



INFORMATION TECHNOLOGY
ASSOCIATION OF CANADA



ASSOCIATION CANADIENNE DE LA
TECHNOLOGIE DE L'INFORMATION

Productivity and Prosperity

ITAC Pre-Budget Brief to the Commons
Standing Committee on Finance

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ITAC is the voice of the Canadian information and communications technology industry. Together with its affiliated organizations across the country, the association represents 1300 companies in the information and communications technology (ICT) industry in all sectors including telecommunications and Internet services, ICT consulting services, hardware, microelectronics, software and electronic content. ITAC's network of companies accounts for more than 70 per cent of the 566,000 jobs, \$130 billion in revenue, \$5.2 billion in R&D investment, \$20.7 billion in exports and \$11.5 billion in capital expenditure that the sector contributes annually to the Canadian economy.

ITAC envisions a nation that is world recognized as a scientifically and technologically sophisticated country. We envision a society that extends to its citizens and the wider world the benefits of its relentless pursuit of discovery, creativity and enterprise. We envision a nation of well-educated, skilled citizens equipped to solve 21st century problems for our community and for humanity. We envision a society that is open, pluralistic, striving and successful – a prosperous, inspiring home for present and future Canadians. We envision a nation whose economic wealth is enhanced by its excellence in science and technology and the application of that excellence to meet the world's needs.

Introduction

ITAC commends the Committee for its decision to view pre-budget submissions this year through the lens of productivity and prosperity. The information and communications technology (ICT) industry has a long-standing and deep interest in these issues.

First of all, it is by now, well established that productivity in a modern economy is largely driven by investment in and deployment of ICT solutions. Our technology is at the heart of productivity gains in essentially every sector of the economy and in the provision of public services, such as healthcare.

Our industry is also on the front lines of both facing and enabling the fundamental shift in economic activity taking place in favor of major developing economies, such as China and India. Coupled with our significant demographic challenges of declining population growth and aging population, Canada, like all developed economies, is compelled to be more innovative and make greater use of technology in order to be able to support our future prosperity and quality of life.

In this regard, Canada has tremendous assets, but there are significant clouds on the horizon: firstly, we are significantly under-investing in the deployment of technology and innovations that drive productivity; secondly, advances in ICT are generating an accelerating potential for productivity improvement: in other words, this is a very bad time to be under-investing in ICT.

ITAC's presentation and recommendations will focus on three principal drivers of productivity: physical capital, human capital and innovation.

The Impact of Physical Capital upon Productivity Growth

Since 1999, ITAC has worked closely with a number of the country's leading economists to investigate the link between investment in information and communications technology and productivity growth. By now, it is well established, not only in Canada but around the world, that ICT deployment is the principal driver of productivity¹ – we've seen it expressed in the Budget Plan 2004, which made important improvements to capital cost allowances for information and communications technology and took measures to eliminate the capital tax, to remove key disincentives to capital acquisition. But these measures were not sufficient to propel accelerated adoption of productivity enhancing technology.

¹ ITAC Position Paper, ICT and Productivity, March 2005.

Our under-investment in information and communications technology is reaching alarming levels. In 2003, Canadian companies invested only 42 per cent of what U.S. companies invested per worker on information and communications technology.² How can we expect Canadian workers to be more productive if employers, for whatever reasons, do not make productivity enhancing tools available to them?

A nation truly concerned about its productivity would encourage them to make appropriate investment in ICTs and other tools. Many nations are already doing so. In the OECD countries such as Japan, Spain and the United Kingdom, they have actively promoted ICT investment.

The most comprehensive ICT investment promotion scheme can be found in Japan. The 2003 tax reforms introduced tax incentives designed to stimulate investment by companies in Japan in information and communication technology assets and software. Firms investing in ICT solely for their own use have an option of either 10 per cent credit from corporate tax or special depreciation equivalent to 50 per cent of the acquisition cost.

Spain is another country that offers an ICT tax credit. As a special measure for small companies, a tax credit of 10 per cent is available. It includes the costs incurred for the acquisition of equipment to enable Internet Access (hardware, software), design web sites, e-commerce and information and communications technologies. Training to carry out these activities is also included in the tax credit base.³

A tax incentive for ICT adoption was available for a limited period in the United Kingdom. It was designed to stimulate demand for ICT by small companies. The incentive allowed 100 per cent first year allowance for capital expenditure on ICT incurred by a small enterprise in the period April 1, 2000 to March 31, 2004. In other words, it allowed current expensing of the capital cost of acquired ICT.

