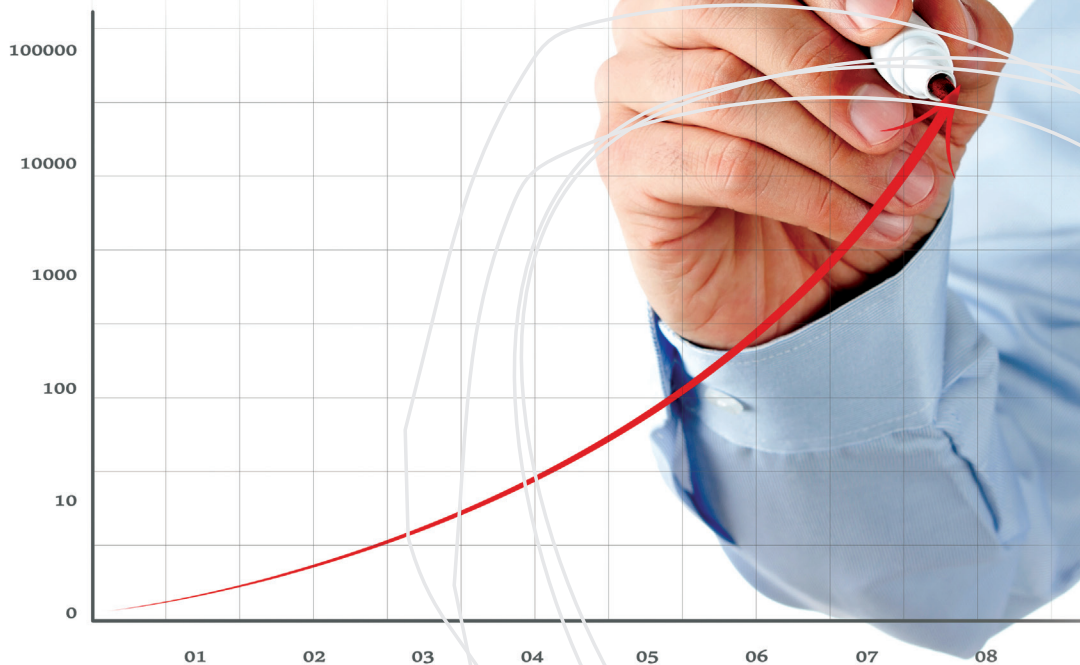




The Conference Board
of Canada

Centre on Tax Analysis, Fiscal Incentives, and Competitiveness.



Centre on Tax Analysis, Fiscal Incentives, and Competitiveness

by The Conference Board of Canada

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- Objective and non-partisan. We do not lobby for specific interests.
- Funded exclusively through the fees we charge for services to the private and public sectors.
- Experts in running conferences but also at conducting, publishing, and disseminating research; helping people network; developing individual leadership skills; and building organizational capacity.
- Specialists in economic trends, as well as organizational performance and public policy issues.
- Not a government department or agency, although we are often hired to provide services for all levels of government.
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For more information about the Centre on Tax Analysis, Fiscal Incentives, and Competitiveness, visit www.conferenceboard.ca

Introduction

A key determinant of Canadian productivity and competitiveness is the system of fiscal incentives, embracing both the tax system and subsidies targeted at generating desired activity. For Canada to succeed as a nation, it is important that taxes and targeted expenditures are both appropriate and efficient.

Canada's record on productivity growth has been poor over the last decade, especially when compared with that of our neighbour to the south. From 1998 to 2011, non-farm labour productivity in the United States grew on average by 2.8 per cent per year, more than double the 1.3 per cent growth rate posted in Canada.

Given Canada's poor track record on productivity and business innovation, there are legitimate concerns the entire system of fiscal incentives no longer meets the current and future realities of a truly global marketplace, an aging workforce, a resource-dominant economy, and rapidly growing emerging economies. By implementing reforms to the Canadian system of taxes and other fiscal incentives, Canada could be better positioned to succeed in an increasingly competitive world market.

