CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

International Trends in Tax Reform: Canada is Losing Ground

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Foreword

It's time for Canadians to talk about tax.

The tax system is fundamental to creating a competitive environment and a fair society. It helps attract and retain the best and brightest. It can drive business to invest in new equipment and expansions. It can help create quality jobs, drive research and innovation, all while producing revenue to fund government programs and services for which Canada can be proud.

The tax system plays a crucial role in delivering inclusive economic growth that supports every Canadian, including middle-class families, and especially those most in need. Canada's tax system urgently needs updating.

Fifty years have passed since the tax system last underwent a thorough review. Since then it has accumulated a patchwork of credits, incentives and narrow fixes – many with noble aims when introduced – but that together have created a bloated, complex and inefficient system that is holding Canada back. Our society and economy have also seen massive shifts in the ensuing years that a 1971 tax system is simply not designed to cope with.[1]

At the same time, the world has become much more global. Many of our international peers have undertaken comprehensive reforms of their tax systems, and we are seeing significant change in the way countries collect tax, as they move away from personal and corporate taxes and toward consumption-based taxes such as sales taxes. We need to ensure Canada is in step with these shifts, especially with the significant new competitive threats emerging from tax reforms in the United States.

Chartered Professional Accountants of Canada (CPA Canada) has long called for a comprehensive review of Canada's tax system. Our pre-budget advice and submissions to the Department of Finance and other government stakeholders have continually advanced the need for an evaluation of the tax rules and administration to reduce complexities, address inefficiencies, improve fairness for all Canadians, and ensure economic competitiveness. For our members, navigating a complex tax system takes away time better spent helping small businesses grow and helping people build their investments and plan for retirement.

1 In 1971, a new federal income tax statute was introduced as part of the budget. It was enacted the following year. The legislation followed the government's response to the Royal Commission on Taxation under Kenneth Carter, known as the Carter Commission.

There is broad consensus that a tax review needs to be a priority for the federal government. National organizations – such as the Business Council of Canada, the Canadian Chamber of Commerce, the Canadian Manufacturers and Exporters, and the Coalition for Small Business Tax Fairness (representing over 70 organizations) – have all advanced a case for comprehensive tax reform.

The finance committees in both the House of Commons and the Senate have made recommendations in past reports that range from tax simplification to tax reform. The situation is drawing attention internationally – from both the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), as discussed on page 7.

The Advisory Council on Economic Growth highlighted the need for a targeted review of Canada's tax system, underscoring the need "to ensure that the tax regime fosters the development and adoption of innovation, and secures Canada's position as a global magnet for investment and talent."[2] As the council points out, Canada's previous tax system review predated "the emergence of mobile phones and the internet, and the rise of the digital economy."

CPA Canada is pleased to see that the national conversation about tax is building momentum. We are committed to advancing the public interest by contributing our voice to this vital discussion. As one of the world's largest national accounting bodies, CPA Canada brings a unique expertise to tax by leveraging the experience of 210,000 CPA members and connecting with global partners through the Global Accounting Alliance and the International Federation of Accountants.

With this series of three reports this fall, CPA Canada aims to engage policy makers, business and professional associations, think tanks, academic experts and other key stakeholders in an in-depth discussion about the future of Canada's tax system.

2 Advisory Council on Economic Growth, *The Path to Prosperity: Resetting Canada's Growth Trajectory*, December 2017.

In this first report, we look at how other countries have approached major tax reforms and reviews, and how Canada can learn from their experiences. Upcoming reports will address why Canada's tax system needs an urgent overhaul and how an independent tax system review can be designed to maximize the benefits for all Canadians.

So join CPA Canada in exploring the need and the opportunity for a tax review. It's time.

Table of Contents

Trends in Tax Reforms Around the World

Comprehensive tax system reviews and more targeted tax reforms help countries to ensure their tax systems continue to meet their fiscal objectives for raising revenues to pay for government programs, attracting investment and promoting economic growth. Many of the world's developed nations and some of Canada's biggest trading partners, including the U.S., France, the Netherlands and Japan, have completed or are pursuing major tax reform initiatives. And, as we explore later in this report, countries such as the U.K., New Zealand and Australia have put their tax systems up for full-scale reviews.

That Canada has yet to join in a large-scale tax system review has drawn notice from some of the world's most highly respected global institutions, especially in view of the projected impacts of tax reforms in the U.S.

The Executive Board of the IMF has noted a high level of "economic anxiety" in Canada – not only from the U.S. tax reform package but also from potentially escalating trade tensions and uncertainty over the North American Free Trade Agreement (NAFTA). "[T]he overall impact of the recent U.S. tax reform needs to be fully studied and assessed," the IMF Executive Board's Directors said in a release. "In this context, many Directors considered that a review of Canada's tax system could usefully evaluate the scope for improving efficiency while maintaining competitiveness."

