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**Tax publications**

## Canadian Tax Alert

March 19, 2012

### Federal Budget 2012: Will changes position Canada for future growth and prosperity?

Finance Minister Jim Flaherty will present the federal budget on Thursday, March 29, 2012 — media speculation indicates that this budget will mark a watershed in Canadian public policy.

In our [pre-budget letter](#) to Minister Flaherty, we shared our view that sustained economic prosperity in Canada is impeded by our nation's lagging productivity — a view also expressed in our [Future of Productivity report](#). Although Canadian productivity did outpace the United States in 2011, this country's standard of living is threatened by the large productivity gap that resulted from relatively low Canadian productivity growth over the past 20 years. To address Canada's productivity gap and drive economic prosperity, our key tax policy recommendations for Budget 2012 are:

- **Foster innovation through improvements to the SR&ED tax credit program**  
The Scientific Research and Experimental Development (SR&ED) tax credit program should be improved by allowing the investment tax credit to be refundable for all businesses; not only small Canadian-controlled private corporations. Refundability would appropriately reward the risks inherent in carrying out research and development (R&D) in Canada, and would help attract foreign companies seeking global investment opportunities.  
  
Deloitte believes that Canada must have broad-based R&D tax incentives for all industries and these should be complemented by grants directed at specific sectors or industries. Certainty is critical to businesses and the certainty provided by full refundability is essential, especially in this challenging economic time.
- **Spur a "start-up economy" with improved financing support**  
We believe that an angel tax credit should be introduced. This will help build an environment that fosters innovation and entrepreneurship, leading to job creation and economic growth.
- **Attract and retain the world's most talented people**  
We encourage the government to focus on improving the competitiveness of the personal tax regime and immigration policies to attract and retain productive individuals with the requisite skills needed to drive Canada's economic prosperity. We believe that personal tax rates should be lowered gradually over a period of five to 10 years.

## Anticipated budget measures

Although nobody outside of the government is privy to details of Budget 2012, based on Prime Minister Stephen Harper's speech at the World Economic Forum in Davos, Switzerland, it is anticipated that this year's budget may include changes to the SR&ED and the Old Age Security programs.

It is possible that the budget will include changes to encourage innovation in Canada based on recommendations from the Expert Panel's review of federal support for R&D (Jenkins Report). In fact, on March 6, 2012, the Honourable Gary Goodyear, Minister of State for Science and Technology, and Minister responsible for The Federal Economic Development Agency for Southern Ontario, announced that the National Research Council will be refocused, as suggested by the panel. A summary of the Jenkins report can be found in our newsletter, [Shaping the future of Canadian innovation: the Jenkins panel report](#), and our [webcast](#) (registration is required to view the archive).

We welcome the government's focus on innovation, as we believe that improving innovation is essential to enhancing Canada's productivity and economic growth. However, we believe that further consultation is necessary before implementing many of the panel's recommendations. Our discussions with industry representatives indicate that without thorough consultation, implementing certain of the panel's recommendations could harm Canada's innovation economy and the high-value jobs and economic growth it provides. This view is outlined in [our letter to the Prime Minister](#).

## Staying focused on Canadian jobs and growth

The House of Commons Standing Committee on Finance (the "Committee") pre-budget consultation report, [Staying Focused on Canadian Jobs and Growth](#), may offer an indication of other issues that could be addressed in Budget 2012. With the current challenging economic environment, the report's recommendations, summarized in our December 21, 2011 [Canadian Tax Policy Alert](#), introduces very little new spending and mostly recommends that the government "stay the course" on various policies that are already under consideration, such as:

- Return to a balanced budget by 2014-2015 as planned, without raising taxes
- Reduce corporate tax rates as scheduled
- Enhance the international competitiveness of Canada's business tax structure through activities such as continued consultation on potential new rules for the taxation of corporate groups, review of the impact of Income Tax Regulations 102 and 105 on access to skilled service in Canada by non-residents, and continued implementation of the recommendations of the Advisory Panel on Canada's System of International Taxation
- Reduce red tape through the review and reduction of unnecessary regulations, especially through Red Tape Commission.
- Use tax incentives to promote the development and use of renewable energy
- Explore ways to encourage greater charitable giving by Canadians
- Reduce the personal tax burden through income splitting and doubling the contribution limits for Tax-Free Savings Accounts, but only after a return to balanced budgets
- Continue to promote the international trade and export of Canadian goods and services, including natural resources and financial and educational services
- Protect and promote Canada's traditional industries — such as mining, forestry, and manufacturing — via tax incentives and other support

- Review the Registered Disability Savings Plan
- Support and promote the skilled trades by helping skilled workers to move between provinces more easily with tax or other incentives
- Work together with provinces and territories on issues related to retirement income and pensions and, specifically, implement the Pooled Retirement Pension Plan

New initiatives recommended by the Committee that may be in the budget include:

- A study of the issue of intergenerational transfers of family businesses, including farms
- The establishment of an expert panel to “review, modernize and simplify” both the corporate and personal tax systems
- A review of the tax filing due date and methods for individuals
- A review of the rules for Registered Retirement Income Funds and Registered Retirement Savings Plans

### Our Budget 2012 coverage

Deloitte’s senior Tax spokespeople will attend the budget lockup in Ottawa to provide insights and reaction within the context of our Future of Canada vision (**Future of Tax, Future of Productivity**) to the assembled journalists. We will also issue French and English budget alerts and video reactions to clients the same day. On March 30, 2012, we will host two live webcasts in which our Tax leaders will discuss the implications of the budget measures; our French webcast (register [here](#)) will begin at 9:00 am, EDT, and our English webcast (register [here](#)) will begin at 11:00 am, EDT.

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