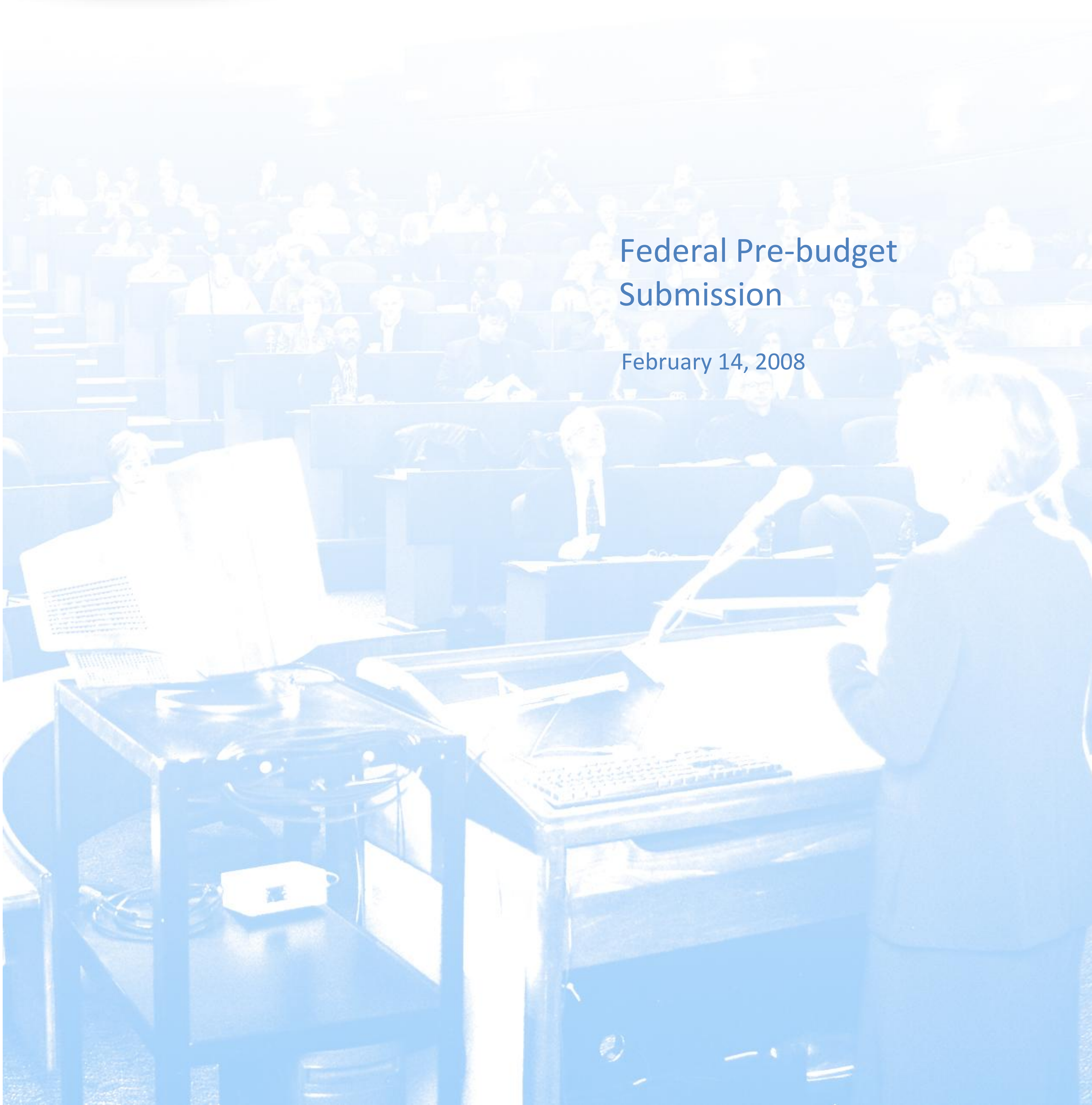
HALIFAX CHAMBER OF COMMERCE



Federal Pre-budget Submission

February 14, 2008

Executive Summary

The position of the Halifax Chamber is guided by the positions of the Canadian Chamber of Commerce, the objectives of Halifax's Economic Strategy, input from Chamber committees and boards and previous Chamber policy. The Chamber's position on various issues has been shaped by the challenges facing business in the years ahead. These include a declining population base, infrastructure deficits in our communities, lack of skilled and educated employees and an increasingly competitive business environment. Increased competition is impacted by our Canadian tax system, trade barriers and our overall business climate.

