August 15, 2007

House of Commons Standing Committee on Finance
Room 673
180 Wellington
House of Commons
Ottawa, ON K1A 0A6

Attention: Elizabeth B. Kingston
Clerk of the Committee:
Fax: 613-943-0307

Dear Sirs:

RE: 2008 Federal Pre-Budget Submission

On behalf of the 2,000 members of the Society of Trust and Estate Practitioners (Canada), we are pleased to submit our comments in response to your request for submissions on tax reform in preparation for the 2008 federal budget. Although we have many specific proposals to improve the efficiency and fairness of the Canadian tax system, the comments below address the three specific questions identified in the Committee's request for briefs. Our submission on specific technical issues will be made separately.

The Society of Trust and Estate Practitioners ("STEP") is the leading international organization for trust and estates professionals, and its members are by definition the most experienced and senior practitioners in the field. STEP members are lawyers, accountants, financial planners, and insurance and trust professionals involved in domestic and international tax and business succession planning. STEP Canada is its Canadian chapter.

Question One: What criteria do you believe should guide federal decisions about the changes that should be made to taxes, fees and other charges, and about whether they should be broadly based or targeted to a specific group of residents or business sectors?

We believe that governments at all levels should follow four main criteria in developing tax policy:

- Equity: is the tax burden distributed fairly among all taxpayers?
- Efficiency: does the tax system interfere as little as possible in taxpayer choices in how to earn income, carry on business, make investments and otherwise determine the allocation of the economy's resources?
- Economic Growth: is the tax system conducive to a high rate of growth or does it set up impediments to growth?
- Ease of Administration: are collection costs imposed on government and compliance costs imposed on taxpayers suitably low?

We recognize that in analyzing any particular tax policy, these four goals may conflict. For example, attempts to make the tax system more equitable, by providing special incentives or allowances for particular groups of taxpayers, inevitably make the tax system more complex, reduce the ease of administration and create distortions for the efficient allocation of resources.

Canada has an enviable reputation for voluntary compliance. This dramatically reduces the cost of collection to the federal government. However, this voluntary compliance is threatened by the increasing complexity of the tax system. If the system is too complicated, too onerous, or too expensive to comply, taxpayers may drop out of the system.

We suggest the following guidelines be applied in designing taxes and user fees:

- The tax base should be as broad as possible, and the rates correspondingly low. Any attempt to deal with specific taxpayer groups or industries puts the government in the impossible task of picking winners and losers, thereby reducing fairness and efficiency, while increasing complexity and the costs of compliance.
- There is no compelling reason for Canada's tax policies or tax system to parallel those of other countries. While we must be cognizant of the interaction of our policies with those of other countries, particularly our major trading partners, we must not be afraid to maintain or introduce unique features to our tax system, provided those unique features are designed to promote efficiency and growth.
- The recent trend of announcing tax changes by press release and letting them linger unpassed for several years causes uncertainty for practitioners and their clients. It reduces taxpayer confidence and participation in the tax system.
- Where fundamental changes in tax policy direction are proposed (for example, the 2007 budget proposals relating to interest deductibility, or the earlier announcements on the taxation of income trusts and dividends), the government should revert to the historic practice of issuing "green papers" and "white papers" for public consultation and debate.

Question Two: Given that corporations provide employment, are owned by individuals and contribute to the economic growth of the nation:

- What is the appropriate form and level of corporate taxes, fees and other charge?
- To what extent should federal revenues be derived from corporations rather than individuals?
- Should the federal government ensure that corporate taxation in Canada is competitive with that in other countries, and what consideration should be given to the various levels and types of public goods provided by countries?

We are concerned that this question is premised on a false assumption – that corporations are owned by individuals. In fact, many Canadian corporations include as shareholders non-residents (individuals or corporations), pension funds and other tax exempt entities, including RRSPs and RRIFs. The implicit assumption is that since corporations are ultimately owned by individuals (which we challenge), and that individuals will include in income any income earned from corporations (whether salary, dividends, capital gains or other sources of income), that therefore there is no need to tax corporations.

There is no question that corporations provide employment and contribute to economic growth. They also pay a variety of taxes to all levels of government – ranging from income tax on profits, to employer health tax, CPP and EI premiums, customs duties and levies, GST, provincial sales and use taxes, municipal property taxes, and education taxes. Taxes paid by corporations represent a significant proportion of all taxes collected by all levels of government, and cannot easily be replaced.

