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**Chamber of
Commerce**
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2008 Federal Pre-Budget Submission

**Improving Canada's Productivity,
Competitiveness, and Prosperity**

December 12, 2007

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
INTRODUCTION	5
I. SOLVING ALBERTA’S LABOUR SHORTAGE.....	6
A. ATTRACTING THE NEXT WAVE OF TALENT THROUGH A COMPETITIVE TAX REGIME .	6
B. MORE EFFECTIVELY ENGAGE OLDER WORKERS.....	7
II. ENHANCING CANADA’S ECONOMIC COMPETITIVENESS.....	8
A. REALIZE COST-EFFICIENCIES IN PROGRAMS AND INSTITUTIONS THROUGH CONTROLLED EXPENDITURE POLICIES	8
B. REDUCE THE DEBT BURDEN	9
III. SUMMARY OF RECOMMENDATIONS.....	10
IV. WORKS CITED.....	11



EXECUTIVE SUMMARY

The Calgary Chamber of Commerce represents over 3,200 Calgary based businesses. The Chamber seeks to raise the consciousness and quality of public discourse on key policy issues confronting its members and stakeholders, through informed discussion grounded in fact and reasoned analysis.

Competitive taxes, prudent government spending, and manageable government debt levels contribute to a strong and sustainable economy that stimulates investment and creates better jobs. The Calgary Chamber of Commerce, on behalf of its members, has for many years brought forward recommendations on these issues to improve Canada's productivity and competitiveness.

The federal government implemented many of these recommendations as part of an October 30, 2007 Economic Statement. Important measures included:

- Reduction in the general corporate income tax rate from 20.12 per cent today to 15 per cent by 2012, giving Canada the lowest statutory tax rate in the G7;
- Decrease in the small business tax rate from 13.12 per cent today to 11 per cent in 2008;
- Decline in the lowest federal personal income tax rate from 15.5 per cent today to 15 per cent retroactive to 2007 and an increase in the basic personal amount;
- Commitment to limit program expense growth, on average, to below the rate of nominal growth of the economy; and
- Reduction in the federal debt by \$10 billion in 2007-08 and \$3 billion in each subsequent year.

In a 2007 survey of Chamber membership, 84 per cent of members indicated that these measures would improve the competitiveness and productivity of Canadian companies.

For the 2008 federal budget, the Calgary Chamber of Commerce provides the following recommendations to further address members' priorities:

I. Solving Alberta's Labour Shortage

Attract the next wave of talent through a competitive tax regime

1. Bring personal tax revenues, as a percentage of GDP, below the OECD average by 2012. Important steps to achieve this objective include:
 - Reduce the middle two tax brackets (22 per cent and 26 per cent) by two percentage points each by 2012.
 - Reduce the highest tax bracket (29 per cent) by one percentage point by 2012, and raise the threshold of the highest marginal rate to \$200,000.
 - Raise the basic personal amount to \$12,500 by 2012.

More effectively engage older workers

2. Expand the age range at which people are eligible to access their Canada Pension Plan benefits from 60-70 to 60-75, and provide progressive deferral incentives for individuals who access the pensions during the newly expanded range (e.g. permanently increasing the annual pension by 12% for each year it is postponed after age 70).
3. Amend the Old Age Security program to remove the claw back mechanism to encourage the most highly skilled and experienced Canadians to continue working after age 65.
4. Amend tax-assisted private savings policies to provide greater flexibility for Canadians to continue saving for retirement after age 72, such as the deferral of compulsory RRSP



transfers into RRIFs until age 75, or a phased approach of 50% RRSP transfer at the age of 72 and up to 50% transfer until age 75.

5. Work with the provinces to develop harmonized and flexible part-time pension policies that provide incentives for Canadians to gradually transition out of the labour force after age 65.

It is estimated that the proposed approach could increase Canadian labour force participation by as much as 767,000 in 2007 (3.5 per cent) (80,000 in Alberta), and 1.7 million by 2056 (7.2 per cent). It would also generate over \$24 billion in government tax revenues and pension savings in 2007, which would increase to over \$49 billion by 2056.