OECD countries aren't the only ones implementing ICT adoption incentives. Economic "tigers", such as China, India and Korea, have made use of measures such as depreciation, investment allowances, allowances for technological innovation and tax credits, to accelerate the ICT capital intensity in their economies.

Many jurisdictions also recognize that incenting the acquisition of ICT tools is only part of the solution. They understand that ICT tools are complex and require employee education and training in order to maximize their benefits. Countries such as Austria, France, Japan, Korea, Netherlands and Spain, all offer tax credits or deductions for employee training.⁴

ITAC believes that it is time that Canada join the ranks of these countries. We aren't alone in this. The Minister of Industry has mused about the possibility of incentives. And a current working paper from the Department of Finance suggests "A public policy that favours the adoption of machinery and equipment, which are more likely to embody innovations, can therefore be supported."⁵ And one of our members, Bell Canada, proposed in its submission to the Telecom Policy Review panel that: "For a five-year period, the Government of Canada should introduce a special 50 per cent capital cost allowance bonus in year one for all ICT

² Centre for the Study of Living Standards.

³ Innovation as the Explicit Target of Spanish Tax Incentives, Presentation of the Ministry of Finance, Spain, 2001.

⁴ Jacek Warda, "Incentives for ICT Adoption: Canada and Major Competitors," ITAC, July 2005.

⁵ Aled ablorweth, "Machines and the Economics of Growth," Department of Finance, March 2005.

investments,” and that “Canadian SMEs should be permitted to expense 100 per cent of the first \$100,000 of ICT investment for a five-year period.”⁶

ITAC believes that there is a breadth of experience within the OECD community and beyond to illustrate effective strategies for ICT investment. We believe that, to be truly effective, the incentive must embrace both acquisition and training for optimal use of ICTs. These incentives may be targeted at a particularly laggard segment of the economy. Canada’s small and medium sized business sector, for example, significantly under-utilizes ICTs in comparison to other sectors and SME sectors in other economies. Incentives also may be designed to be effective over a short period of time, such as in the experience of the United Kingdom. We believe that incentives for adoption, especially by small and medium businesses, are most effective when they are tax-based rather than program-based. Program compliance often places a burden on small business that causes them to opt out of programs designed to assist them.

We believe that it is time to address the under-adoption of ICTs in the Canadian economy. We have collected, for your review, the experiences of other nations. And we are committed to working with this Committee and with the Department of Finance to create the appropriate solutions for Canadians.

For we believe that we must act now. If we are truly concerned about Canada’s productivity performance, we must adopt an activist position about ICT adoption before our comparative adoption rate slips any further.

Highly Qualified People and Productivity Growth

There is a strong correlation between a smart, well-educated workforce and economic growth. OECD analysis suggests that the effect of increasing the average education level by one year is to increase the level of GDP per capita by as much as 7 per cent.⁷ ITAC strongly supports all the initiatives we have seen in recent budgets to underscore the importance of education to parents and students. This focus must be unrelenting if Canada is to compete in a global knowledge-based economy that sees emerging economies like China and India producing exponentially more graduates – particularly in science and technology – than Canada can ever hope to.

So, too, must our commitment to a competitive level of public investment in science, research and development persist. We applaud the \$13 billion investment Canada has made in this area and we were particularly delighted to see a further \$1 billion committed for this purpose in the Budget Plan 2005. There must be no retreat from ongoing investment in public research at this order of magnitude. It is quite simply the entry price we must pay to compete effectively among the leaders in the knowledge-based economy.

We should, however, resist the impulse to seek a clear “return on investment” on the ideas generated by this investment. The call for commercial outcomes from our \$13 billion investment confounds the public policy discussion around innovation and commercialization and expectations on the recipients of this investment – universities and public research institutions – that are entirely unrealistic. Commercial outcomes come from commercial enterprises. The

⁶ Bell Canada, Submission to the Telecom Policy Review Panel, 2005.

⁷ Peter Nicholson, “The Growth Story: Canada’s Long-run Economic Performance and Prospects,” International Productivity Monitor, Fall 2003, page 12.

primary outcome we should expect from our \$14 billion is capacity: excellent science and a sizable, skilled cohort of graduates equipped to drive the innovation intensive enterprises of the future. Commercial enterprises will make use of this capacity to generate economic growth.