More broadly, the Directors observed that the changing global tax environment presents "a good opportunity for Canada to rethink its own system." The Directors point out that targeted domestic tax changes over the years have added complexity to Canada's overall tax system. They recommend "a careful and independent review of the overall Canadian tax system, weighing the pros and cons of incremental versus more radical approaches, and assessing their revenue implications and potential spillovers to other countries."[3]

3 International Monetary Fund, *Canada: 2014 Article IV Consultation – Press Release, Staff Report; and Staff Statement* (IMF Country Report 18-21), July 2018.

Similarly, the OECD has advised Canada to "[r]eview the tax system to ensure that it remains efficient – raising sufficient revenues to fund public spending without imposing excessive costs on the economy – equitable and supports the competitiveness of the Canadian economy."[4] According to the OECD's 2018 Economic Survey of Canada, the review is needed to address the diminished attractiveness of investing in Canada caused by the negative effects of NAFTA uncertainty and the impact of U.S. tax reforms.

RECENT NATIONAL TAX REFORMS

Developed countries that have pursued or announced tax reforms in 2015 or later include:

Australia	Austria
Belgium	France
Hong Kong	Hungary
Japan	Luxembourg
Netherlands	Norway
United States	

Indeed, many of the world's recent major tax reforms are rooted in the pursuit of greater efficiency, fairness and competitiveness that the OECD recommends for Canada.

U.S. *Tax Cuts and Jobs Act*

Around 75 per cent of Canada's exports go to the U.S., and Canada competes with our neighbour head-to-head to attract business investment, jobs and talent. Any changes to the U.S. tax system potentially have a major impact on Canada and need to be addressed by policymakers.

In the U.S., the changes introduced in the *Tax Cuts and Jobs Act* encompass the country's first major reforms of its federal tax code in more than three decades. The changes include cutting personal income taxes across almost all income brackets and increasing the thresholds for income tax brackets. The reforms eliminate many personal tax deductions, except for an increased standard deduction, charitable contributions, and a lowered mortgage interest deduction. Combined with other changes, the U.S. top marginal tax rate has dropped from 39.6 per cent to 37 per cent as a result of the reforms. However, these personal tax changes will expire at the end of 2025

4 Organisation for Economic Co-operation and Development, *OECD Economic Surveys: Canada*, July 2018.

U.S. tax changes on the corporate income side are permanent and more significant in scope. These include a significantly reduced corporate income tax rate of 21 per cent (down from 35 per cent), a lowered rate for repatriated earnings, and full and immediate expensing of short-lived capital investments. The changes also move the U.S. to a territorial tax system with base erosion rules, eliminating taxes on most foreign profits earned by U.S.-based corporations.

Combined with the current U.S. administration's protectionist approach to the U.S. economy, these reforms have reduced the competitiveness of most advanced economies and their ability to attract foreign investment, as we explore in the next section.

Meanwhile in Canada, the finance minister and the Department of Finance are assessing the potential impacts of the U.S. federal tax reforms on Canada and consulting with the business community to help inform the government's response to both the immediate and long-term competitive threats. The finance minister is expected to address key challenges in the Fall Economic Statement expected in October or November of 2018.

EXAMPLE: TAX REFORM IN FRANCE

Tax reforms undertaken in some other countries are as far-reaching as those now in place in the U.S.

For example, France is dropping its corporate tax rate in stages to 25 per cent in 2022 (from 33.33 per cent in 2017).

The country is also introducing measures that include reductions in withholding taxes and levies on dividends and capital gains earned in France by foreign countries.

France is also imposing a 30 per cent flat tax on income earned by individuals from financial income (dividends, interest and capital gains), which were previously taxed at progressive rates topping out at 46.5 per cent for dividends and 64.5 per cent for capital gains.

Global tax reform trends

Reports from the OECD on global tax policy reforms among OECD and select other countries for 2016 and 2017[5] observe a continuing trend toward tax system improvements that are part of broader strategies to support growth, competitiveness and investment, reduce inequalities and deter harmful consumption and behaviour.

5 Organisation for Economic Co-operation and Development, *Tax Policy Reforms 2017: OECD and Selected Partner Economies; and Tax Policy Reforms 2016: OECD and Selected Partner Economies.*

In its most recent report for 2017, the OECD identified several key tax reform trends:

1. International cooperation to tackle base erosion and profit shifting (BEPS) is rising as OECD member countries and many others adopt measures developed under the OECD-led Action Plan on BEPS to shield their tax systems against international tax avoidance.
2. Personal income taxes and taxes on labour (e.g., social security) are being reduced for low and middle-income earners.
3. Cuts in corporate income tax rates are central to growth-focused tax reforms, continuing the movement toward increased international tax competition.
4. As corporate tax rates decline, countries are increasing their reliance on revenues from labour and consumption taxes. Value-added taxes (such as Canada's Goods and Services Tax) are becoming more harmonized as countries implement the OECD's International VAT/GST Guidelines for common cross-border transactions.

EXAMPLE: TAX REFORM IN JAPAN

Japan is taking steps to help businesses grow by, among other things:

- reducing the corporate tax rate to 23.2 per cent in 2018 (from 25.5 per cent in 2015);
- reducing local enterprise tax rates to 3.6 per cent (from 7.2 per cent);
- simplifying tax depreciation;
- enhancing tax credits for growth in salaries for certain companies; and
- offering tax incentives for improving productivity through collaboration and data usage within and between enterprises.