II. Enhancing Canada's Economic Competitiveness

Realize cost-efficiencies in programs and institutions through controlled expenditure policies

6. Adopt a bandwidth approach to government spending, by targeting expenditure increases within a range delimited by population and inflation growth, and real GDP and inflation growth (between 3.2 and 4.5 per cent for 2008).

Reduce the debt burden

7. Raise the scheduled debt repayment to \$5 billion per year starting in 2010, while continuing to allocate all surpluses to paying down the national debt.



INTRODUCTION

The Calgary Chamber of Commerce represents over 3,200 Calgary based businesses. The Chamber seeks to raise the consciousness and quality of public discourse on key policy issues confronting its members and stakeholders, through informed discussion grounded in fact and reasoned analysis.

Canada's economic and fiscal fundamentals are solid. GDP is forecast to grow by 2.5 per cent this year and 2.4 per cent in 2008. Last year, Canada recorded its tenth annual budget surplus and is projected to be the only Group of Seven (G7) country in a surplus position in 2007 and 2008.ⁱ

Canada's debt burden is also falling. The debt-to-GDP ratio has declined from a high of 68.4 per cent in 1995-96 to an estimated 33.3 per cent in 2006-07. The government plans further debt repayment of \$10 billion in 2007-08 with the target to reduce the debt-to-GDP ratio to below 25 per cent by 2011-12.ⁱⁱ

In October 2007, the federal government took bold action to improve Canada's productivity and competitiveness as part of its Economic Statement. Important measures included:

- Reduction in the general corporate income tax rate from 20.12 per cent today to 15 per cent by 2012, giving Canada the lowest statutory tax rate in the G7;
- Decrease in the small business tax rate from 13.12 per cent today to 11 per cent in 2008;
- Decline in the lowest federal personal income tax rate from 15.5 per cent today to 15 per cent retroactive to 2007 and an increase in the basic personal amount;
- Commitment to limit program expense growth, on average, to below the rate of nominal growth of the economy; and
- Reduction in the federal debt by \$10 billion in 2007-08 and \$3 billion in each subsequent year.

In a 2007 survey of Chamber membership, 84 per cent of respondents indicated that the corporate and small business tax reductions would improve the competitiveness and productivity of Canadian companies. These initiatives, long recommended by the Calgary Chamber of Commerce, illustrate that the federal government is proceeding on the right track to position Canada more competitively. However, the Chamber contends that more can be done to make Canada 'the' choice for investment and 'the number one' destination for highly skilled workers and entrepreneurs from around the world.

For the 2008 budget, the Calgary Chamber of Commerce puts forth recommendations in the following areas to address Chamber members' priorities:

- I. Solving Alberta's Labour Shortage; and
- II. Enhancing Canada's Economic Competitiveness.



I. SOLVING ALBERTA'S LABOUR SHORTAGE

In a 2007 survey, Chamber members identified labour shortages as the number one issue confronting their businesses. The Government of Alberta estimates an additional 109,000 workers will be required by 2016.ⁱⁱⁱ Both the provincial government and the business community have identified new immigrants and older workers as critical to closing this gap.

The Chamber, therefore, makes the following recommendations in the areas of personal income taxation and federal pension programs to better attract and retain workers.

A. Attracting the next wave of talent through a competitive tax regime

According to the Federal Department of Finance, Canada's personal income tax burden is the highest of the G-7 nations and is above the average of the OECD countries (Figure 1). High personal taxes are harmful to the economy as they discourage working, saving, and investing. Canada's personal income tax rates are also an important consideration for potential immigrants. With Calgary's current labour shortage, the Chamber suggests that a reduction in personal taxes will help strengthen our position to attract the best and brightest.