One of the leaders of Canada's technology industry has underscored this point clearly. According to Mike Lazaridis, the co-CEO of RIM, "Students drive innovation in our companies. Students are the most prolific, most efficient, most practical form of commercialization. And how do you get the best students? By teaching them with the best students and researchers. By funding their labs and their research."⁸

So our investment in science and research is essential to building our knowledge-based workforce. But even with sizable investments, we are competing with countries that can produce many more skilled people than we can. Another challenge that we face is keeping the skilled scientists and engineers, in whom we have invested so much, in the Canadian workforce. But even if we kept every graduate we produce, we would not have a workforce large enough to fuel the growth of knowledge-based companies in our sector and others. We must attract highly qualified workers and graduates from other nations in order to remain competitive. This endeavor is vital to the success of our innovation-driven companies. Yet they face significant disadvantages in the global competition for talent. Canada's personal income tax regime severely hinders Canadian companies competing to retain or attract top talent.

Our annual survey of compensation levels in the IT industry shows that integrated circuit design engineers, essentially the lifeblood of most ICT labs, earn an average of \$150,000 Canadian. Engineers are good at calculations. They know that Canada's marginal tax rates are set at 46 per cent for income over \$133,000. In California, the marginal tax rate of 44 per cent kicks in at \$319,000. In Texas, another attractive U.S. tech cluster, the marginal rate is 35 per cent on incomes higher than \$319,000. This means that if you're an employer seeking to attract or keep such a highly qualified resource, you're playing uphill on a very unlevel playing field. Employers used to rely on measures like stock options to improve their compensation packages, but with the introduction of stock expensing and pressure from investors to moderate the use of stock options, one of the few advantages available to Canadian employers has been eroded.

Employers will continue to wage the battle for top talent as creatively as possible, but they would benefit from supportive public policy measures, such as:

- Lowering the top marginal individual tax rates
- Raising the income threshold for top marginal rates
- Providing tax holidays of limited duration for specific categories of highly qualified people
- Deferral of taxation under certain types of compensation programs, such as RSUs

In sum, in order to build a strong resource of the human capital, we need to drive a productive economy, and we must continue to invest like a contender in the global competition for top talent. That means maintaining our investment and public policy focus on advanced education. It also means ensuring that our personal income tax regime encourages graduates from Canada and around the world to build their careers in Canada.

⁸ Mike Lazaridis, "Commercialization – the System Works." AUCC University Affairs, February 2005.

Expanding Our Capacity for Innovation

Economists have tracked a strong correlation between research and development and productivity growth suggesting that, if we can expand our R&D activity, we can exploit opportunities to achieve productivity growth. This aspiration is reflected in recent speeches of the Finance Minister as he consistently calls upon the private sector to expand its investment in R&D. Recently, he lamented Canadian under-investment saying, "It's perplexing that this is the case, despite one of the world's most favourable tax regimes for research and development, and despite strong corporate profit levels in recent years. We need to work closely with business leaders to identify the roadblocks to fix them."⁹

Ladies and gentlemen, the ICT sector, by a large margin, is the most R&D intensive sector in the Canadian economy. We are accountable for 43 per cent of the private sector R&D. We have the widest breadth of experience with Canada's tax regime for research and development. And we have diligently identified the "roadblocks" for this committee and for the Department of Finance year after year. Our suggestions are consistent and clear and unchanging.

When the Canadian Government created the SR&ED tax credit in the 1980s, it established Canada as a true innovator in public policy. Since then, many other competitive economies have followed our lead and in the process raised the bar in terms of the favourability of their regimes in comparison to ours. The fact of the matter is that Canada used to have the most favourable tax regime for R&D. We have allowed a number of "roadblocks" to stand and, as a result, our program is now simply a contender in an increasingly crowded field.

Last week, Research InfoSource released its 2005 ranking of Canada's top corporate R&D spenders. Nortel once again tops the list with over \$2.5 billion invested in R&D. Nortel, like many mature Canadian ICT companies on the list, does not benefit from the SR&ED tax credit. As Nortel stated in its August 4 submission to the Telecom Policy Review panel, "The tax credit is refundable for Canadian Controlled Private Corporations but not for others. It would serve the objectives of government policy if refundability were more broadly based to include public companies that sustain R&D commercialization in Canada. When these companies are in a non-taxpaying position, which may be due to market conditions or timing of global investments, the SR&ED program fails in meeting its objectives. Refundability would provide companies with increased agility to help preserve research programs throughout the business cycle and the funding of new initiatives even in a downturn."