Together with lower headline corporate tax rates, many countries are adopting common tax policy strategies for promoting economic growth. Some countries, including Austria, Belgium and Hong Kong, have increased tax incentives to stimulate innovation and R&D. Others, such as Hungary, Luxembourg and the Netherlands, are enhancing incentives to encourage environmentally friendly investment and behaviour. To stimulate investment in companies and equity financing, countries such as France, Norway, Hungary, Belgium and the Netherlands have reduced taxes or increased allowances for income from dividends, interest and capital gains on shares.

A common thread connecting these tax reform trends is the desire of governments to ensure their tax systems continue to raise revenues while promoting growth amid increasingly globalized, interconnected and competitive economic environments.

As conditions change, governments need to proactively adjust – and periodically overhaul – their tax systems to respond. Staying the course with only incremental, reactive amendments can create barriers to economic growth and sustained prosperity that may become ever more difficult to dismantle or surmount.

In the next section, we explore the implications of standing still from a tax policy perspective and why maintaining the status quo is eroding Canada's competitive tax advantage.

EXAMPLE: TAX REFORM IN THE NETHERLANDS

The Netherlands announced plans to reduce the number of personal tax brackets to two (from four). The country is also abolishing its tax on dividend withholding and gradually reducing its low corporate income tax rate to 16 per cent (from 20 per cent) for income under €200,000 and its high corporate rate to 21 per cent (from 25 per cent).

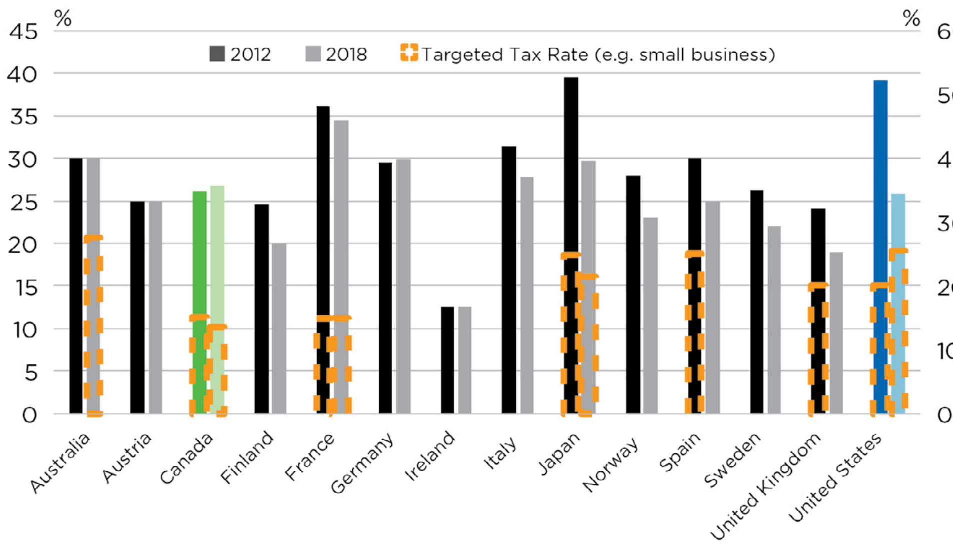
Global Tax Reforms – Implications for Canada

Until recently, Canada enjoyed a competitive tax advantage with its comparatively low corporate tax rate relative to other G7 countries and especially the U.S. Canada's tax advantage persisted despite the lack of any significant moves to reform a tax system that continues to grow more complex and outdated as the years go by.

Elsewhere in the world, personal and corporate tax rates have been dropping and consumption tax rates (sales taxes) have been rising. Many countries have taken a close look at their tax systems to see how they can be improved to boost efficiency, effectiveness, fairness and competitive advantage.

As these trends have continued, the U.S. tax reform package and ongoing uncertainty over trade have brought Canada to the tipping point – raising concerns about our future prospects and casting doubt on the country's ongoing tax competitiveness.

Combined Central/Subnational Statutory General/Targeted Corporate Tax Rates – Select OECD Countries, 2018