Figure 1 – Tax Revenues as a Percentage of Gross Domestic Product, 2004



Source: A Primer on Federal Income Taxes, Economics Division, Government of Canada, August 27, 2007, Available online: <http://www.parl.gc.ca/information/library/PRBpubs/prb0707-e.htm>

Other OECD countries have recognized the importance of competitive tax rates. Most have top marginal personal income tax rates below 40 per cent, whereas in Canada the federal/provincial combined average is 46 per cent. This compares to approximately 38 per cent in the U.S.^{iv}.

Canada's top marginal rate also commences at much lower level of income (\$120,887) than in the U.S. (\$174,850). To remain competitive and to continue to address skilled labour shortages, Canada must make changes to attract engineers, doctors, and other professionals, many of whom can live anywhere in the world and make between \$75,000 and \$150,000.^v



Additionally, more must be done to improve the situation for low- and modest-income earners. In Alberta, effective marginal tax rates rarely fall below 60 per cent for a couple with two children earning \$30,000 to \$40,000, and effective marginal tax rates approach 80 per cent for incomes around \$37,000.^{vi} This is a disincentive to work, save, or invest in upgrading one's skills.

In a federal pre-budget survey of Chamber membership, 86 per cent of members indicated that the government should reduce personal income taxes to position Canada more competitively. When asked about federal government priorities in the 2008 budget, reducing personal taxes was the number one response, followed by paying down the federal debt.

The federal government's October 2007 Economic Statement offered some improvement in this area. The lowest federal personal income tax rate will be reduced from 15.5 per cent today to 15 per cent retroactive to the start of 2007. The basic personal amount, the amount that an individual can earn without paying federal income tax, will increase to \$9,600 in 2007 and \$10,100 in 2008.

The Chamber recognizes and supports government's efforts in this respect, and recommends that government continue to create a competitive tax regime by committing to bring personal tax revenues, as a percentage of GDP, below the OECD average by 2012.

Important steps for achieving this goal include:

- Reducing the middle two tax brackets (22 per cent and 26 per cent) by two percentage points each by 2012;
- Reducing the highest tax bracket (29 per cent) by one percentage by 2012, and raise the threshold of the highest marginal rate to \$200,000; and
- Raising the basic personal amount to \$12,500 by 2012.

B. More effectively engage older workers

Older workers represent a significant source of underutilized talent and labour supply in the Canadian economy. However, federal government retirement programs and policies such as the *Canadian Pension Plan*, *Old Age Security* program, and tax-assisted private savings policies, do not reflect the current demographic, retirement and life expectancy realities in Canada. In fact, these programs may actually deter older worker participation, when they could be modified to create incentives to continue in the labour force.

The Minister of Human Resources and Social Development Canada commissioned a Federal Expert Panel to review the labour market conditions of older workers and identify barriers and strategies for improving labour market outcomes. In its submission to the Federal Expert Panel on Older Workers, entitled: *Older Workers: Amending Federal Government Retirement Programs to Tap Into an Underutilized Pool of Labour Supply*, the Calgary Chamber recommends the following changes to federal government retirement programs to remove disincentives and entice older workers to continue in the labour force.

1. Expand the age range at which people are eligible to access their *Canada Pension Plan* benefits from 60-70 to 60-75, and provide progressive deferral incentives for individuals who access the pensions during the newly expanded range (e.g. permanently increasing the annual pension by 12% for each year it is postponed after age 70).
2. Amend the *Old Age Security* program to remove the claw back mechanism to encourage the most highly skilled and experienced Canadians to continue working after age 65.
3. Amend tax-assisted private savings policies to provide greater flexibility for Canadians to continue saving for retirement after age 72, such as the deferral of compulsory RRSP



transfers into RRIFs until age 75, or a phased approach of 50% RRSP transfer at the age of 72 and up to 50% transfer until age 75.

4. Work with the provinces to develop harmonized and flexible part-time pension policies that provide incentives for Canadians to gradually transition out of the labour force after age 65.

The Chamber estimates that the proposed approach could increase Canadian labour force participation by as much as 767,000 in 2007 (3.5 per cent) (80,000 in Alberta) and 1.7 million by 2056 (7.2 per cent). It would also generate over \$24 billion in government tax revenues and pension savings in 2007, which would increase to over \$49 billion by 2056.