Many Canadian companies, owned by foreign firms, occupy prominent places on the list of top R&D investors. The SR&ED credit is of little incentive value to them either. In circumstances where a Canadian company performing SR&ED activities is the subsidiary of a foreign parent, the foreign parent is generally able to claim back the Canadian corporate income tax, payable by the Canadian company, in the form of a foreign tax credit.

Because the SR&ED Investment Tax Credit reduces the Canadian corporate income taxes payable, this in turn reduces the foreign tax credits that are available to the foreign investor, thereby increasing their local income tax liability. Consequently, the Investment Tax Credit provides no net benefit to the foreign investor in determining total income taxes payable for all jurisdictions. We are aware of a number of instances where the value of the SR&ED credits is ignored by a foreign parent company in making decisions relating to R&D investments in Canada.

⁹ Ralph Goodale, Speech to Canadian Institute of Chartered Accountants, October 5, 2005.

Like everything else in the knowledge economy, R&D investment is mobile. Firms deriving no benefit from Canadian incentives can look elsewhere. They can go to Holland, for example, where tax credits can be applied to payroll taxes. They can go to the United States, which offers a carry-forward period of 15 years. If we want to return to a strongly competitive, best in class tax regime for R&D investment, we simply must make some reforms. Measures that allow tax payers to use their tax credits to offset other federal levies, such as EI premiums, would overcome one roadblock. Increasing the carry-forward period for tax credits to 20 years would overcome another.

There are also increasing and alarming roadblocks to R&D investment inherent in the administration of the SR&ED program. We are concerned that there has been very substantial turnover of SR&ED headquarters staff over the past year or two. Maintaining the SR&ED program as an incentive program within CRA, which is for the most part an enforcement agency, takes leadership and continuity. We are seeing some indications of a shift back to a role for the SR&ED group that is more focused on limiting allowable claims than on fostering more R&D. This is very harmful to the program, as we know from prior shifts to compliance such as the mid-1990s. This results in less funding going into R&D in Canada. In addition, we are seeing inconsistency in interpretation among various regions in Canada. We also urge CRA to make more use of its advisory groups, such as the Partnership Committee, to ensure that there is an appropriate balance between the role of enforcement of the law through audits, the role of educating taxpayers by providing clear interpretations, and the role of continuing to reduce the compliance burden.

Beyond R&D, we share the Finance Minister and the Prime Minister's desire to see Canada do a better job of commercializing its knowledge. A key ingredient in this process is investment capital to keep an R&D intensive business operating through the development process until it achieves profitability. Angel investors play a critical role in creating innovation-intensive ventures.

Engaged early stage angel investors can mean the difference between success and failure for technology firms. Insufficient early stage funding can drive entrepreneurs into equity financing sooner than they should. And this, in turn, creates a vicious cycle of persistent fundraising that can distract management from the achievement (or even definition) of business objectives. Angels are often experienced entrepreneurs in their own right. Their financial and consultative support can improve a company's chance for success.

Not every emerging tech venture is lucky enough to find this kind of angel support. There simply are not enough Canadian angels. The United States boasts 53 per cent more angel investors per capita than Canada.¹⁰ ITAC supports the call by the National Angel Organization for a national angel tax credit.

This proposal is based on a British Columbia initiative. In 1985, the British Columbia government began offering a Small Business Venture Capital program for retail investors to pool their capital into specific businesses or multiple businesses. In 2003, the program was modified to include direct investments into eligible businesses. The program has been an unequivocal success. For \$12 million in government incentives, the program has produced \$40 million in early stage financing, which has helped produce 140 companies.

¹⁰ Global Entrepreneurship Model Canada 2002.

Maintaining a healthy capital environment is essential if we are to improve our commercialization outcomes and produce new innovations that will drive productivity. Attentive public policy instruments can be used to incent specific behaviour and to mitigate the risk associated with backing R&D intensive enterprises.

In sum, ITAC believes we must focus on three key levers for productivity growth – appropriate investment in capital stock – especially productivity improving ICT, a highly qualified workforce and the policy instruments necessary to ensure that innovative ventures have access to capital.

Additional recommendations are included in the appendix to this submission.

