



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

## INVESTMENT INDUSTRY ASSOCIATION OF CANADA FEDERAL BUDGET RECOMMENDATIONS

We are living in a very different world than even a scant decade ago. The burgeoning growth of developing economies and their impact on global trade and finance has transformed the competitive landscape. The way we once thought of Canada's place in the world, dominant in the resource sector and large-scale manufacturing, has changed forever. Now, it is not a question of maintaining our traditional competitive position, but one of building on new opportunities.

The federal government has recognized the challenges that Canadian businesses face and done a good job of improving the business climate for corporate Canada by lowering corporate and dividend taxes and eliminating capital taxes, and by modernizing Canadian insolvency legislation. Small companies that are typically non-dividend paying, with modest revenue and assets and a dependency on external capital, will benefit proportionately less from these initiatives. The federal government needs to develop a distinct policy agenda in terms of encouraging investment for large and small business reflecting the different characteristics of these firms.

We recommend the following initiatives to encourage more risk-taking and productive investment in the economy:

1. ***Increase investment capital to expand growth opportunities, in particular, for small- and medium-sized firms, by lowering taxes on capital gains*** – to contain the cost of this incentive articulated as a Conservative Party platform promise in 2006, the lower taxes could be limited to gains on common shares of small and mid-sized companies listed on the TSX and TSX Venture Exchange
2. ***Encourage research and development spending by extending the Scientific Research and Experimental Development (SR&ED) tax credit program*** from small Canadian-controlled private corporations (CCPCs) to small companies listed on the TSX Venture Exchange
3. ***Develop measures to promote stronger liaison of businesses with universities by encouraging R&D-through-to-development-and-commercialization partnerships that will lead to clusters of expertise in regional or national sectors*** – examples include Memorial University's public-private partnerships in areas such as hydrometallurgy and large-scale marine transportation of compressed natural gas; the University of Waterloo's well-known technology-related partnering; and the University of Saskatchewan's partnerships in agricultural products and human and livestock vaccine R&D
4. ***Compensate provinces for any net loss from eliminating sales tax and harmonizing with the GST*** – this would encourage GST harmonization, create a more efficient consumption tax and relieve the sales tax burden for manufacturing companies
5. **Improve the efficiency and competitiveness of Canadian capital markets:**
  - ***Continue to encourage provincial regulators to adopt more principles-based regulation, streamline rules and move towards a common regulatory structure***

- **Mandate the filing on the CDS Innovations Inc. website of all non-client-specific tax information (e.g., income from private income trusts/limited partnerships and eligible/other-than-eligible dividends) that issuers must provide to investors and the CRA** – this will promote more timely, efficient and cost-effective information flows for investors, issuers, intermediaries and the CRA itself
- **Facilitate a modern securities transfer law system by removing securities transfer rules from federal statutes** – repeal the *Depository Bills and Notes Act* and harmonize other federal laws governing securities with provincial uniform securities transfer legislation across the country
- **Amend the Income Tax Act to allow investment dealers to transfer registered retirement income fund (RRIF) minimum payment information electronically to the receiving institution and avoid the existing unfair penalties on seniors when errors occur** – this would better serve seniors who now experience cash flow and other problems when transferring RRIFs

These foregoing policy recommendations will help businesses seize unfolding opportunities in a rapidly globalizing world and build on our economic success.

Provincial governments and regulators should make corresponding changes and remove other impediments to productive investment through legislative and regulatory change to maximize the benefits from these recommendations:

- Mirror federal reductions in the corporate income tax to achieve a combined federal-provincial rate of 25% by 2012
- Harmonize provincial sales taxes with the GST in a way that avoids any net increase in provincial sales tax paid by intermediaries
- Streamline and eliminate duplicative and ineffective financial sector and securities-related laws to rationalize a broader range of requirements, leading to a corresponding reduction in fees that unnecessarily burden investors, issuers and intermediaries. The Passport System does not go far enough to achieve competitive markets.

We encourage the federal and provincial governments to collaborate to implement these steps to build regional prosperity through a more productive and innovative Canada.