CANADIANS FOR TAX FAIRNESS
CANADIENS POUR UNE FISCALITÉ ÉQUITABLE

Canadians for Tax Fairness

Submission to the House of Commons
Standing Committee on Finance

Pre-Budget Consultations
for the 2019/20 Federal Budget

August 2018

Recommendations

Canadians for Tax Fairness recommends the federal government:

1. Focus on measures that increase productivity and competitiveness for all businesses and resist pressure for general corporate income tax cuts —which would mostly benefit large profitable corporations.

2. Finally move to level the digital playing field and eliminate the tax biases it imposes against Canadian businesses and producers by taxing foreign e-commerce companies on the products they sell and the business they conduct in Canada.

3. Eliminate unfair and ineffective tax preferences and loopholes.

4. Take stronger action to address offshore corporate tax dodging and international corporate tax competition.

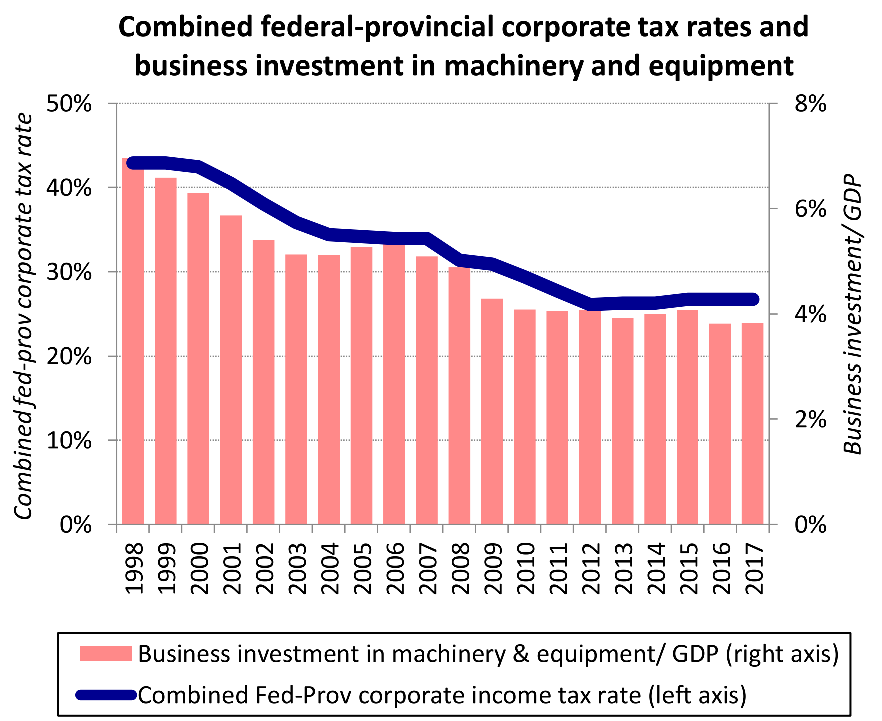
5. Combat money laundering and terrorist financing by establishing a publicly accessible beneficial ownership registry of companies with provinces and territories.

6. Introduce progressive and competitive carbon taxes.

Focus on measures to improve productivity and competitiveness for all businesses and resist pressure for general corporate tax cuts

There's increased pressure for the federal government to respond and match the recent tax cuts in the United States introduced by President Trump. This would be a serious mistake for many reasons:

- In the U.S., these tax cuts are expected to have only marginal overall economic benefits, with most of these benefits going to top incomes, shareholders and foreign investors, resulting greater inequality and a trillion dollar deficit.
- Canada's corporate tax and contribution rates have been among the lowest of major economies according to comprehensive surveys by KPMG, PwC, and the U.S. CBO—and these latest cuts won't erase Canada's advantages. There's no evidence that deep corporate tax cuts in Canada over the past 20 years have increased investment or productivity and there should be no reason to believe that further cuts will do so. Instead these business tax cuts have resulted in over $700 billion in "dead money" and reduced federal revenues by over $20 billion annually.



Sources: OECD tax database and Statistics Canada Cansim table 380-0064.

- Additional trickle-down fiscal stimulus will do little or nothing to boost investment, productivity or jobs. Instead the federal government should focus on improving the fairness and progressivity of our tax system and in areas that will improve productivity and competitiveness for all sectors and employers, and not just the larger profitable corporations that would benefit the most from additional corporate tax cuts.