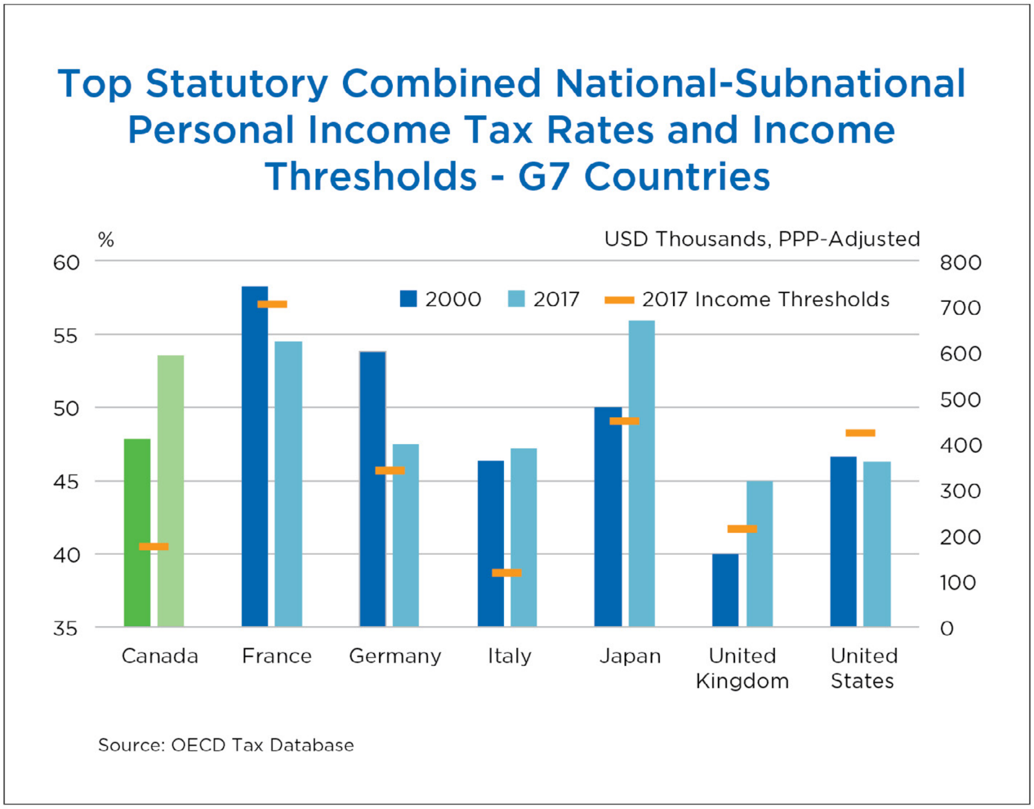


Source: OECD Tax Database

From the early 2000s, Canada enjoyed a sizable corporate tax rate advantage relative to many of its peers in the G7. However, since around 2012, efforts by nearly every country have largely eroded that advantage. Most notably, with the U.S. rate now at 25.8 per cent, Canada has lost that key benefit relative to its largest trading partner and competitor.

While the combined federal-provincial general corporate income tax rate of 26.8 per cent is only slightly above the equivalent U.S. rate, the rate itself is only one piece of a much bigger puzzle. CPA Canada believes Canada's previous tax differential was so significant that it overshadowed other issues, including tax complexity and overregulation, that make it difficult to do business in Canada and impede competitiveness. This complexity affects those least able to adapt, like smaller businesses that have to devote more resources to tax compliance. Combined with recent, highly complex and controversial tax changes affecting the taxation of private corporations, the elimination of the tax differential advantage is bringing Canada's potentially diminishing tax competitiveness into focus.

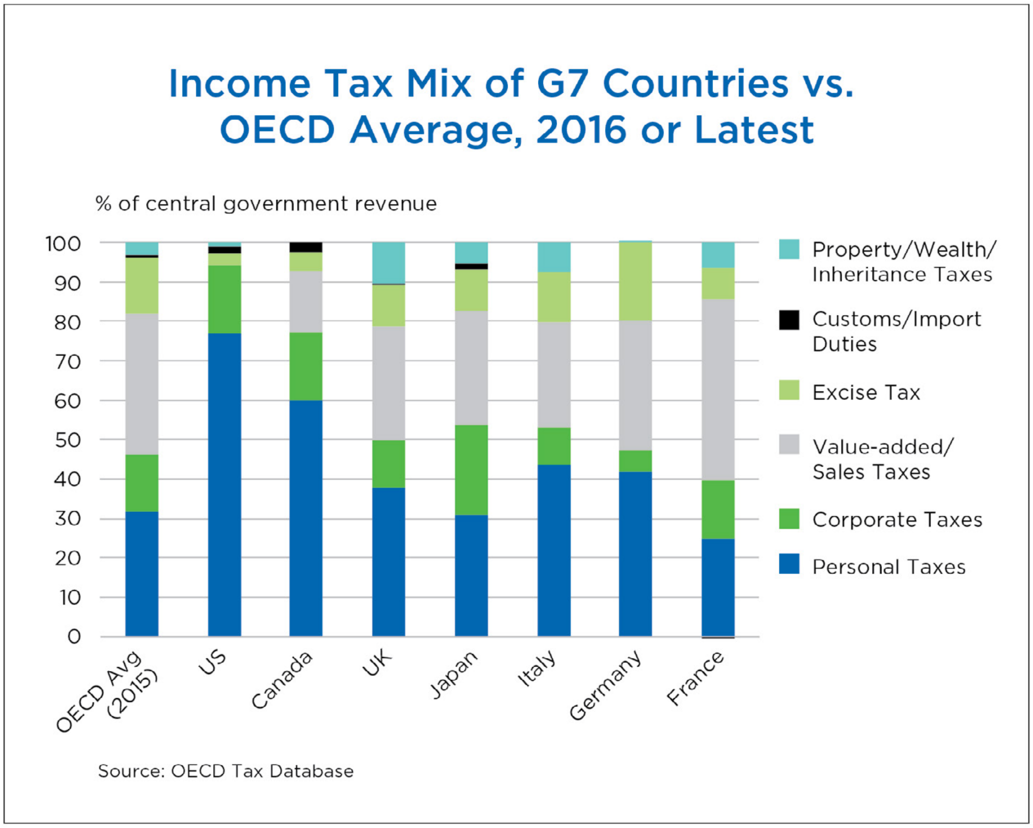
While Canada's rate is now above the U.S. rate of 25.8 per cent, Canada's targeted tax rate tends to be more favourable. Some countries apply these targeted rates to smaller groups of businesses. In Canada, the targeted rate applies specifically to those claiming the small business deduction, whereas in the U.S., the rate may apply more broadly to pass-throughs and other business structures. Some countries, such as Spain, Ireland, and the U.K., have eliminated their targeted tax rates, while others such as France have introduced them since 2000.