II. ENHANCING CANADA'S ECONOMIC COMPETITIVENESS

A. Realize cost-efficiencies in programs and institutions through controlled expenditure policies

Government spending restraint provides an opportunity for meaningful tax relief and repayment of debt. The Chamber supports a sustainable and prudent approach to program expenditures and, in its 2007 pre-budget submission, recommended that government limit program spending increases in line with inflation and population growth.

However, maintaining spending in line with population and inflation growth alone does not necessarily allow government to respond to pressures associated with economic growth, as economic expansions can occur in the absence of population growth and often impose significant strains on public services and infrastructure.

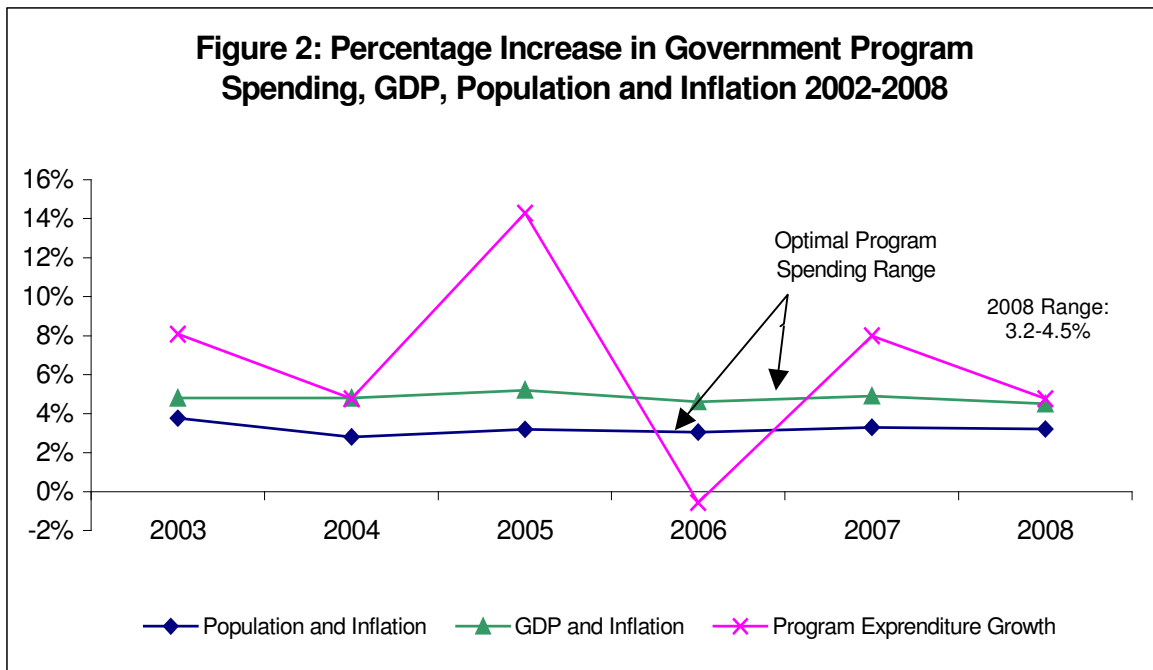
In a 2007 federal pre-budget membership survey, 77 per cent of Chamber members believe the federal government should manage spending by basing yearly increases on reasonable growth in the economy.

The Chamber, therefore, recommends that government adopt a bandwidth approach to spending, by targeting expenditure increases within a range delineated by population and inflation growth, and real GDP and inflation growth (Figure 2).¹ For 2008 this range is between 3.2 and 4.5 per cent.

In the federal government's first fiscal term (2006 to 2007), the program spending increase was approximately 7.4 per cent, and spending increases over the last four years have averaged approximately 7 per cent. This clearly exceeds the proposed range of inflation adjusted population and GDP growth, which was between 3 and 5 per cent over this period.

