



Pre-budget Submission in Advance of the 2022 Federal Budget

by Chartered Professional Accountants of Canada

August 2021

CPA Canada's recommendations

That the federal government:

1. Adopt a fiscal anchor framework, including a series of metrics, to address the deficit and debt.
2. Commit to a comprehensive spending review that sets an annual savings target and applies to all departments and government agencies.
3. Prioritize the development of a plan that maps the transition to net-zero carbon emissions on a sector-by-sector basis.
4. Increase funding for research and development in clean energy and support these investments with greater use of demand-side policy measures.
5. Improve regulatory efficiency through greater use of regulatory sandboxes, flexible regulations, and regulatory harmonization.
6. Remain committed to achieving its higher immigration targets and fine-tune the economic immigration system to meet labour market needs at all levels of skills.
7. Adhere to a principled approach to tax policy and administration.
8. Ensure that a comprehensive tax review is part of the government's long-term growth plan.
9. Continue to invest in the fight against tax evasion and aggressive tax avoidance.
10. Consider introducing an AML whistleblower program, similar to the one in the U.S. which includes protections and awards and was enhanced in 2021.

Introduction

Chartered Professional Accountants of Canada (CPA Canada) is pleased to present its 2022 budget recommendations. CPA Canada is one of the largest national accounting organizations in the world, representing more than 220,000 members. Among its many activities, CPA Canada's mission is to act in the public interest and contribute to economic and social development.

As Canada's economy recovers from its pandemic-related suppression, long-standing challenges await with renewed urgency. During a recent online member consultation, 37 per cent of attendees said the lingering uncertainty resulting from COVID-19 and its impacts is the greatest challenge facing business in the coming year. While understandable, that is down considerably from a year ago when 65 per cent of members identified uncertainty as the top challenge during a similar event. Last year, 27 per cent of members identified liquidity and accessing finance as the biggest challenge, while only 6 per cent chose that as the top concern this year. Taken together, this indicates a considerably different economic outlook, one that is focused on emerging from the pandemic to re-address long-term challenges.

The pandemic has affected Canadians in uneven ways. Similarly, the transition to a more sustainable, digital, knowledge-based economy will exacerbate the existing inequalities in Canadian society. Government must work to bridge the gaps in inclusivity and ensure that Canadians and communities are able to adjust through periods of tumultuous change. It has never been more important for government policies and investments to be directed toward building the resilient future economy that Canada needs to remain competitive and prosperous.

Fiscal responsibility

Government support to Canadians during the pandemic has dramatically altered its fiscal position. In [Budget 2021](#), the federal government committed to unwinding COVID-related deficits and reducing the federal debt as a share of the economy over the medium-term. However, it does not set a range of limits or targets for that anchor. Instead, as [Jack Mintz](#) points out, this approach perpetuates deficit financing and permits larger federal deficits over time – a trend this country can ill-afford. The [International Monetary Fund](#) has warned Canada of the importance of clearly specifying a medium-term fiscal anchor to guard against a potential weakening of credibility in the fiscal framework. **CPA Canada recommends that the government replace a debt-to-GDP target with a “fiscal anchor framework” – a series of metrics to ensure the sustainability of the government finances and provide confidence to the public, businesses and investors that both the deficit and debt will be addressed.**

As the country emerges from the pandemic and the pace of economic activity significantly accelerates, it also is an opportune time for the government to practice fiscal discipline through **a comprehensive spending review, as promised in 2019. We would recommend that the government commit to an annual savings target on an ongoing basis and that the scope of the review applies to all departments and government entities.**

Sustainable and innovative

Adoption of the *Canadian Net-Zero Emissions Accountability Act* means that Canada's pledge to achieve net-zero greenhouse gas emissions by 2050 is now enshrined in Canadian law. Our recent submissions to this committee stressed the need for certainty in government's climate policies in order to instill the confidence business needs to make the large-scale, long-term investments necessary to transition to a carbon-free economy. This legislated target will now guide decision-makers in politics, business and finance. However, there remains much uncertainty about how we get to net-zero.

CPA Canada conducted a series of roundtables over the past year with different industry sectors and stakeholders to gain input on the transition to net-zero and one of the common messages from all participants was the need for government and the private sector to act in a coordinated way. This requires a plan that **ensures a common understanding of what "net-zero" means in the Canadian context and also maps the transition on a sector-by-sector basis**, as recommended by the Expert Panel on Sustainable Finance. While we appreciate the complexity involved in such a plan, there is some urgency to doing this and we strongly advise **making this plan a priority**.

Achieving real emissions reductions at energy intensive industries requires more than making investments. It also requires technological innovation. Budget 2021 contained several important measures to incent innovation and technology adoption. However, **a greater investment in research and development is needed to advance emissions reduction technologies for heavy industry and for Canada to seize market leadership in clean energy**. These investments should be focused on the greatest needs and opportunities for Canada's economy. They **should also be supported with greater use of demand-side policy measures to increase technology adoption**. For example, the CPA Canada roundtables suggested that carbon metrics should be integrated into government procurement processes to create demand for low-carbon products.