Further, while Canada's corporate tax rate may remain in step with other developed nations, our country's personal tax rate structure is much more constraining. The combined federal-provincial rate in Ontario reaches 53.53 per cent, the third highest in the G7 and one of the highest among OECD members.

Of even more concern is the fact that Canada's highest top statutory personal tax bracket kicks in at a much lower level of income compared to the other G7 countries. Canada's top rate takes effect at a purchasing power parity-adjusted[6] $174,592 U.S., less than half the average of the remaining six countries, which kick in at $375,312 U.S., as of 2017. Only Italy's top threshold is lower.

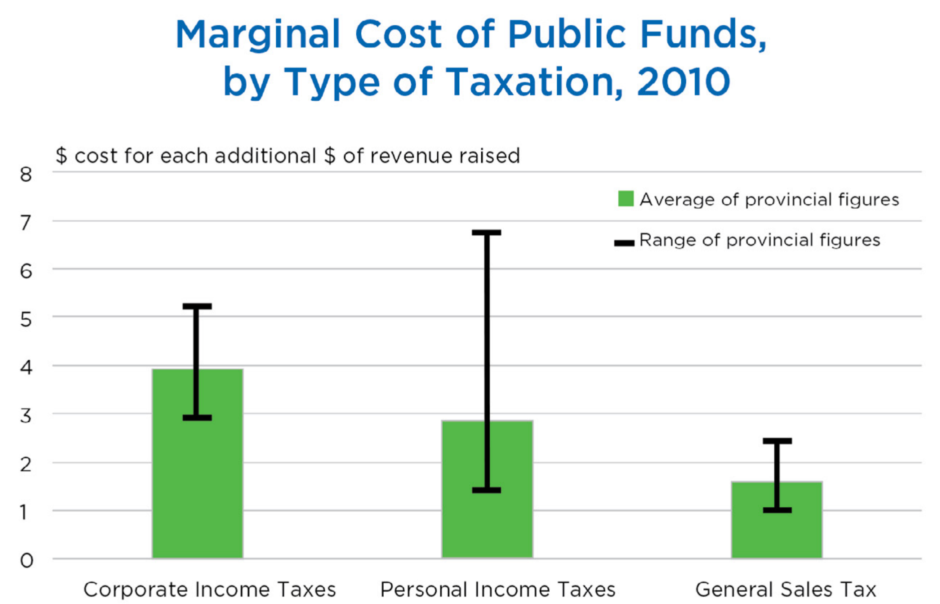
6 Income thresholds adjusted for purchasing power parity (PPP) are used herein for the purposes of drawing effective comparisons. PPP estimates how much one unit of currency in one country can purchase in goods and services in another. It differs from the exchange rate, which estimates how much it costs to purchase one unit of currency in another country.



It appears Canada is also behind its peers in terms of the tools being used to raise government revenue. In terms of their tax mix, the data show that both Canada and the U.S. are well out of step with their developed counterparts. Both countries rely much more on personal taxes and corporate taxes relative to many other countries, who rely more on value-added and sales taxes, excise and other taxes.

In Canada, 53 per cent of the federal government's revenue is comprised of personal taxes, while 15.4 per cent comes from corporate taxes. Value-added and sales taxes comprise only 13.6 per cent of revenues.

The comparative figures for the other five countries (excluding the U.S. and Canada) are 33.7 per cent for personal taxes, 12.2 per cent for corporate taxes, and 30.7 per cent for value-added taxes. The total share of revenue these countries raise through the mix of these three taxes is roughly equal, however. There is simply far less emphasis on income taxes.



Source: Feredie, Ergete and Bev Dahlby. "The Costliest Tax of All: Raising Revenue Through Corporate Tax Hikes can be Counter-Productive for the Provinces." 2016.

Economists generally believe that a disproportionate reliance on income taxes leads to larger economic costs. Their estimates of the distorting effects of different revenue-raising tools tend to favour sales and value-added taxes over income taxes.

In fact, recent estimates show that for each dollar of revenue raised through corporate taxes, the economy bears nearly four times that cost due to effects on business investment and hiring. As the above table shows, the comparative figure for personal taxes is $2.86 due to their effects on the labour supply, while that of sales taxes is just over $1.50.

