



## IIAC TAX AND ECONOMIC RECOMMENDATIONS

The Association espouses a two-pronged approach to (1) improving the Canadian economy, including measures to promote competitiveness and productivity generally, and (2) reducing inequitable burdens on the securities industry specifically or financial services sector in general. Governments should:

### 1. Invest in competitiveness and productivity

- **To improve productivity, employment and economic growth**, shift taxes, to the extent possible, from the current heavy burden on labour, investment and savings to bases less affected by taxation, such as consumption
- **To increase risk capital for productive investment**, introduce measures to reduce the capital gains tax on capital gains that are reinvested
- **To further increase the available pool of funds for investment**, complement capital gains tax reductions by:
  - Reducing personal income taxes or increasing the personal tax exemption
  - Extending the registered retirement savings plan conversion deadline to age 73
  - Increasing the maximum annual RRSP limit from 18 to 25 per cent of earned income
  - Implementing improved registered retirement investment fund transfer options
- **To expand growth opportunities for small- and medium-sized firms**, reduce the capital gains inclusion rate from 50 to 25 per cent for gains on initial public and treasury offerings of shares in small, publicly listed companies
- **To focus on key sectors identified as critical to improving Canada's growth and competitiveness**, implement targeted tax incentives (for example, along the lines of flow-through shares) to increase funding in these areas, notably in the knowledge-based and environmental sectors
- **To encourage private research and development (R&D) spending**, improve the scientific research and experimental development (SR&ED) tax credit program, at least for small Canadian-controlled private corporations (CCPCs), by ensuring that such firms can still qualify for the SR&ED credits when listing on the TSX Venture Exchange and know with some certainty early on whether their spending will qualify for tax credits or not
- **To further promote investment**, accelerate elimination of capital taxes and increase the capital cost allowance to better equal the rate of economic depreciation

### 2. Improve the business environment by reducing unnecessary costs and uncertainty

- **To remove unnecessary regulatory burdens on this country's issuers and investors that, respectively, increase costs and reduce returns with no measurable benefit**, continue efforts to eliminate unnecessary costs of overlap and duplication in the securities industry so that:
  - Investment dealers and issuers can act, wherever possible, as if they are in a uni-jurisdictional environment, reducing or eliminating any unnecessary costs such as the costs of duplication or inconsistency that have little or no impact on the service that Canadian individuals and businesses expect

- Canadian retail and institutional clients can be comfortable that they will be treated in the same way, wherever they are in the country
- Foreign investors and borrowers have clarity as to what rules will apply to their relationships
- Firms can get certainty as quickly as possible – delays in legislative and regulatory implementation and uncertainty as to regulatory responses impede or dissuade investment
- **Reduce significantly the costs of government borne by the financial industry,** specifically, minimize the costs of tax slip preparation for tax reporting firms, including broker/dealers
- **Reduce uncertainty with respect to:**

***insolvency legislation:***

- to give the significant majority of Canadians, who hold securities electronically through an intermediary, appropriate protections when those securities (and interests in them) are transferred, purchased, sold or pledged
- to ensure that securities transfers in Canada meet the same legal standards adopted by the U.S. and European Union countries, thereby:
  - reducing risk, legal uncertainty and ultimately cost and
  - helping preserve the competitiveness of the Canadian capital markets and industry given evidence that transactions have been moved to the U.S. or abandoned due to uncertainty

***and securities transfer law***

- By removing transfer rules from federal statutes through the repeal of the *Depository Bills and Notes Act* and harmonization of the federal law governing bills and notes with uniform securities transfer legislation provided that:
  1. those provinces that have not already introduced uniform transfer law commit to implementation of uniform securities legislation within a short timeframe and to maintain it thereafter
  2. the ceding of jurisdiction in the above fields has no broader implications for federal jurisdiction in other areas
- ***Continue implementing spending cuts that reduce government costs and benefit business through streamlining.***

These measures are, in some cases, low in cost. Others can be expected to generate taxes that will ultimately more than cover their initial costs. We believe that our industry can provide value by being – and it should be – involved in the practical aspects of implementation of certain tax measures as soon after announcement as possible.