



Pre-budget Submission in Advance of the 2021 Federal Budget

by Chartered Professional Accountants of Canada

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Executive Summary

Each year the [House of Commons Standing Committee on Finance](#) invites Canadians to share their input concerning the next federal budget. The pre-budget consultation process is a vital means by which Canadians can contribute to the development of federal budgetary policies and measures – which is of even greater significance this year in view of economic challenges and uncertainty posed by the COVID-19 pandemic. The recommendations put forward by Chartered Professional Accountants of Canada (CPA Canada) in the following brief have been developed in response to this year's theme, as proposed by the Committee, which focuses on **“measures the federal government could take to restart the Canadian economy, as it recovers from the COVID-19 pandemic.”** CPA Canada appreciates the input received from members which has helped inform the following submission.

CPA Canada recommendations on measures to restart and rebuild the Canadian economy, as it recovers from the COVID-19 pandemic

That the federal government:

1. Ensure Canadians are equipped with marketable skills and able to pivot to meet evolving labour market needs.
2. Re-imagine Employment Insurance and access to certain benefits to align them with the changing nature of work.
3. Map Canada's long-term path to a low-emissions, climate-smart economy.
4. Implement, to the degree it can, the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).
5. Continue the work outlined in *Canada's Digital Charter* to modernize legislation and regulatory frameworks to build trust in the digital economy and ensure sound data governance.
6. Accelerate efforts to close Canada's gaps in providing broadband access to all homes and businesses.
7. Focus on the following key themes for tax policy and administration:
 - a. Tax simplification
 - b. Discipline with any future tax increases
 - c. Principled decision-making framework for tax changes generally
 - d. Specific tax changes to support the recovery
8. Adopt a fiscal anchor or rule as part of the economic and fiscal projections for the Fall Economic and Fiscal Update.

Chartered Professional Accountants of Canada (CPA Canada) is pleased to present its 2021 budget recommendations. CPA Canada is one of the largest national accounting organizations in the world, representing more than 217,000 members. As part of its mission, CPA Canada acts in the public interest and contributes to economic and social development.

Canadian CPAs, working in every sector of the economy, have stepped up during these challenging times. During the pandemic, many CPAs have provided complimentary business advice to SMEs, not-for-profits and charities through the [Business Resilience Service](#). Other CPAs have supported front-line healthcare workers by preparing their tax returns free of charge through the Accounting for Bravery program in certain provinces. At the federal level, CPA Canada has been actively engaged with the Canada Revenue Agency and Finance Canada, providing expertise and feedback to help in adjusting and improving key support programs, such as the Canada Emergency Wage Subsidy, for the benefit of all Canadians.

A recession unlike any other

COVID-19's impact on the Canadian economy cannot be understated. Pandemic-related business shutdowns have led to the largest contractions in real GDP and job losses in history, eclipsing all previous recessions. In addition, despite the economic data likely having bottomed-out in the second quarter of this year, the recovery will be a long, uphill battle. Even if growth were to rebound strongly, a shock of this magnitude will take several years to recover from. Many businesses will not survive this unparalleled downturn or the "new normal" that will follow.

In a recent poll conducted by CPA Canada with members, 65 per cent of respondents indicated that **uncertainty** – due to COVID-19 and its impacts – will be the greatest challenge faced by businesses in the year ahead.

For policymakers, an important consideration is that the impacts of this recession have not been evenly distributed. Within the labour market, recent analysis indicates that job losses have disproportionately impacted women, younger workers and those in low-wage occupations. On an industry basis, some sectors have seen only mild contractions, such as finance, insurance, and real estate, compared to those contractions in the accommodation and food, and the arts, entertainment, and recreation sector. Policies to help return the economy to full potential may have more impact by focusing on those sectors and individuals that bore most of the impact.

Preparing for the future of work

In recent consultations, our members expressed considerable concern about how the pandemic and related economic shutdown has impacted people and the labour market. Issues raised include acquiring skills for the future, re-skilling, increasing automation, working from home, the role of immigration, the rise of the so-called "gig economy", and social supports that are dependent on traditional employer-employee relationships.

Technological disruption, economic pressures, geo-political tensions and a changing climate are escalating the inequalities and divisions in our society. The fourth industrial revolution is benefitting some Canadians and causing hardship for others. Unfairly, the people most impacted by the COVID pandemic have largely been the same people at the losing end of technological and economic change. The most urgent challenge before the government is to get Canadians back to work. Yet the structure of our economy and the nature of work may be permanently changed by this experience.

The government must keep all of this in mind for the next budget and over the longer term. **It must ensure Canadians are equipped with marketable skills and able to pivot to meet evolving labour market needs.** As well, **the government must re-imagine Employment Insurance and access to certain benefits to align them with the changing nature of work.**

Advancing sustainability

While the scale and urgency of the COVID-19 response dwarfs all other issues at present, the most pressing threat to our economy and our way of life over the longer term remains climate change. Canada has set an ambitious and laudable goal of net-zero carbon emissions by 2050, yet we still have work to do to meet our 2030 reduction target under the Paris agreement. This adds new urgency to last year's recommendation by the Expert Panel on Sustainable Finance to **map Canada's long-term path to a low-emissions, climate-smart economy.**

Put simply, a target without a plan is a target that will not be met. As we revive the post-COVID economy, business needs a line of sight in order to make its own plans and investments and to foster a shared commitment toward sustainable objectives.