In other words, the reliance on income taxes (rather than consumption taxes) in Canada and the U.S. costs their economies far more than if they were to bring their tax mixes more in line with those of their G7 and OECD counterparts.

Canada's tax competitiveness depends on many factors beyond its corporate tax rate and how that rate compares to that of the U.S. and other countries. However, examination of Canada's personal tax rates, its tax mix and the marginal costs of revenues raised through various taxes is equally critical.

On some of these macro indicators, Canada stacks up well when compared with other developed nations. However, other indicators suggest that Canada's relative competitiveness is in decline. The World Economic Forum's global competitiveness survey for 2017-2018 indicates that tax rates, regulatory burden (tax and labour regulations) and inefficient government bureaucracy are among the most problematic factors for doing business in Canada.[7] A closer look at the tax system itself – its rules and regulations, how they are administered, and how they affect businesses, individuals and investment – suggests the competitive decline will continue unless Canada takes steps now to reverse it.

Upcoming reports in this series will explore in more detail how Canada's current tax system is harming our country's tax competitiveness and economy more broadly, and how a made-in-Canada approach to tax system review is needed to fix it.

In the next section of this report, we look at how similar circumstances prompted three other countries to conduct tax reviews, with very different approaches and degrees of success. These international examples offer Canada some best practices and lessons learned as it develops its own approach to tax system review. This is a topic we will also revisit in an upcoming report.

7 Schwab, Klaus. *The Global Competitiveness Report 2017-2018* (World Economic Forum), 2017.

Tax Reviews in Practice – Three Notable Examples

There is no question that a thorough tax system review is overdue in Canada. We are fortunate that many other countries have taken similar journeys. Canada can learn from both their achievements and their missteps as we work to build a simpler, fairer, more efficient tax system for our country.

This section highlights major tax system reviews conducted in recent years by the United Kingdom, New Zealand and Australia. These Commonwealth countries have political systems, economies and cultures that are broadly similar to Canada's. Their motives and approaches to reviewing their tax systems offer insights into the best way forward for Canada.

United Kingdom: Mirrlees Review

Why was the review launched?

In 2006, the U.K.'s Institute for Fiscal Studies, an independent, non-partisan think tank, observed that the country's tax system had not been comprehensively studied since 1978. Concerns were also being raised that the existing system had become flawed. The Institute for Fiscal Studies therefore undertook what became known as the Mirrlees Review, named for its chair, the Scottish economist and Nobel laureate James Mirrlees.

How was the review governed?

The Mirrlees Review was conducted completely outside of government. The Institute of Fiscal Studies initiated and administratively supported the review, with funding from academic and charitable grants. This high degree of independence protected the review from partisan political influence.[8]

8 Robson, Jennifer (2018). "Policy Forum: Building a Tax Review Body That Is Fit for Purpose—Reconciling the Tradeoffs Between Independence and Impact." *Canadian Tax Journal / Revue fiscale Canadienne*, 66(2), 375-386.

What was the review's scope and mandate?

The Mirrlees Review brought a broad, long-term perspective to its work. It intended to cover the U.K's entire direct and indirect tax system, along with aspects of its interaction with the U.K. systems for social security and tax credits.[9]

The review was initiated by first defining the characteristics of a tax system well suited to the needs and objectives of a modern, open economy and then by attempting to design reforms that would bring the U.K. tax system closer to this ideal. Practical concerns and transitional issues were considered as part of the tax reform package.[10]

How did the review proceed?

The Mirrlees Review was conducted through a consultative process that included submissions, conferences and related proceedings. The Review's first report, published in 2010, explored various aspects of tax system design through 13 studies commissioned from academics and tax professionals. The second and final report, published in 2011, set out the Review team's conclusions and recommendations.

What was the review's outcome?

The Review's final report identified seven major flaws in the U.K. tax system and made 18 major recommendations covering taxes on earnings, indirect taxes, environmental taxes, taxation of savings and wealth, and business taxes.

The Review's principles of tax system design and recommendations for the U.K. had both immediate and longer-term influence. For example:

- Within four months of its publication, the U.K. government launched consultations toward implementing one of the report's major recommendations to merge income tax with national insurance contributions.
- The U.K. Treasury committee undertook its own study of taxation principles, using the Review as a framework for drafting its own recommendations.

9 Evans, Chris (2012). "Reviewing the reviews: A comparison of recent tax reviews in Australia, the United Kingdom and New Zealand or 'a funny thing happened on the way to the forum.'" *Journal of Australian Taxation*, 14(2), 146-182.

10 Mirrlees, James et al. (2011). "The Mirrlees Review: Conclusions and Recommendations for Reforms." *Fiscal Studies*, 32(3), 331-359.

- The Review informed debates in 2012 on harmonizing social benefits delivered through tax credits and on the design of the Universal Credit introduced later that year.
- The U.K. Office of Tax Simplification pursued work based on the Review's assessment of the tax system overall, along with specific aspects of it, such as inheritance and corporate taxes.[11]

The approach and lessons of the Mirrlees Review also provided inspiration for later tax system evaluations in Australia, Germany, the Netherlands, New Zealand and the U.S.[12]

New Zealand: Tax Working Group Review

Why was the review launched?

