



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

2012 Pre-Budget Recommendations

Remarks to:

The Chair and Members

House of Commons Standing Committee on Finance

By:

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President & Chief Executive Officer

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I am pleased to provide the views of the Investment Industry Association of Canada (IIAC) on considerations for the 2012 budget. The IIAC advances the growth and development of the Canadian investment industry. We represent the interests of our registered dealer members on securities regulation, tax and other public policy matters to improve the savings and investment process and to achieve efficient, liquid, competitive markets that benefit the investing and issuing public. Our 180 member firms range from regional institutional boutiques and small retail firms to large full-service companies employing thousands of Canadians across the country.

As you know, Canada faces the challenge of a sluggish global recovery, a high dollar until recently and turbulent capital markets. This has deterred investor participation in the markets, damaged liquidity and increased financing costs. For these reasons, we are encouraging the federal government to implement a proactive fiscal and tax agenda rather than new Government spending to accelerate the slow-moving economic recovery through business expansion.

With this in mind, our recommendations are:

First, we believe that it is paramount that the Government continue to meet its five-year fiscal plan, including the G20 target of halving the budget deficit by 2013 and reducing our government debt-to-GDP ratio by 2016.

We were pleased the Government has renewed its commitment, as recently as the September 24, 2011 Statement Prepared for the International Monetary and Financial Committee of the Board of Governors of the IMF, to preserve Canada's strong financial position by returning to balanced budgets by 2014-15 – a year earlier than originally planned.

Canada's success in stabilizing public finances – that is, by way of budget surpluses and reduced debt load – before the 2008 financial crisis enabled Canada

to weather the financial crisis and recessionary conditions, and begin economic recovery, sooner than other countries. The Government's commitment to lower the federal corporate tax rate to 15% by January 1, 2012 will contribute to increased investment and growth.

Returning to balanced budgets on schedule and following through on tax reductions will have a positive impact on business confidence. Sustained low competitive tax rates and a reduction in the debt will encourage investment and spending decisions. Equally, it will encourage investors and the general public.

Second, we think that the government can promote sustained private-sector expansion, now that Government stimulus has helped the country through the worst of the economic crisis, through workable tax incentives to assist small and medium-sized companies raise equity shares for capital formation and productive investment. We believe that specific cost-effective incentives should include the following:

- a. Introduce a lower capital gains tax rate for listed traded shares and/or initial and secondary public offerings, reducing the income inclusion rate below 50%
- b. Extend the flow-through share mechanism beyond the resource sector to other sectors with high value-added potential and long lead-times to payback – this includes firms in the biotech and high-tech industry segments, both of which provide high-quality jobs
- c. Broaden the applicability of the lower corporate tax rate and investment tax credits to mid-sized businesses and/or to small and mid-sized public companies.

Third, we believe that the government can improve the effectiveness of private-sector savings instruments to meet retirement goals and build a pool of investible capital.

We believe – and this is a recommendation of a growing number of other parties – that contributions to Group RRSPs should be exempt from payroll taxes including CPP, EI and other such taxes, conditional on “locking in” at least employer contributions to these retirement funds. This exemption would not only achieve more equitable treatment across members of all plan types, but would be particularly helpful for the small businesses that find Group RRSPs the simplest plans conceptually and easiest to manage when operating in more than one province.

We have suggested improvements to an alternative to Group RRSPs, namely, the proposed pooled registered pension plans (PPRPs). We would like to see further consultations to ensure PPRPs are structured as an effective and broadly available retirement vehicle to avoid limiting access or a shift rather than expansion in retirement coverage.

Fourth, we believe that the government can achieve greater cost-effectiveness for businesses and the Government through implementing recommendations of and already made to the federal Red Tape Reduction Commission.

Our industry, with other parts of the financial services sector, plays a unique and often unrecognized role in tax slip preparation for our clients to facilitate their tax payment obligations, as well as enabling Canadians to benefit from the Government’s tax-advantaged savings instruments. Three-quarters of the IIAC membership qualify as small businesses under Statistics Canada’s definition, and the tax reporting burden is significant. We have made substantial recommendations to the Commission that will help reduce cost, time and frustration for individual Canadian investors, businesses and, we believe, the

Government itself. These proposals include greater reliance on integrated electronic systems for the transfer of tax information between issuers, dealers, the CRA, other parts of government and taxpayers where possible; elimination of paper; and dedicated CRA staff to work with the financial services industry to identify, plan for and implement targeted improvements.

We believe that our recommendations are a balance of lower costs and lower taxes in select areas that should generate new economic activity so that – on an all-in basis – the benefits will exceed the costs and help continue building jobs.

I would be pleased to answer any questions you have.