Background

The Halifax Chamber of Commerce is a best practice business organization that continuously strives to make Halifax an even more attractive location in which to live, work and play. The 1700 Chamber members employ approximately 75,000 people in Halifax – over one quarter of Metro-Halifax's labour force. It is the first North American Chamber to be certified to the ISO 9001:2000 International Standard of Quality and it is the oldest Chamber on the continent, with roots dating to 1750. The policy and advocacy work of the Chamber is driven by the efforts of volunteers from committees and task forces consisting of more than 350 leaders from the business community.

Challenges

The challenges facing business in the years ahead will be complex and varied. For example, a strong Canadian dollar is difficult for some sectors and good news for others such as retail, which relies strongly on imports from the US. However, rising energy costs and wide fluctuations in key economic inputs will impact all sectors of the Canadian economy.

It is key that government do what it can to build a strong Canadian economy that can withstand challenges. Elements required for a strong economy that are within the government's mandate include factors such as: low government debt, controlled program spending, a competitive tax environment, strong infrastructure, an educated and skilled workforce, population growth and streamlined regulations.

Key Messages

Given the challenges mentioned, following are the responses to the questions posed in the federal pre-budget consultation:

What steps should the government take in Budget 2008 (and beyond) to ensure that Canada is prepared to deal with the implications of an aging population?

An aging population will put increased pressure on government to control program spending, especially in the area of health care. Prevention programs and alternative forms of health care service delivery, such as partnerships with the private sector, will need to be implemented in order to ensure that our current system is sustainable into the future. Funds for prevention should focus on chronic diseases, including diabetes and heart disease, which disproportionately afflict seniors. Funding should also be made available for national healthy workplace initiatives, as studies have shown that work is one of the best places to distribute health information.

Government will also be required to invest more in training and educating workers to replace retirees, as gaps will be created in the labour market. Measures such as offering older workers incentives to stay in the work force longer should be utilized. In addition, funding should be made available for training incentives that encourage the use of mentoring and training; a role for which veteran employees are ideally suited. Older workers are also amenable to flex-work and job-sharing arrangements; any policy to encourage such initiatives is encouraged.

In what areas should the Government focus its resources in Budget 2008 (and beyond)? If resources need to be redirected from other areas, what areas should these be?

Priority Setting

The Chamber is pleased to see that the government has developed a long-term economic plan in *Advantage Canada.* The priorities identified under the plan: tax advantage, fiscal advantage, knowledge advantage, infrastructure advantage and entrepreneurial advantage parallel the Chamber's advocacy areas, which are: transportation, education, skills and training and supercharging our labour force. None of these challenges will be easily met and it is imperative that the Federal Government stay the course with strategic investing and responsible fiscal strategies.

Specifically, government should focus resources in the areas of infrastructure (in particular transportation infrastructure), debt reduction and immigration. As mentioned in the previous question, government must also focus spending on health promotion, healthcare and education.

Infrastructure

The existing infrastructure deficit that exists in this country is a major threat to the long term competitiveness of the Canadian economy. Poor long-term planning, coupled with rising costs for municipal infrastructure have left many cities and communities in dire situations. A long-term, sustainable infrastructure plan must be established, so that Canada isn't faced with an even greater infrastructure deficit in the future.

The government's commitment of $33 billion dollars until 2014, through the Building Canada program for new infrastructure, is a major step in the right direction. Included in the plan is $1.25 billion for a Public-Private Partnership (P3) Fund [1]. The Chamber feels that P3 partnerships will be critical to maintaining and building new infrastructure in Canada.

In addition, the need for improvements at Canada's gateways is critical, as trade opportunities that are currently presenting themselves are time sensitive. The Atlantic Gateway initiative is vital to growing the business sector here in Nova Scotia. Support from the National Gateways and Border Crossings $2.1 billion dollar fund should be expedited, in order to allow for the Province and the private sector to take advantage of the time sensitive opportunities for trade with the Pacific Rim Asian market.

[1] Source Infrastructure Canada http://www.infrastructure.gc.ca/faq/index_e.shtml

Debt Reduction

The Chamber commends the government for a lower debt-to-GDP ratio of 32.3% in 2006-2007, down from 35.1% in 2005-2006[2]. The Halifax Chamber of Commerce supports the Canadian Chamber of Commerce's position that the debt-to -GDP ratio be decreased to 25% by 2012-13, by continuing to allocate $3 billion per year towards debt reduction. Contributing budget surpluses to paying down debt is key to the economic equation, as less debt means fewer dollars spent servicing debt and more program dollars for Canadians.