Appendix: Further ITAC Recommendations

Withholding Tax on Cross-border Interest and Dividends

Recent studies, such as one released by the C.D. Howe Institute, have shown a strong link between increased foreign direct investment and the elimination of withholding tax on interest and dividends. The C.D. Howe Institute's report provides information demonstrating the benefits that Canada would realize by eliminating the present withholding tax on interest and dividends (for both related and non related parties) on payments made to US parties. This report claims that elimination of withholding on dividends and interest would result in an increase in capital investment in Canada of approximately \$28 billion, and an increase in income of over \$7.5 billion annually. The report also summarizes the main impacts on Canada arising from our levying these withholding taxes, which include their negatively impacting the free flow of capital, acting as a deterrent to foreign direct investment in Canada, and interfering with the efficiency of a global operation. For these reasons, we recommend that a long-term strategy be developed in an effort to phase-out withholding taxes on interest and dividends (both related and non related party). Studies such as the one prepared by the C.D. Howe Institute have shown a strong link between increased foreign direct investment and the elimination of withholding tax on interest and dividends. This is specifically relevant in terms of the Canada US Treaty.

Withholding Tax on Services

It is becoming increasingly popular for organizations to staff projects based on a global skill set, rather than looking only to the resources available in their home jurisdiction. The present withholding requirements, as set out in Regulation 105, are a severe deterrent to allowing Canadian organizations to effectively compete for global resources. The burden resulting from compliance with the requirements is carried by the organization contracting for the services, in terms of both withholding and reporting, the service provider in terms of additional reporting requirements and cash flow, and the CRA in their administration of the program. Additionally, the requirement drives an unintended result in that many non-resident suppliers merely uplift their prices to account for the withholding taxes levied under this regulation. Similar provisions do not seem to exist in the jurisdictions of our major trading partners, further impairing Canadian businesses' ability to effectively procure the skills needed for them to effectively compete on a global basis.

This initial withholding does not constitute a final determination of tax, and it is unclear as to whether the amounts of final tax collected under this provision can be attributable only to its application, or whether the bulk of the net tax collected would in fact be remitted without the application of this section. The cost of administration for each vendor, purchaser and government, must also be examined when determining the burdens placed on each party, versus the revenues collected.

To ensure that Canadian business can compete effectively in a global marketplace, we suggest that Regulation 105 be repealed. Failing that, we suggest that a threshold be introduced, of \$1 million per contract, under which withholding is not required. The introduction of a blanket waiver process for related parties would also be extremely helpful.

Provincial Harmonization

In the fall of 2004, the federal and Ontario provincial governments announced that they would harmonize their corporate income tax programs. This has the potential to be of enormous benefit to taxpayers, while providing administrative savings for government. For this proposal to achieve the greatest benefit to all parties it will be important to harmonize from a legislative, administrative and process-related perspective.

Harmonizing the legislative and administrative provisions will allow the filing of returns and subsequent audit to be streamlined, providing maximum savings to government and taxpayers alike. Similarities in taxing regimes will not only reduce administrative burdens, but will also improve compliance by eliminating differing rules between the two systems. This will also result in reduced audit issues, and lead to a reduction in the number of items taken through the appeals process, again saving time and money for all parties. Taking advantage of a common appeals process will significantly reduce the current backlog at the provincial level, and provide taxpayers with common rules to be followed.

We recommend that as this program is examined and rolled-out, government make every effort to harmonize from a legislative, administrative and process-related perspective to ensure that benefits to all parties are maximized.

A next logical step would be a renewed focus on harmonizing the remaining provincial retail sales taxes with the GST (see Sales Tax Reform below).

Recognition of Maintenance Income

Presently, there is a 12(1)(a) income inclusion for payments received for services that will be rendered, or for goods that will be delivered in a future period. Unless it can be "reasonably anticipated" that goods or services will be provided after the year-end, there is no reserve available to the vendor under 20(1)(m). To date, one has generally had to demonstrate a contractual obligation to avail themselves of the reserve provisions in 20(1)(m).

Most maintenance agreements have some form of preventative, or scheduled maintenance. Therefore, there is no question as to whether or not services will be provided, but when they will be provided. The need for preventative maintenance can be demonstrated by looking at the prevalent use of information technology in running a business. Computer and related products have become an integral part of business operations, and to a great extent, business cannot be carried on if the main components of a company's information technology infrastructure are not available for use. To ensure that business operations can be carried out in an uninterrupted manner, the infrastructure that supports these activities must be available and functioning properly. To ensure this, preventative maintenance is performed to ensure that the infrastructure remains operational, and can be relied upon. Preventative maintenance schedules are developed based on the passage of time, level of usage, historical failure rates, or some combination of these three variables. Although most agreements state that preventative maintenance will be provided, there is often no schedule set out within the contract describing when these activities will be carried out.