Climate change and disruptive technologies are placing tremendous pressures on business and industry to make rapid and transformative changes to their operating models. In such an environment, an agile and efficient regulatory regime has never been more important. We advise the government to **improve regulatory efficiency** to spur technology adoption and enable businesses to adjust to evolving conditions. Specifically, this can be pursued through three paths:

- **Regulatory sandboxes** – Whether caused by climate change, technological developments or a pandemic, change is progressing at a rate too fast for the regulatory development process to keep up. A suggestion at the CPA Canada roundtables was greater use of "regulatory sandboxes", which enable businesses to test innovations at lower cost while also enabling government to build a better understanding of how such innovations should be properly regulated.
- **Flexible regulations** – Flexible regulations focus on the outcome, rather than prescribing how to achieve that outcome. For that reason, they encourage innovation, can adapt to evolving technologies and result in improved competitiveness.
- **Regulatory harmonization** – Misaligned or duplicative regulations present a significant obstacle for business. Accordingly, harmonizing or mutually accepting regulations between jurisdictions

should remain an ongoing priority of all governments. We encourage the government to continue to seek opportunities to improve regulatory alignment through the regulatory cooperation tables established under the Canadian Free Trade Agreement and agreements with the United States and European Union.

Human capital

Immigration plays an invaluable role in growing Canada's labour market and economy. In our recent online consultation event, 32 per cent of attendees picked attracting and retaining workers as the top challenge facing business in the near term, behind only the lingering uncertainty of COVID-19. We support the government's higher targets of between 401,000 and 421,000 immigrants annually between 2021 and 2023 to make up the shortfall in newcomers to Canada during the pandemic in 2020.

We recommend that the government remain committed to achieving those higher immigration targets. Building on measures in Budget 2021, we urge the government to ensure the necessary support for immigrant services and employment resources is in line with higher numbers of newcomers. With respect to economic immigrants, **we recommend that the system be fine-tuned to meet labour market needs at all levels of skills, learning from the pandemic experience when we relied on essential workers.**

Tax

Over the short to medium term and in the midst of economic disruptions and recovery, the federal government **needs to adhere to a principled approach to tax policy and administration.** Moreover, given the government's commitment to a resilient recovery and more prosperous future for all Canadians, it follows that **a comprehensive tax review must be part of this long-term growth plan.** This will require difficult decisions to be made – where sound economic policy trumps partisan politics.

Some of the key recommendations that emerged from a recent consultation with tax members include the following:

- **Tax rates – It is not an appropriate time to increase personal or corporate income taxes.** In addition, we would reiterate that, should it become necessary to increase tax revenue, economists and tax experts agree that changes to consumption taxes are the best course of action. While we recognize that increasing the GST may be challenging from a political perspective, it would be beneficial for the government to consider **broadening the tax base, simplifying the GST system, and rebalancing taxation toward consumption taxes, bringing Canada in line with other G7 countries.**
- **Tax policy – Any further tax changes should be carefully reviewed, cause minimal disruption to Canadian taxpayers and businesses, and be subject to public consultation.** In the midst of a global pandemic, with an economic downturn like no other, there have been massive changes to

international tax policy in Canada – including a new Digital Sales Tax, a new Digital Services Tax in January 2022 and the likelihood of a global minimum corporate tax. **To support the country's economic recovery, members agreed that consolidated filing should be permitted for corporate groups in Canada** – as is the case in other countries – which would assist companies in utilizing the losses from the pandemic more efficiently.

- **Tax review** – CPA Canada has long called for a full review of Canada's tax system so that it's simpler, fairer, more efficient and more competitive. As a first step in a **multi-staged process**, the government should execute **its new comprehensive review of tax expenditures**, with an expanded mandate to simplify the system by streamlining tax credits/deductions and eliminating inefficient or poorly targeted tax preferences. We also recommend **regular reviews/evaluations of Canada's tax expenditures** to ensure these measures are working as intended and fit for purpose. Taking meaningful measures to simplify Canada's tax system will also pave the way for **enhancements to automation and digitization** – which is beneficial to tax filers, tax collectors and tax enforcement authorities.

CPA Canada has consistently taken a strong stand against tax evasion and other financial crimes. They are illegal, unethical and harmful to the economy and societies worldwide. We welcome the federal government's commitments to increase tax compliance, strengthen the integrity of the tax system and ensure fairness. As these measures are introduced, the government should design them in a way that minimizes the impact on *compliant* taxpayers. We support the measures that have been put in place and **encourage the government to continue to invest in the fight against tax evasion and aggressive tax avoidance.**

Anti-money laundering regime

Canada must continue its work to strengthen its anti-money laundering regime. Now that pan-Canadian efforts are underway to enhance beneficial ownership transparency, we urge the government to address a critical gap in Canada's regime: the lack of a national whistleblowing framework for the reporting and protection of whistleblowers who identify and escalate public interest concerns, including with respect to AML violations. Of note, **we recommend the government consider the AML whistleblower program in the U.S. which includes protections and awards and was enhanced in 2021**, part of the National Defense Authorization Act.

CPA Canada is pleased to have this opportunity to provide input to the Committee for its pre-budget consultation process leading up to the next federal budget.