MANDATE LETTERS

As Canada forms its next government, the Prime Minister's Office will be preparing ministerial mandate letters. In this special Intelligence Memo series, policy experts highlight key challenges and priorities in each minister's portfolio.

From: Alexandre Laurin

To: The Incoming Minister of Finance

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As you embark on the start of your term as Minister of Finance, your top tax policy priorities should include the following:

- Amend the *Excise Tax Act* to apply GST to businesses that supply digital goods and services for consumption within Canada regardless of where the company is located, in compliance with international VAT/GST Guidelines.
- Initiate a comprehensive tax system review. For the corporate income tax, consider transitioning to a growth-oriented tax system that is neutral with respect to business investment and financing decisions through an Allowance for Corporate Equity or a cash-flow tax. Also consider international tax developments, particularly in the OECD, with a view to participate in the development of a new multilateral coordination system to tax global corporate intangible income.
- Update the assumptions underlying the equivalency factor – currently a factor of nine – between defined-benefit pension plan accruals and defined-contribution plan/RRSP contribution limits. Longer lives and, even more important, low yields on investments suitable for retirement saving have raised the amount of saving needed for every dollar of annual income in retirement, putting people with DC plans and/or RRSPs at a major disadvantage relative to those in DB plans. Also, consider increasing the age limit at which Canadians and their employers must stop contributing to retirement plans, and at which contributors must start drawing down their retirement wealth.
- Replace the Child Care Expense Deduction (CCED) by a refundable tax credit geared to income. Many lower-income families cannot take full benefit of the CCED because of the two-thirds of income limit, suggesting there is room for a more generous tax treatment of childcare costs on fairness grounds. At the higher family income level, many families are constrained by the maximum deduction amount per child, suggesting room for improvement under the principle that childcare is a cost of earning income.
- Design a new small-business tax regime that would distinguish all businesses that are small from the young, growth-oriented enterprises.
- Consider bringing back income averaging provisions for tax purposes. Canada's system of progressive tax rates may impose a greater tax burden on individuals whose incomes are irregular or fluctuate year-by-year, compared to individuals with steadier incomes of the same average value over several years.
- Reduce the number of people subject to the highest tax rate by doubling the threshold at which it applies. Many countries with comparably high top personal income tax rates also have a higher income threshold. Excessive taxation of high earnings depresses entrepreneurial activity, risk taking, and talent over the long run.
- Expand the medical expense tax credit. Most medical expenses are nondiscretionary: people incur them because they are or may become sick, and the income they need to cover them is not available for enjoyment. The current medical expense tax credit is overly restrictive, putting people who pay for healthcare directly, or pay health-related insurance premiums not covered by their employers, at a disadvantage compared to those who benefit from untaxed employer-paid health premiums.
- Broaden access to the pension income credit and to pension income splitting to all recipients of income from retirement sources, including life-income funds, RRIFs, and RRSPs before age 65 – putting recipients from these sources on par with recipients of pension annuities.
- Work with the Minister of National Revenue to develop a reporting mechanism that would allow for donations of private company shares and real estate to receive the same favourable tax treatment as donations of publicly traded shares to registered charities. This would unblock major new support for Canada's charities. Exempting donations of privately held securities from tax will require an amendment to the *Income Tax Act*. To maintain the incentive to donate environmentally sensitive land to charities dedicated to its conservation, only a partial exemption should apply to donations of other real estate.

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