

Reducing the Complexity of Canada's Tax Regime to Improve Competitiveness

The demands of global capital markets and the ease with which capital can be shifted around the world have made investment increasingly responsive to changes in a country's tax regime. Recognizing the need for competitiveness, the Canadian government has committed to lowering corporate income tax rates. While corporate income tax rates play an important role in a country's success in attracting investment, the complexity of a country's tax regime also plays an important role in that regard. The more complex the tax regime, the higher the cost of tax compliance and the less attractive a country is to foreign and domestic business investment.

Reducing the complexity of Canada's tax regime will create a significant incentive for increased foreign and domestic business investment in Canada which in turn will lead to a faster economic recovery.

The total tax burden for a company has two primary components: taxes borne by the company, and compliance and administration costs. Examples of taxes borne by a company include income taxes, property taxes, and the employer's portion of Canada Pension Plan ("CPP") and Employment Insurance ("EI") premiums. The cost of tax compliance includes the cost to the company of collecting and remitting taxes and those associated with collecting and remitting taxes paid by employees, such as personal income tax and the employee's portion of CPP and EI premiums.

Based on the Total Tax Contribution Survey conducted by PricewaterhouseCoopers (PWC), the average tax compliance time for Canadian businesses surveyed was 1696 days, the equivalent of eight full-time employees dealing solely with Canadian Tax compliance. In the same survey, the minimum tax compliance time was 10 days and the maximum tax compliance time was 6672 days. In Canada, there are 46 taxes borne and collected by companies and more than half of these taxes (24) generate only six percent of the taxes borne (source: PricewaterhouseCoopers Total Tax Contribution 2008 - Canada's Tax Regime: Complexity and Competitiveness in Difficult Times. Note: Tax compliance includes gathering data to comply, making payments, corresponding with the Canada Revenue Agency (CRA) and Provincial Ministries, and analyzing legislation. It excludes municipal or city taxes but includes property taxes).

When compared to several other countries that Canada competes with for investment, Canada does not fare well when it comes to taxes borne and compliance costs. Based on comparable total tax contribution surveys conducted by PWC in Australia, Belgium, the Netherlands, India, South Africa, the United Kingdom and the United States, Canadian businesses are subjected to the second highest number of taxing points (295), the second highest average number of taxes borne and collected at 14 and six, respectively, and the third highest average figure for employment taxes borne and collected per employee.

The cost incurred by the federal government and corporations in administering the collection of taxes and processing of tax returns exceeds the revenue generated by those taxes. As referred to earlier, of the 46 taxes borne and collected, 24 represent only six percent of the total tax collected. This suggests that there is an opportunity to reduce the total tax burden (while still maintaining current tax revenue levels) by reducing the cost of tax compliance for Canadian businesses and administration costs for government.

Although steps have been taken to reduce the tax compliance burden, such as the recent joint project between the CRA and the Ontario Ministry of Revenue to implement a single administration for taxation years ending after December 31, 2008, more can and needs to be done to reduce the total tax burden.

Going forward, we encourage the federal government to further reduce the overall tax burden. For example, opportunities exist to significantly simplify the tax regime as it pertains to payroll deductions. PWC described the payroll tax landscape as “a complicated minefield of non-uniform rules that make it difficult for companies to manage compliance risk and focus on their business.” With respect to CPP and EI, PWC concluded that “if the mistake is an underpayment, companies may have to pay interest and significant penalties. If there's an overpayment, the tax recovery could be lost.” At the provincial level, tax compliance costs may be reduced by applying a single rate across provinces/territories (with opportunity for non-participation by a province/territory) for purpose of payroll deductions related to Workplace Safety and Insurance Board (WSIB) premiums and Employer Health Tax deductions.

For the immediate future, however, we would respectfully limit our recommendations to the following:

Recommendations

That the federal government within the next twelve months:

1. Direct the appropriate departments and agencies, such as the Canada Revenue Agency (CRA) and the Department of Finance, to identify opportunities to reduce and simplify the total federal tax burden (including compliance and administrative costs), and act on those opportunities within twelve months thereafter by enacting the requisite legislation or amendments to current legislation.
2. Simplify the tax regime as it pertains to payroll deductions as outlined in the preamble, and explore further opportunities to reduce the total tax burden by fostering greater cooperation with provincial/territorial governments to harmonize and consolidate various aspects of the federal and provincial/territorial tax regimes.