Another essential step toward 2050 is, in the words of Mark Carney, [*"to ensure that every financial decision takes climate change into account."*](#) To do this, **the government should implement, to the degree it can, the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).**

Broad adoption of the TCFD framework throughout the private sector rests with provincial authorities, but there are concrete actions the federal government can take to advance the framework within its jurisdiction. It should immediately begin **phasing in adoption of the TCFD framework for large federal Crown corporations and federally controlled pension funds.** It can do the same for federally incorporated companies by **revising the Canada Business Corporations Act to require climate-related disclosures in their annual reports.** It should also **mandate that investments by the Canada Infrastructure Bank require the filing of annual climate disclosure reports in accordance with the TCFD framework,** as was done with the recently launched Large Employer Emergency Financing Facility (LEEFF).

Enhancing the digital economy

If there is any silver lining to the pandemic crisis, it is that businesses, governments and citizens have embraced new technologies to communicate and conduct business. While this was done out of necessity, it better prepares Canada for the rise of the digital economy.

The crisis has also illustrated some of the challenges that arise from digital technologies and data-driven applications. Contact tracing apps, for example, provide both a clear public benefit as well as a potential risk to personal privacy. The way we collect, protect, share and report on data needs to be subject to appropriate governance in all areas of our economy. The government must **continue the work outlined in Canada's Digital Charter to modernize legislation and regulatory frameworks to build trust in the digital economy and ensure sound data governance.**

Ensuring that all communities have access to reliable broadband is an ongoing challenge for a country with the vast landscape of Canada. High-speed internet access opens up economic opportunity and, in an emergency such as the COVID pandemic, it becomes a lifeline. **Canada must accelerate its efforts to close its gaps in providing broadband access to all homes and businesses.**

A wise approach to tax

Given the current economic situation and the focus on immediate measures to support an economic recovery, this may not be the time for a serious discussion on how to overhaul Canada's tax system. However, a comprehensive tax review should be a priority on the government's agenda in the medium term. A simpler, fairer, more efficient and competitive tax system is key to a sustainable economic recovery for Canada.

Over the near-term, CPA Canada recommends that the government focus on the following key themes as the country recovers from the pandemic:

- **Tax simplification.** The pandemic has proven that a complex system is more difficult to administer during a crisis, acting as a barrier to getting assistance in the hands of vulnerable and lower-income Canadians. CPA Canada strongly recommends that the government execute **its new comprehensive review of tax expenditures over the short term, with an expanded mandate** to streamline tax credits and deductions, eliminate inefficient or poorly targeted tax preferences and enable increased tax system automation.
- **Discipline with any future tax increases.** The Finance Minister has stated that the government is not currently contemplating raising taxes. CPA Canada agrees that there should be **no increases to personal or corporate taxes in the current economic environment.** If it becomes necessary to increase tax revenue, attention should be placed on how best to do this rather than simply increasing rates. **For example, would broadening the tax base and simplifying the GST system to**

generate additional revenue be preferable to simply increasing the GST rate?

- ***Principled decision-making framework for tax changes generally.*** In the current context, any tax changes under consideration should be reviewed carefully to determine whether the change supports the economy, operates effectively and minimizes the level of disruption to Canadian taxpayers and businesses. For example, the government must consider if this is the appropriate time to make major changes to the rules for interest deductibility, as outlined in its 2019 election platform.
- ***Specific tax changes that could support the recovery.*** The government should review whether there are recognized tax system issues that should be addressed to facilitate a strong recovery. For example, unlike many of its peers, Canada does not have a group taxation or loss transfer system for corporations, which would assist companies to utilize losses from the pandemic more efficiently.

Restoring fiscal stability

While supporting Canadians, businesses and the overall economy are the most immediate priorities, it is incumbent on government to manage the nation's finances in a transparent, accountable, disciplined and sustainable manner.

Canada was already entering this pandemic with roughly [\\$2.5 trillion in combined federal-provincial gross debt \(2017\)](#). According to the [Economic and Fiscal Snapshot 2020](#) and, as a result of the expenditures related to the government's economic response plan, the 2020-21 deficit is projected at \$343.2 billion, which would be added to the existing combined debt load – representing the [“challenge of our generation”](#).

CPA Canada joins the [Parliamentary Budget Officer](#) and other leading economists in calling on the federal government **to adopt a fiscal anchor or rule along with detailed economic and fiscal projections over the medium to long term**. This approach would serve to limit debt financing and instill business confidence and investment, and we would encourage the government to **deliver this plan early in the fall as part of its Economic and Fiscal Update**.

Pursuing a recovery for a better future

The coronavirus crisis has changed the context for policy-makers' responses. This is not a conventional recession and the stimulus responses to it cannot be traditional nor short-term-focused.

Canada's recovery strategy should foster a more sustainable and resilient economy while countering the worst effects of the crisis. It may well be the time to “build back better” or for “a great reset” as some global organizations have proposed. To that end, in its recovery measures and next budget, the government should combine the shift to a carbon neutral economy, with job creation, support for health and wellbeing, and opportunities to drive innovation and productivity across sectors.

Canada will get through this pandemic, yet other monumental global challenges await. It would be most welcome if decision-makers could bring the same non-partisan collaborative approach they have exhibited during this crisis as they tackle these other serious challenges.