The Tax System in Context

The overall Canadian taxation system is pivotal in determining the country's economic performance, productivity growth, international competitiveness, and environmental sustainability.

The tax system does more than just raise revenues to fund government programs:

- It affects economic incentives and guides private sector investment and spending. Thus the tax system should encourage the positive entrepreneurial behaviours that are associated with a growing and innovative economy.

- The tax system also needs to be efficient, imposing the lowest possible administration and compliance costs for every dollar of revenue generated. The costs of tax compliance are regularly benchmarked in studies of international competitiveness, and Canada is slipping in the rankings.
- Finally, the tax system should also help to redistribute income in a manner that promotes economic growth—it should be a springboard, not just a safety net.

The Imperative for Tax Reform Now

The Canadian tax system has lost sight of the basic principles of efficiency, equity, and transparency due to the myriad changes that have been added over the past two decades without regard to how the entire tax system is functioning. As described in our March 2012 executive briefing *Reinventing the Canadian Tax System: The Case for Comprehensive Tax Reform*, it is time to examine, debate, and act on comprehensive Canadian tax reform in order to create the optimal fiscal incentives that will boost the competitive potential of our economy. Recognizing this fact, the Finance Committee of the House of Commons recommended in the fall of 2011 that a fundamental review of taxation be undertaken by an expert panel. This is the right principle, but we need to start such a review as soon as possible. A public discussion of comprehensive tax reform is needed today.

The Proposal

The Conference Board of Canada is proposing to launch a new Centre on Tax Analysis, Fiscal Incentives, and Competitiveness (TAFIC) to undertake independent, non-partisan, evidence-based analysis; engage in dialogue with key stakeholders, based on this research, and make the appropriate recommendations for reform of taxation and fiscal incentives to boost the competitiveness of the Canadian economy.

Objective of the Centre on Tax Analysis, Fiscal Incentives, and Competitiveness

TAFIC can make a difference in the design and performance of the Canadian tax and fiscal system. The Centre's overall objective is to make recommendations concerning reform of the system of fiscal incentives, including both personal and business taxation and subsidies, which would increase Canadian competitiveness and economic efficiency.

To meet this objective, TAFIC would focus on six major research themes:

1. Examine the full system of fiscal incentives, including business and personal taxation and subsidies, with a view to measuring their impact on productivity and competitiveness.
2. Analyze the system of resource taxation, including royalties, to insure the proper incentives to invest are in place, while providing a solid revenue base for individual provinces.
3. Consider how to simplify the system of taxes, tax expenditures and subsidies, and reduce the burden of compliance;
4. Study the design and use of fiscal incentives as a tool of responsible fiscal management.
5. Assess the equity and effectiveness of the current system of fiscal incentives and tax expenditures.
6. Evaluate the design of the tax system and the impact of fiscal incentives on income inequality, and the economic consequences.

TAFIC will provide Canadian business leaders and policy-makers with a forum to discuss the critical reforms required to improve the system of fiscal incentives, focusing on the above six themes, based upon the quantitative analysis of the fiscal and economic impacts of proposed changes to the Canadian system of taxes and fiscal incentives. This unique combination of research and dialogue will give TAFIC members a credible voice in redesigning and improving the entire gamut of Canadian fiscal incentives.

The Conference Board of Canada Advantage

The Conference Board of Canada is uniquely positioned to develop TAFIC. The Conference Board has the skills and experience required to bring together the key stakeholders on tax, tax expenditure, and subsidy policy under the TAFIC umbrella to determine the key elements of tax and subsidy reform. It is uniquely positioned to undertake quantitative economic and fiscal analysis to provide evidence-based insights into the economic and fiscal impact of possible changes to the Canadian taxation and subsidy system. Finally, the Conference Board has established a brand for independent quality research that carries great weight in policy debate.