Many of these agreements are contracted and paid for on an annual basis. In situations where payments are received for maintenance agreements for an entire year of services, towards the end of the tax year, the vendor must include the entire amount in income. At this time, relatively few costs or expenses will have been incurred in respect of these contracts, so tax is payable on the entire amount of revenue received, with no deduction for costs or expenses that will be incurred in the provision of these services. This places a real hardship on vendors who require the cash flow, used in the pre-payment of these taxes, to allow them to fulfill their contractual obligations.

We recommend that fees received for these types of services be prorated, based on the length of the contract, and include in income only those fees that relate to the percentage of the contract period that pertains to the current taxation year.

Sales Tax Reform

The compliance burden borne by both businesses and governments in administering the provincial retail sales taxes is progressively becoming a bigger competitive disadvantage for those located in or carrying on business in Canada. Effective compliance can only be achieved through an in-depth understanding of both the legislative provisions and administrative positions taken by the provinces. This is becoming an exceedingly difficult tax for the small to medium-sized business, which often cannot rely on in-house experts to assist them in understanding and dealing with their compliance requirements. Harmonizing the provincial retail sales taxes with the Goods and Services Tax (“GST”), would provide significant administrative savings for both businesses and government, and could be implemented without impacting the current tax revenue streams.

To date, four provinces have implemented some form of harmonization of their sales tax with the GST. Quebec has developed its own legislation and administration, that while not identical to the GST, is similar enough to significantly reduce the administrative and compliance burdens for businesses located in that province. Newfoundland, Nova Scotia and New Brunswick have implemented a harmonized sales tax, which is governed by the same piece of legislation as the GST, and uses federal resources for compliance-related activities such as the filing of returns and carrying out taxpayer audits. Both systems achieve the benefits related to removing imbedded consumption taxes from the costs of those businesses that are undertaking commercial activities in these provinces, as taxes are fully recoverable by business in these circumstances.

In creating a harmonized sales tax system, it will be important that tax-inclusive pricing not be mandated, but be allowed as an option. Retailers currently experience real savings through their ability to ticket once for a number of provincial markets. Mandating tax-inclusive pricing, would add significant costs to the retail sector, and severely impact their competitiveness. It is also important to ensure that consumers are aware of the amount of taxes that they are paying, so that they have a better understanding of government revenue streams.

In ensuring that the replacement of the retail sales taxes are revenue neutral from a government perspective, a number of options can be examined. The first option would be to restrict certain input tax credits (“ITCs”), making them unrecoverable by those carrying on commercial activities. Quebec currently undertakes such a process. It can become burdensome if the restricted items cannot be easily identified, so it is important to keep the list of restricted ITCs

short, and perhaps tied to an annual calculation, such as the meals and entertainment calculation prepared for income tax purposes.

A second option would be to allow those carrying on commercial activities to take a set percentage of input tax recoveries on all supplies used in commercial activities. An example would be a 90 or 95 per cent rate on all supplies used to further a commercial activity. It is possible that one of these two options could be utilized to reduce the overall tax rate for the harmonized tax (for example taking it from 8% to 7%), while protecting total tax revenues.

Replacing provincial retail sales taxes with a harmonized sales tax will confer a number of benefits. Governments will benefit from improved compliance as taxpayers will not have two widely different consumption tax regimes to deal with. Government will also benefit from reduced costs in carrying out day to day compliance-related activities by harmonizing activities such as the processing of returns and taxpayer audits. Business will also benefit from reduced compliance burdens, arising from the ability to deal with one set of rules, returns and auditors.

Although the GST tax base is broader than that of many provincial retail sales taxes, consumers will also benefit when businesses are able to lower their prices due to their ability to recover the tax they pay on supplies used to carry out their commercial activities. Exports will also be more competitive as they will bear no imbedded tax. This is an important consideration in the increasingly global environment in which we compete.

Businesses will also be encouraged to increase their investments in Canada in general, due to lowered costs (related to both the elimination of previously imbedded retail sales tax, and decreased compliance and administrative burdens). The acquisition of productivity-enhancing tools such as information technology equipment, computer software and certain related services will also be encouraged, again, due to the fact that the retail sales tax component previously payable and non-recoverable, will be removed from the cost of these acquisitions for those carrying on commercial activities.

In a sentence, ease of administration, improved compliance, increased productivity, reduced costs, increased investment and enhanced competitiveness both inside of Canada and internationally can all be achieved by harmonizing the provincial retail sales taxes with the GST. We recommend that the federal government take the lead in working with the provinces to implement this proposal, and to engage the private sector in developing solutions to speed the adoption of this recommendation.