The question of whether and how to tax corporations deserves open, public debate. With the increasing mobility of capital, the globalization of trade, the increase in trade in services rather than goods, the ease of international communication and the evolution of business, the issue of how to identify the source of profits, and how to tax them (and the corresponding question of how to give credit for foreign taxes paid) demands the attention of domestic and international tax authorities. Since our members are actively involved in international transactions, and STEP's international membership resides and works in all major and emerging financial centers, STEP is uniquely qualified to assist your committee and the federal government in framing this debate, and participating in the design and implementation of any solution. We look forward to contributing to this essential tax policy discussion.

In the interim, we have the following observations on the questions posed.

As to the form of corporate taxes, fees and other charges, economists have always stated that user fees are more efficient forms of raising revenue than general taxes, since the fees fall on those who derive the benefits. The problem lies in ensuring that there are no "free riders" who benefit from such fees. We recommend that the federal government prepare a consultative green paper for public discussion and debate on the development of such taxes.

As for the level of corporate taxes, we do not have access to recent revenue statistics and therefore can only observe that corporate tax collections have increased in recent years as a result of a booming economy. We note the experience in Belgium, Ireland and Iceland, where lower corporate taxes resulted in more economic activity and hence higher corporate and personal tax revenues. We encourage the federal government to continue to develop tax policy that promotes economic activity.

We encourage the federal government and its provincial counterparts to develop tax policies and rates that enhance Canada's international competitiveness. However, merely reducing statutory tax rates will not be sufficient. A more co-ordinated effort to enhance research and development, employee training and productivity, transportation systems, and export incentives is required. Reducing statutory tax rates merely results in "a race to the bottom". Lower tax rates are meaningless if economic activity is not increased.

We submit that it is appropriate that corporations continue to pay taxes. As noted above, corporations pay a variety of taxes, including income tax. Those tax revenues are essential to allow the government to maintain public services.

With regard to the level and type of public goods that government should provide, we suggest that requires a much more detailed framework and public debate. If the government is contemplating any changes to the provision of public services, we strongly encourage it to explain how and why.

Question Three: Given that Canadians contribute to the nation as employees, corporate shareholders, volunteers and community residents:

- What is the appropriate form and level of personal taxes, fees and other charges?
- To what extent should federal revenues be derived from individuals rather than corporations?
- Should the federal government ensure that personal taxation in Canada is competitive with that in other countries, and what consideration should be given to the various levels and types of public goods provided by countries?

We are unclear about the intent of this question. Is the committee asking whether Canadians want to pay more or less tax, or receive more or fewer public services? Or is the committee asking whether the existing tax mix is appropriate? Our comments below are based on the assumption that Canadians want to pay the least amount of tax required to maintain those public services they think essential -- without identifying what services those might be -- and that the real question is whether the existing tax mix should be changed.

Individuals pay a variety of taxes to the federal and provincial governments – including, for instance, income taxes and surtaxes, health taxes, CPP and EI premiums, GST, provincial sales taxes, municipal property taxes, and excise taxes (for instance, taxes on gasoline, wine, beer and liquor).

If the government is serious about reviewing the overall tax mix, we suggest it release a green paper for public consultation and debate. STEP would be pleased to participate in this process.

We encourage the federal government to maintain its personal income tax rates competitive with other jurisdictions. In this age of a mobile workforce, and mobile head offices, it is essential that the tax burden and public benefits in Canada be competitive with other jurisdictions. This will require federal-provincial cooperation. That being said, we note that the personal tax rates in notable low corporate tax jurisdictions such as Ireland and Iceland are no lower than the combined federal and provincial tax rates in Canada. Unfortunately, those combined rates often include provincial surtaxes which are beyond the control of the federal government.

The extent to which federal revenues should be derived from individuals rather than corporations relates directly to examining the tax mix, which, as we have suggested should be referred to the public for consultation and debate. As for the provision of public goods, we repeat our previous reservations expressed above.

We thank the Committee for considering our submission and look forward to working with the government in continuing to improve our tax system.

Yours very truly

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Grace Chow
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