Immigration

Nova Scotia's population is declining. In 2006-2007 Nova Scotia was one of only three provinces or territories (Newfoundland and Labour and the Yukon being the other two), to have a decline in population over 2005-2006[3]. According to Statistics Canada, Nova Scotia's population has decreased 0.6% from 2001 to 2006[4].

In order to *Supercharge Our Labour Force*, which is a strategic goal of the Chamber, the declining population trend must be reversed. Without people, we do not have an economy. This trend can only be reversed with a focus on increasing immigration. According to Statistics Canada, from July 1st 2006 to June 30th 2007 Canada welcomed 238,100 immigrants, 16,200 fewer than the previous year. Government must ensure that funding is directed towards immigration, particularly in provinces that are experiencing declining populations, such as Nova Scotia.

What steps should the Government take in Budget 2008 (and beyond) to ensure that the Canadian economy remains internationally <u>competitive</u>, continues to attract <u>investment</u> and creates high value-added jobs?

Competitive Tax System

Canada must have a competitive tax system, in order to ensure that the economy remains internationally competitive. The Chamber recommends a mix of tax changes that address both business and personal taxes, as there is support among economists that tax cuts with the greatest potential to stimulate the economy and increase productivity and competitiveness, are cuts to corporate and personal income taxes.

We recommend a mix of tax changes including: introducing Tax Pre-paid Saving Plans and continuing to review and adjust Capital Cost Allowance rates to line the up with the economic life of the relevant asset. We are also recommending that the top marginal personal income tax threshold for personal income tax be raised to $150,000. We are pleased with the plan to reduce the net corporate tax rate to

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[2] Source: Annual Financial Report of the Government of Canada Fiscal Year 2005-2006,2006-2007

[3] Source: www.statcan.ca/english/freepub/91-215-XIE/2007000/part1.htm

[4] Source: www12.statcan.ca/english/census06/data/profiles/ct/CTdata.cfm?Lang=E&CTCODE=0030&CATYPE=CMA

15% by 2012 and the 1% reduction for private business claiming the small business deduction[5]. We encourage the government to consider reductions in personal income taxes, as past surpluses have indicated that there has been room in the budget for this. As always, it is the Chamber's firm stance that tax relief must take a back seat to fiscal restraint and debt reduction. Any tax relief must be sustainable and responsible in the context of the broader fiscal picture.

In addition to ensuring that Canada has a competitive tax system, areas in which government action can have a large impact on competition and investment are: reducing barriers to international trade, streamlining regulations, ensuring that Canada has a reliable and secure energy supply and eliminating airport rents. Immigration is vital, as well as programs which encourage investment in research and development.

What <u>tax and other measures</u> should the government take to ensure that Canada keeps its best and brightest, attracts highly skilled immigrants, encourages as many people as possible to enter the workforce, and rewards Canadians for their hard work, while respecting the government's fiscal goals?

As mentioned in the response to the previous question, the Chamber recommends that the government make changes to the tax system that would create an optimal business climate. An attractive business climate will naturally attract the best and the brightest and will therefore, bolster our workforce.

While technically not a tax measure, Employment Insurance (EI) is a major cost to employers. We recommend that the EI program be returned to its original goal of providing insurance against unintended unemployment. This will facilitate further reductions in EI premiums. We also recommend that employer EI premium rate be gradually reduced to equal the employee premium level, that a system be implemented that allows for over-contribution by employers to be refunded, and that an experience rating system for employers gradually be introduced.

The Chamber discourages further cuts to the GST. The one percent reduction, which brings the GST to 5% as of January 1st 2008, is of concern to the Chamber. Many countries are moving towards the use of more indirect taxes or consumption based taxes[6], such as the GST. The impact of a one percent decrease in the GST to the average consumer is negligible, yet the impact on government revenues will be an estimated loss of $6 billion dollars[7]. Although currently Canada's economy is strong, now is the not to make further cuts to revenue, but to plan for the future, in order to maintain this position of strength. Programs should be reviewed, sunset clauses on new programs should be established and the most competitive tax system possible should be implemented in order to attract and keep business here.

[5] Source: Canadian Revenue Agency http://www.cra-arc.gc.ca/tax/business/topics/corporations/rates-e.html

[6] Source: KPMG's Corporate and Indirect Tax Rate Survey 2007 (page 1)

[7] Source: http://taxes.suite101.com/article.cfm/gst_reduced_to_5

Chamber Advocacy Work

More information about the Chamber and its advocacy work can be accessed by contacting the office or visiting the Chamber's web site:

Halifax Chamber of Commerce
656 Windmill Road, Suite 200
Dartmouth, NS B3B 1B8

Ph: (902) 468-7111
Fax: (902) 468-7333

info@halifaxchamber.com
www.halifaxchamber.com