

**C.D. Howe Report on Tax Competitiveness Scores with
Business Panel—Especially Strong Opposition to Tax
Incentives and Industry-Specific Tax Rates**

**BDO Dunwoody Weekly CEO/Business Leader Poll
By COMPAS in *Canadian Business*
For Publication September 14, 2009**



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1.0 Overview

A recent C.D. Howe report on tax competitiveness resonates with CEOs and business leaders on the COMPAS business panel. Panelists are especially concerned about targeted tax incentives and industry-specific tax rates, which, like the C.D. Howe economists, they see as harming economic growth.

Panelists also share the C.D. Howe misgivings, albeit less so, about the economic inefficiencies caused by the absence of harmonized tax regimes across provinces and by the impact of highly progressive income tax regimes, causing high skill employees to leave and low skill employees to move in.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine under sponsorship of BDO Dunwoody LLP.

2.0 Detailed Findings

Table 2a displays detailed quantitative findings while table 2b demonstrates strong overall support for the C.D. Howe report.



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Table 2: (Q1) A recent C.D. Howe Institute study proposes several recommendations for neutralizing the tax system to improve Canada's competitiveness and economy as a whole. Please score each of the following perspectives on a 7 point scale where 1 means strongly disagree and 7, strongly agree. RANDOMIZE

	Mean	7	6	5	4	3	2	1	DNK
When tax incentives are directed at particular activities, resources are not put to their best use because investment and production decisions are no longer based on economic criteria alone but also are designed to reduce tax payments.	5.3	21	29	26	9	7	7	0	2
Differential tax rates across industries, such as payroll taxes and benefits associated with employment insurance, should be reduced because such differences do harm, especially to services industries, which are the strongest source of jobs in Canada.	5.2	26	28	19	8	3	8	7	2
When tax incentives are narrowly targeted, they are less likely to achieve their desired impact because suppliers boost their prices, thereby undermining the profitability of the industry that is intended to benefit from the tax incentive.	4.8	18	11	33	12	9	9	2	6



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	Mean	7	6	5	4	3	2	1	DNK
Manitoba, PEI and Saskatchewan should adopt a harmonized sales tax with the federal GST. Doing so would largely eliminate taxes on intermediate and capital goods, improve business and reduce variability in effective sales tax on consumer products.	4.6	22	20	12	16	9	8	10	3
All else being the same, a province with a more progressive tax will encourage lower-income workers to migrate to it and high-income worker to move away, causing some harm to that province's economic performance as a result.	4.6	8	23	21	22	7	11	3	6

Table 2b: (Q2) Overall, please score the preceding perspectives and tax reform proposals on a 7 point scale where 1 means strongly disagree and 7, strongly agree.

Mean	7	6	5	4	3	2	1	DNK
4.7	5	22	29	22	10	3	1	9

The following verbatims provide a nuanced sense of panel opinion:

The problem with business support of HST is that businesses can't or don't communicate the value to average consumers, and the result is significant opposition from citizens. If the pro-business Conservative party of Ontario is strongly AGAINST HST, then what hope does it have?

I endorse minimum corporate taxes and a uniform (one tax rate) for personal income tax rate.

Please keep in mind each manufacturing job creates over 3 other jobs in the economy. Surely we must by now realize



that shuffling wealth does not create wealth. We can flip each others hamburgers for a while but if we do not create the occasional cow, the system doesn't work. If we really believe in how effectively the service industry works, watch how well the offshore guys have learned to drive down those software engineers and soon account rates.

It's difficult to accept or believe our Ontario government about revenue neutral tax collected with the HST. Goods and service that are exempt currently will no longer enjoy this exemption. The Ontario government has failed to detail what's in its HST cart. Why?

Remember, those who benefit will be motivated for the changes while those who will suffer will not...

Both the GST and HST help governments financially but hinder business and the economy in general.

We are supposed to be a capitalistic society. I firmly believe that this is best served by a flat tax, thereby encouraging people to strive for more in education and work so that they can keep more. Reduce or better still eliminate tax deductions, set one tax level and let the market decide.

The notion of different tax jurisdictions competing with each other to provide narrowly-focused tax breaks to attract or retain certain industries is damaging to the economy and the taxpayers at large. This practice should be banned.

Simple low corporate tax with few special deals is the way to go.

Harmonizing sales taxes is another way for governments to increase their tax base. The various rules between what is and what is not subject to VAT differ between the federal and each provincial government. Changing the rules will mean greater provincial VAT, which is inflationary to the consumer. The talk about it being good for business is fine as far as the administrative efforts are concerned, but all



VAT would become input tax credits with no real effect on gross margins and a marginal effect on their overhead. Having lobby groups protect their interests is also not conducive to competition. Government support is often a means to improve the bottom line without creating jobs that remain in Canada. Like all handouts, the follow up and value evaluation just seems to disappear. It also seems to benefit the larger business groups and not the small businesses on which our economy thrives.

I am so sick and tired of all the taxes that we have to pay and the government could care less.

3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted September 9 - 11, 2009. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=107 are deemed accurate to within approximate 9.5 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.