Why the Private Sector Should Invest in the Centre on Tax Analysis, Fiscal Incentives, and Competitiveness

Private Sector firms have a major interest in a well-designed and effective system of taxes, tax expenditures and fiscal incentives for the following reasons:

- A competitive tax system will lead to increased sales, especially into export markets;
- A more rational system of personal taxes and incentives will lead to more motivated employees and a greater pool of available labour;
- A more efficient system of taxation, with lower compliance costs, will result in higher profits;
- A more efficient system of taxes and incentives would lower government costs, leading to lower future corporate tax rates.

As a member of TAFIC, private sector firms will:

- have a venue for frank, in camera dialogue with business and government representatives where members can set priorities, learn from each other, test reform proposals, and benchmark proposed reforms against peer countries.
- lead the dialogue to simplify the tax system to improve firm-level competitiveness, reduce compliance costs, and make the system equitable across industries and the country.
- support and review the rigorous and balanced research required to develop an equitable, efficient, and transparent system of taxes and fiscal incentives. Such research can improve the quality of policy-making and decision-making required for tax reform.
- have exclusive access to detailed findings of the Centre's research, and receive final summary research reports before they are released publicly.

Private sector investment in TAFIC will help build a strong business alliance in support of a modern and competitive system of taxes, well-designed priority tax expenditures, and fiscal incentives. Selected professional organizations representing the interests of business individuals and firms will also be invited to join TAFIC.

Public sector members will be invited to join TAFIC once a critical mass of private sector members is established. Access to a network of business and industry leaders, and evidence based research on tax reform will enable public policy makers to efficiently consult with business, model proposed tax reforms and measure effectiveness against other countries' tax systems.

Operating Model for the Centre on Tax Analysis, Fiscal Incentives, and Competitiveness

TAFIC would be structured along similar lines to other research centres at the Conference Board. A critical mass of member-investors, principally from the private sector, would be attracted to TAFIC so as to permit a launch. A research plan would be developed by Conference Board staff in consultation with members of the TAFIC Advisory Board, based on the funding made available for the Centre. Expert staff would be identified and engaged to plan and undertake the detailed research. Each original research report would be produced in consultation with a project advisory group of the members and other experts, and there would be regular meetings of the members—at least two face-to-face meetings a year, with other meetings and discussions held via webcasts. In addition, meetings would be planned with policy-makers to help present the case for comprehensive reform of the entire system of fiscal incentives.

Investment Levels

There are four proposed levels of investment in TAFIC, each with specific benefits. A five-year commitment from investors is desirable to underpin the planning, research, and operations of TAFIC.

Champion Investors are the cornerstones for TAFIC. The Champion Investors would be represented by a senior executive as a core member of the Advisory Board. Champion Investors participate in the overall planning, conduct, and decision-making of TAFIC—including specific activities such as defining the research agenda and selecting and advising on research projects. The investment for Champion Investors is \$100,000 annually for a five-year period. In addition, Champion Investors would be able to allocate a portion of their investment for research aimed exclusively to meet their specific needs.

Lead Investors provide a strong membership base. They are represented on the TAFIC Advisory Board by a senior executive and participate in specific activities such as defining the research agenda, selecting and advising on specific research projects, and discussing the implications and policy options emerging from the research. The investment for Lead Investors is \$50,000 annually for a five-year period.

Partners can serve on the advisory group for specific research projects, have access to the TAFIC research results prior to public release, and participate in all the TAFIC meetings. The investment for Partners is \$25,000 per year for a five-year period.

Participants in TAFIC have access to the research results prior to public release and attend the TAFIC meetings. The investment for Participants is \$12,000 per year for a five-year period.

[For More Information](#)

Paul Darby

Deputy Chief Economist

E-mail: darby@conferenceboard.ca

Tel.: 613-526-3090 ext. 329

Fax: 613-526-4857

The Conference Board of Canada

255 Smyth Road, Ottawa ON

K1H 8M7 Canada

Tel. 613-526-3280

Fax 613-526-4857

Inquiries 1-866-711-2262



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of Canada