its business growth strategy: businesses are not “scaling up” into large, world-leading organizations.⁶

The OCC therefore recommends:

3.1 That the government expand the Scientific Research and Experimental Development (SR&ED) program.

While SR&ED has been broadly successful, much could be done to boost its impact, such as:

- restoring the credit to 20 percent;
- designating the qualifying variable as rate-of-firm-growth rather than firm size;
- providing firms with the ability to choose a refundable R&D wage tax credit which would help to attract and retain talent as well as support R&D;
- changing credit eligibility to include non-Canadian firms that engage in R&D activities in Canada;
- aligning the credit to incentivize R&D between industry, post-secondary, and research institutions. Many European countries allow for such credits, as they are a means of supporting more exploratory science; and
- make the application process easier to navigate.

3.2 That the government duplicate the British Columbia angel investor tax credit.

The government of British Columbia currently provides a 30 percent refundable tax credit to investors who put up to \$200,000 into eligible businesses, with great success.⁷ These ‘angel’ investors tend to provide critical, patient capital that does not put excess pressure on companies to sell early, allowing them time to escape the technological and commercialization ‘valleys of death’.

The Canadian government should duplicate this program by offering a 15 percent matching tax credit between the federal government and the provinces to reach an overall credit of 30 percent.

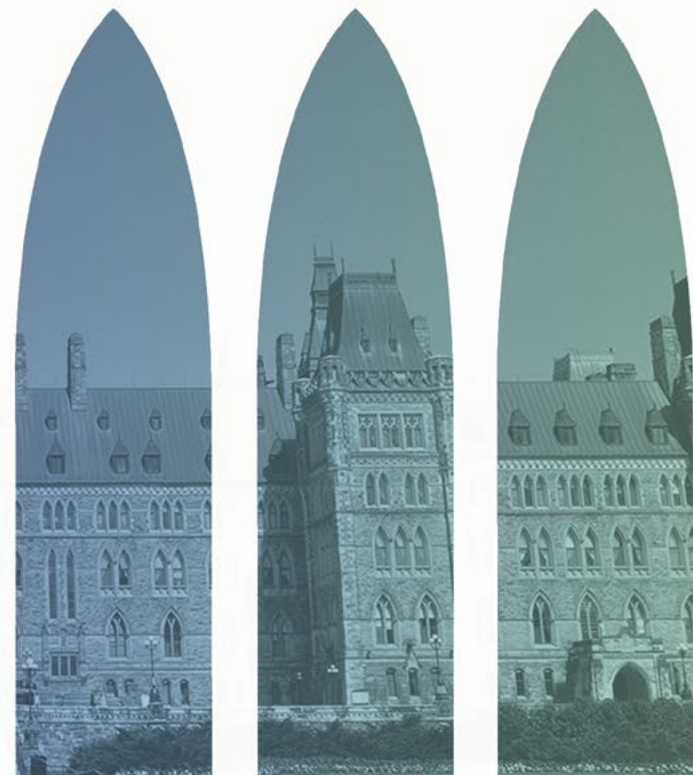
4. Providing sustainable public drug coverage

While pharmacare is now a federal concern, the OCC expects the resulting program design and funding model to provide the greatest benefit to both Ontario residents and the Ontario health science sector.

The OCC therefore recommends:

4.1 That the government take a “gaps” approach to national pharmacare.

We urge the federal government to take a ‘gaps’ approach to pharmacare, to ensure funds are directed at those individuals with the greatest need rather than applied universally. This approach should leverage the strengths of the existing public-private coverage system, avoiding administrative delays for patients and ensuring new products, research, and clinical trials continue to enter the Canadian market. Fundamentally, any pharmacare program must be outcomes-oriented and promote the sustainability and efficacy of the broader health care system.



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