We need progressive tax reform to not only reverse growing inequalities but also to generate additional revenues for investments that will genuinely foster productivity and competitiveness, including additional funding for R&D and innovation, increasing accessibility to post-secondary education, ensuring affordable quality childcare for all, and establishing a national pharmacare program.

Level the digital playing field/ e-commerce

Instead of further cutting corporate taxes, the federal government should as a top priority eliminate the tax biases and preferences we provide to foreign e-commerce companies at the expense of domestic producers and businesses. This is priority Action #1 under the OECD's 2015 Base Erosion and Profit Shifting (BEPS) Action Plan. Over 50 other nations, including the overwhelming majority of OECD and G20 countries, have adopted VAT rules in accordance with the OECD's guidelines, but Canada still hasn't acted three years later. Tax preferences for foreign suppliers have already contributed to the loss of tens of thousands of jobs in Canada and the closure of numerous businesses, including dozens of media outlets, which further undermines our cultural, social and democratic lives. These tax preferences have also reduced federal and provincial revenues by hundreds of millions annually, while the primary beneficiaries are the largest corporations in the world: Google, Facebook, Amazon, Netflix and others. The federal government should:

- Ensure that online sales, and the profits earned by firms making such sales, are taxed in the country where the products are consumed and where the economic activities that created the income occur, just as the international trade committee recently recommended.
- Eliminate the tax loophole for advertising on foreign internet platforms. This has also contributed to the leakage of billions of dollars of advertising revenue away from Canadian outlets, loss of many media outlets and thousands of jobs, and a decline in tax revenues.

A broad cross-section of Canadian society—labour, think-tanks, cultural organizations, business, provincial governments, parliamentary committees—have urged the federal government to act and a plurality of Canadians are supportive. It is high time Canada acts before even more damage is done.

Eliminate unfair and ineffective tax breaks

The 2015 Liberal election platform and subsequent ministerial mandate letters committed to conduct a "wide-ranging review" of tax expenditures and "cancel unfairly targeted tax breaks", and specifically mentioned putting a cap on the stock option deduction.

While the federal government took immediate and welcome action on income splitting and has taken some steps to restrict tax avoidance through private corporations, there has been no wide-ranging or public review of tax expenditures and little has been done to address other significant tax loopholes.

Most tax expenditures provide greater benefits for higher incomes –and particularly men—with the combined cost of these regressive measures amounting to over $100 billion annually for the federal government alone and tens of billions more for provincial governments. Raising top tax rates achieves little if high incomes can easily just avoid or evade taxes in other ways, including through use of legal tax loopholes.

Closing just a few of these unfair and ineffective tax loopholes while making the tax system simpler and fairer could raise $18 billion in additional revenue annually for the federal government—enough in this coming year to eliminate the deficit and provide funding for additional programs—without raising taxes for the vast majority of Canadians.

- As was promised, the federal government should conduct a wide-ranging review of tax expenditures and other measures through which individuals and corporations are able to avoid paying their fair share of tax. This should involve broad public consultation and an independent panel with representation by diverse stakeholders.
- Instead of continuing indefinitely, individual tax expenditures should also be subject to specific regular public reviews by government, Parliament and independent oversight bodies to ensure they are achieving their intended objectives.

Tackle international tax avoidance and evasion

We appreciate the additional actions the federal government is taking to crack down on offshore tax evasion and aggressive tax avoidance, but more needs to be done. Canada loses an estimated $15 billion annually to tax dodging through tax havens, with about $10 billion of this through corporate tax dodging.

The OECD's Base Erosion and Profit Shifting (BEPS) Action Plan proposes a number of measures to help stem these leakages, but much more progress needs to be made and there's more Canada should do on its own.

Canada should strongly support international measures to address international tax avoidance and evasion, including establishment of common international consolidated corporate tax bases (as the European Union is planning) taxation of multinational conglomerates on a unitary basis, and pursuance of a global tax convention with minimum effective corporate tax rates.