In 2009, speakers at an international tax policy conference raised concerns about the efficiency, equity and integrity of New Zealand's tax system. The country had not seen any major tax policy changes since the 1980s. New Zealand's Treasury and Inland Revenue ministers supported and attended the conference, which led to the creation of the Tax Working Group Review (TWGR) panel shortly after.[13]

How was the review governed?

The TWGR was coordinated by an academic institution. The panel operated outside the New Zealand government's committee framework, with resources provided by the Inland Revenue and Treasury ministries.

The review followed New Zealand's formalized Generic Tax Policy Process for developing tax policy through broad consultation with tax professionals, taxpayers and tax officials. This process was introduced in 1984 and has gained broad support from the private sector, tax officials and government.[14] Without this policy, it has been argued that the review would not have succeeded.[15]

11 University College London, *The Mirrlees Review: Influencing policy and debate on taxation*. Retrieved August 2018 (http://www.ucl.ac.uk/impact/case-study-repository/mirrlees-review-and-benefit-reform)

12 Ibid.

13 Evans, supra note 8.

14 Little, Struan, Nightingale, Geof D., and Fenwick, Ainslee, "Development of Tax Policy in New Zealand: The Generic Tax Policy Process," *Canadian Tax Foundation*, Toronto, 2013.

15 James, Simon, Sawyer, Adrian and Wallschutzky, Ian (2015). "Tax simplification: A review of initiatives in Australia, New Zealand and the United Kingdom." *eJournal of Tax Research*, 13(1), 280-302.

What was the review's scope and mandate?

Unlike the Mirrlees Review, the TWGR aimed toward more short-term, immediate and revenue-neutral reforms, covering all taxes levied nationally.[16] The TWGR was tasked with identifying structural deficiencies in New Zealand's existing tax system, defining the elements of a good tax system, and assessing the pros and cons of tax reform options.[17]

How did the review proceed?

The review was approached as a joint effort by government, academics and tax professionals. Tax officials provided input in developing the TWGR's agenda, and the review was supported with analytical and other government-provided resources.[18] The TWGR panel consulted widely, produced 19 background papers and reported to government extensively. Papers and summaries of consultation meetings and events were made public via the Internet.[19]

What was the review's outcome?

In the course of the review, the TWGR weighed various tax reform options against six principles of a good tax system:

1. Overall coherence of the system
2. Efficiency and growth
3. Equity and fairness
4. Revenue integrity
5. Fiscal cost
6. Compliance and administration costs[20]

This process led the TWGR to put forward 13 major recommendations in 2010, many of which were adopted in a major tax system overhaul announced in New Zealand's 2010 budget. The reforms encompassed, among other things, cuts to personal and corporate income taxes and a significant increase to New Zealand's GST rate.

The TWGR panel's focus on the principle of "fairness," and on horizontal equity in particular, has been credited for the acceptance of many of its recommendations.[21]

16 Ibid.

17 Evans, supra note 8.

18 Arnold, Brian J. (2013). "The Process for Making Tax Policy: An International Comparison. Proceedings of a Round Table on the Tax Policy Process." *Canadian Tax Foundation*, 1-21.

19 James, Simon, Sawyer, Adrian and Wallschutzky, Ian (2015). "Tax simplification: A review of initiatives in Australia, New Zealand and the United Kingdom." *eJournal of Tax Research*, 13(1), 280-302..

20 Victoria University of Wellington Tax Working Group. *A Tax System for New Zealand's Future*, January 2010.

21 Sawyer, Adrian (2013). "Moving on from the Tax Legislation Rewrite Projects: A Comparison of the New Zealand Tax Working Group/Generic Tax Policy Process and the United Kingdom Office of Tax Simplification." *British Tax Review*, (3), 321-344.

It is worth noting that the New Zealand government was extremely supportive of the 2009-2010 Tax Working Group Review: early in the process, the government indicated its support for and/or gave effect, partially or wholly, to most of the Working Group's major recommendations.

Australia: Henry Review

Why was the review launched?

In 2008, Australia's newly elected government held a summit on the country's future. Business leaders attending the summit unanimously nominated tax reform as a top priority. At the time, as the Henry Review later pointed out, Australia was saddled with too many different taxes and was using its tax system to meet too many policy objectives, leading to a tax system that was becoming unsustainable.[22]

How was the review governed?

Unlike the U.K. and New Zealand reviews, Australia's Henry Review was organized, sponsored and controlled by government. Secretary of the Treasury Ken Henry chaired a panel that included four external advisers – one of whom formerly worked at the Treasury – to guide a Treasury-based review.[23]

What was the review's scope and mandate?