The government, however, has reduced spending in its second budget and committed to further restraint in its future budget commitments. . In Budget 2007, for example, the federal government forecasts program spending to increase 5.3 per cent (slightly above the proposed range) and projects increases of 4.1 per cent (on average) annually until 2012. In its October Economic Statement, the federal government again committed to limiting program expenditure growth, on average, to a rate below the nominal growth of the economy. The Chamber applauds the government's commitment to fiscal restraint and encourages the government to adopt a policy of limiting spending within the proposed bandwidth.

¹ Real GDP plus CPI inflation is used rather than nominal GDP because nominal GDP presents too volatile of a target for government budgeting purposes.



Source: TD Canada Provincial Forecast and Government of Canada Economic Update

B. Reduce the debt burden

Canada's debt burden is falling. The debt-to-GDP ratio has declined from a high of 68.4 per cent in 1995-96 to an estimated 33.3 per cent in 2006-07. The government plans further debt repayment of \$10 billion in 2007-08, with a target to reduce the debt-to-GDP ratio to below 25 per cent by 2011-12.

In 2006-07, the Government spent 14.4 cents of every revenue dollar on interest on the public debt, down from the peak of 37.6 cents in 1990-91. Debt servicing charges continue to be the largest single expense of the government.

By reducing the national debt, the federal government will have more money available for tax relief. In addition, as outlined by the OECD, interest expenditures must be reduced in anticipation of the changing demographic profile of the Canadian population. Today, around 13 per cent of the population is over 65 years of age. In 25 years, seniors are expected to comprise 25 per cent of the population. Working-age Canadians, who provide the majority of tax revenues, will comprise approximately 62 per cent of the population rather than the approximately 70 per cent they constitute today. In the future, there will be fewer tax dollars to fund programs. Lower debt will also reduce Canada's exposure in the future to periods of slow economic growth or rising interest rates.^{vii}

The Chamber, therefore, recommends that the federal government raise the scheduled debt repayment to \$5 billion per year starting in 2010, while continuing to allocate all surpluses to paying down the national debt.



III. SUMMARY OF RECOMMENDATIONS

I. Solving Alberta's Labour Shortage

Attract the next wave of young talent through a competitive tax regime

1. Bring personal tax revenues, as a percentage of GDP, below the OECD average by 2012. Important steps to achieve this goal include:
 - Reduce the middle two tax brackets (22 per cent and 26 per cent) by two percentage points each by 2012.
 - Reduce the highest tax bracket (29 per cent) by one percentage point by 2012, and raise the threshold of the highest marginal rate to \$200,000.
 - Raise the basic personal amount to \$12,500 by 2012.

More effectively engage older workers

2. Expand the age range at which people are eligible to access their Canada Pension Plan benefits from 60-70 to 60-75, and provide progressive deferral incentives for individuals who access the pensions during the newly expanded range (e.g. permanently increasing the annual pension by 12% for each year it is postponed after age 70).
3. Amend the Old Age Security program to remove the claw back mechanism to encourage the most highly skilled and experienced Canadians to continue working after age 65.
4. Amend tax-assisted private savings policies to provide greater flexibility for Canadians to continue saving for retirement after age 72, such as the deferral of compulsory RRSP transfers into RRIFs until age 75, or a phased approach of 50% RRSP transfer at the age of 72 and up to 50% transfer until age 75.
5. Work with the provinces to develop harmonized and flexible part-time pension policies that provide incentives for Canadians to gradually transition out of the labour force after age 65.

II. Enhancing Canada's Economic Competitiveness

Realize cost-efficiencies in programs and institutions through controlled expenditure policies

6. Adopt a bandwidth approach to government spending, by targeting expenditure increases within a range delimited by population and inflation growth, and real GDP and inflation growth (between 3.2 and 4.5 per cent for 2008).

Reduce the debt burden

7. Raise the scheduled debt repayment to \$5 billion per year starting in 2010, while continuing to allocate all surpluses to paying down the national debt.



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^{vii} The Vancouver Board of Trade. "2008/09 Pre-Budget Submission." June 20, 2007.