At a domestic level, Canada can move forward independently in a number of ways, including by:

- Requiring corporations to demonstrate their offshore subsidies are carrying out actual economic activity for them to be recognized as separate corporate entities for tax purposes, as Bill C-362 proposes.
- Putting a cap on the interest payments corporations can expense to offshore subsidiaries, as recommended by the OECD BEPS initiative, with the cap set at 10%.

Combat money laundering and terrorist financing by establishing a publicly accessible beneficial ownership registry of companies with provinces and territories.

We were pleased to see provincial and federal finance ministers pledge to continue efforts in advancing beneficial ownership transparency during their recent meeting on June. However, in fully addressing the problem of money laundering and terrorist financing, we recommend Canada commit to a publicly accessible register of beneficial owners of companies.

When assessing Canada's progress on beneficial ownership transparency, the Financial Action Task Force (FATF) rated Canada partially compliant and non-compliant with respect to beneficial ownership transparency of legal persons and legal arrangements during its mutual evaluation in 2016. Furthermore, the RCMP estimates up to $15 billion is being laundered into Canada each year and approximately $6.5 billion in federal tax revenue is lost each year due to underground activities.

A publicly accessible registry of beneficial owners of companies will reduce the administrative burden for Canadian entities (e.g., realtors and financial institutions) carrying out due diligence procedures while assisting Canadian tax authorities and law enforcement to conduct investigations. A publicly accessible registry deters the placement of illicit funds by criminals into Canadian banking systems and subsequently secures the integrity of the Canadian economy. Canada's privacy commissioner has also stated that a publicly accessible beneficial ownership registry would not infringe upon the privacy rights of Canadians.

A Canadian beneficial ownership registry should have the following characteristics:

1. The registry must provide information on corporate entities that are not currently subject to securities regulations, including non-distributing (or privately held) corporations, partnerships, and other legal entities.
2. The registry needs to be a one-stop place to provide access for all users including those with statutory due diligence obligations. Currently, individual provinces have corporate registries with differing information.
3. Information submitted by companies should be verified by a registrar to ensure integrity of the registry itself.
4. The registry should require prompt updates should corporate information change on behalf of a submission.
5. The database should have searchable fields with drop-down menus and unique identifiers for each submission to root out inconsistencies with data entry and facilitate searching and recalling records.

Canada can draw upon best practices from G20 partners that have already implemented similar registries. A publicly accessible beneficial ownership registry also complements Canada's commitment to exchange tax information with other jurisdictions.

We recommend the federal government:

- Make a commitment to implement a publicly accessible registry of beneficial owners of companies as the next phase of the federal/provincial plan to advance beneficial ownership transparency.
- Commit to consult with stakeholders from civil society, financial institutions, real estate, law enforcement etc. in determining sensible disclosure requirements.

Progressive and competitive carbon taxes

We support the federal government's proposal for a national carbon price backstop to ensure a nation-wide and rising price on carbon and other sources of greenhouse gas (GHG) pollution. In fact, a consistent national price on GHGs is preferable to ten different systems across Canada and a consistent, predictable and transparent carbon tax is preferable to cap and trade schemes which are opaque, subject to preferential treatments, and have led to highly variable prices and other problems.

However, carbon taxes and carbon pricing are regressive, costing those who can least afford it—lower and middle-income households—significantly more as a share of their incomes than higher income households. This is one reason why there's been a strong reaction against carbon pricing in some areas.

Carbon pricing is only one of many tools needed to address climate change and will be much more effective if used in conjunction with complementary measures, including: regulation; more efficient building, industry and urban design standards; public investments in clean and renewable transport and energy alternatives; R&D ; education; incentives and subsidies to help low income and vulnerable households, communities and industries adjust; and an end to fossil-fuel subsidies.

We recommend the federal government:

- Ensure lower and middle incomes and vulnerable populations are fully compensated for the increased costs of federal carbon pricing. As proposed by the Alternative Federal Budget, a green tax refund for each individual equivalent to $10 for every $1 in a carbon tax (e.g. an annual $100 refund for a $10/tonne tax) would ensure a majority of households are better off.
- Commit that the remaining funds generated by federal carbon tax and carbon pricing fund complementary environmental measures as outlined above.
- To address competitiveness concerns and increase the international effectiveness of these measures, apply border adjustments tariffs to our imports and exports, with appropriate carbon taxes applied to imports from countries without sufficient carbon pricing regimes and rebates for Canadian exports to those countries.