The review was intended to take a broad and long-term perspective in defining a tax structure that would enable Australia to meet its social, economic and environmental challenges while improving economic, social and environmental well-being.[24]

The review encompassed assessing how the tax system interacted with transfer payment and other social support systems. However, the government limited the review's scope by taking any consideration of the GST and the tax-free status of certain retirement income off the table.[25]

22 Evans, supra note 8.
23 Ibid.
24 Ibid.
25 Ibid. See also Hewson, John (2014). "The Politics of Tax Reform in Australia." *Asia & the Pacific Policy Studies,* 1(3), 590-599..

How did the review proceed?

The Henry Review panel consulted widely through focus groups, public forums, meetings with business and community groups and discussions with other government departments and agencies. The panel received input through about 1,500 submissions and a two-day conference that included participation by international experts, academics and stakeholders.

What was the review's outcome?

The Henry Review's final series of reports outlined nine broad themes and 138 detailed recommendations.

However, only a few of its recommendations have been adopted. In the short term, the implementation of one high-profile recommendation to introduce a tax on mining profits was vociferously rejected by the mining industry. Following this experience, only a handful of minor recommendations were adopted. This practice led to comments that "cherry-picking" from an integrated package of recommendations undermined the integrity of the process.[26]

Even though the Henry Review panel engaged in extensive consultation, it has been observed that centralizing the process within Treasury led to a lack of alternative tax advice from others, both inside and outside government. Further, it has been argued that the Australian government effectively consults with the tax community and other stakeholders only on how tax measures should be implemented, and not more fundamentally on whether and why specific tax measures should be adopted at all.[27]

What can Canada learn from these examples?

The selected examples above offer many lessons for Canada in developing its approach to a tax system review.

It seems clear that independence, transparency and broad consultation are key ingredients for success. Equally important lessons are: :

- taking a principles-based approach that defines what an ideal tax system should look like and gauges the current system and proposed measures against those principles;
- emphasizing a long-term view over short-term fixes;

26 Evans, supra note 8.
27 Arnold, supra note 17.

- allowing a reasonable time frame for analysis, consultation and consensus-building (e.g., over a year in Australia and New Zealand, and over four years in the U.K.);
- putting everything on the table with a broad scope that considers all aspects of the tax system and how they interact with each other and other social support systems;
- consideration of practical issues related to transition and implementation; and
- a commitment from government to implement recommendations as an integrated package.

The frequency of review is also important. As Canada's current predicament shows, leaving too much time between reviews opens room for complexity to develop, broadening the scope of and hindering the review process. Having completed its last review in 2010, New Zealand has already commenced its third tax system review in 20 years. A new Tax Working Group was assembled to examine and recommend ways to improve the tax system over the next decade.[28] The group held consultations in the spring of 2018 and is expected to release an interim report in September 2018 and final recommendations in February 2019.

In April 2017, Hong Kong formed a tax policy unit (TPU) in its Financial Services and the Treasury Bureau with a mandate to comprehensively examine ways to:

- ensure that the Hong Kong tax regime aligns with international standards;
- leverage tax policy to promote the development of Hong Kong's economy and industries; and
- explore ways to broaden the tax base and increase revenue.

Recently, the TPU has engaged in designing a two-tiered profits tax rates system; working through the implementation details relating to an enhanced tax deduction on research and development expenditure; and amending the Inland Revenue regulatory ordinance. In the coming year, the TPU will continue working with other government bodies to study additional tax measures that could benefit Hong Kong's economic development.

Upcoming reports in this series will explore the lessons learned from these and other countries in more detail, and how they could be applied in the context of a tax system review in Canada.

28 New Zealand's current tax review is focused on matters affecting the tax system's integrity, including the government's ability to override the Generic Tax Policy Process; timely legislative review and introduction of taxpayer-friendly transitional relief; and taxpayer fatigue in dispute resolution (including the possible benefits of appointing a tax ombudsman or taxpayer advocate service, especially for small businesses).

Conclusion

In summary, many countries around the world have implemented or are working on ambitious tax reviews or more targeted tax reforms, including our neighbour to the south. There are serious concerns that Canada's tax competitiveness is diminishing, partly because of these reforms, but largely because there has been no comprehensive effort since the 1960s to update our tax system and ensure its efficiency and effectiveness.

Nationally and internationally, a growing range of stakeholders agree that a tax system review should be a priority for the Government of Canada. As this movement continues to gather steam, CPA Canada believes it's time to deepen the conversation. Whether a large-scale review is needed is no longer in question; it's time to move the debate from whether to how.

As described in these pages, other countries have already undertaken tax system reviews on the scale required in Canada. The examples in this report offer practical insights into how Canada can proceed and succeed in this important endeavour. CPA Canada, and the business and accounting professionals we serve, welcome the opportunity to contribute our knowledge and experience to help build an effective framework for achieving a tax system review and restore our country's tax advantage to benefit people across Canada.

To help advance this discussion, CPA Canada invites you to watch for our next report in this series – which will examine several of the most harmful issues with Canada's tax system and their impacts – to be released in the fall of 2018.

CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

277 WELLINGTON STREET WEST
TORONTO, ON CANADA M5V 3H2
T. 416 977.3222 F. 416 977.8585
CPACANADA.CA