

TAX ASSISTANCE FOR COMPANIES: TARGETING WEALTH CREATION

Brief presented by the
Board of Trade of Metropolitan Montreal

As part of the consultation of the

Task force on tax assistance for the resource regions
and the new economy

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**Chambre de commerce
du Montréal métropolitain**
Board of Trade of Metropolitan Montreal

Preamble

The Board of Trade of Metropolitan Montreal has some 7,000 members. Its mission is to represent the interests of the Greater Montréal business community and to offer an integrated range of specialized services helping individuals, merchants, and businesses of all sizes realize their full potential in terms of innovation, productivity, and competitiveness. The Board of Trade is the largest private organization in Quebec devoted to economic development.

Introduction

The Board of Trade of Metropolitan Montreal is pleased to participate in the consultation of the Task force on tax assistance for the resource regions and the new economy. It recognizes the importance of supporting the competitiveness of Quebec enterprises and acknowledges that providing tax assistance is one way to stimulate their development. This is particularly true given the stiff competition they face in the market niches where our expertise is recognized. It is thus vital for Quebec to create an environment favourable to attracting talent and investments that will, in turn, help promote economic development.

The Board of Trade believes that in all fiscal measures implemented by governments, the following three principles should serve as guidelines to maximize their benefits: **improve the competitiveness of enterprises, create wealth and profits, and ensure long-term predictability**. It is with these guidelines in mind that the Board of Trade has formulated the recommendations outlined in this document. With a view to assuming its role as an involved, responsible economic player, the Board of Trade is therefore pleased to submit its comments and reflections on tax assistance for the regions, particularly new economy enterprises.

1. Improve the competitiveness of enterprises

In recent years, Quebec has made a deliberate choice to focus on the knowledge economy and, in many economic sectors, has carved out a position of choice among the world's leaders. Supported by major government assistance programs, some new economy sectors have thrived to the point of becoming pillars of Quebec's economy and, in particular, that of its metropolis. The government has thus been instrumental in enabling the aerospace, biotechnology, and information technology sectors to position Montréal among the leading metropolises in terms of research and innovation.

With respect to the task force's question regarding the relevance of sector-based tax assistance, the Board of Trade believes that such measures could make a significant contribution to Quebec's economy. Oriented toward sectors with high development potential or that are already generating significant economic benefits, tax assistance measures could make the difference between growth and stagnation for many companies.

The Board of Trade thus believes that, insofar as Quebec has major strengths on which its economic development is already largely based, particularly given that significant know-how has already been developed and innovative companies have been founded in those sectors, we have no choice but to maintain a certain form of assistance in those sectors where we are already doing well and in which our expertise is internationally recognized.

This is particularly true in the information technology and communications sector – which has benefited from significant government assistance in recent years and which, in Greater Montréal alone, employed 120,000 people in 2006. Montréal ranked 8th among North American metropolises in terms of number of jobs in this sector and 3rd in terms of employment density. Moreover, more than 75% of companies in this sector are SMEs with ten employees or less and

only 3% have 100 employees or more¹. This demonstrates that in addition to the companies receiving direct support from government tax measures, the entire sector stands to benefit from a ripple effect.

On the other hand, in answer to the task force's question regarding territory-based tax assistance, the Board of Trade has serious reservations about its value. In fact this form of assistance tends to fuel internal competition, both real and perceived, which does not favour cohesive development either at the level of the regions or within the metropolis.

The Board of Trade thus believes that, while their aims were admirable, the territorial assistance measures implemented by the Quebec Government in the 1990s – both in the regions and within specific Montréal districts – are undesirable insofar as they place regions within the province in competition with one another.

2. Create wealth and profits

While government assistance can take many forms, the Board of Trade believes it is important to focus on maximizing spin-off benefits for the entire community. It is generally acknowledged that tax credits granted by the Quebec Government for research and development within companies enable those companies to become more competitive. Such credits also promote the development of ties between university researchers and businesses that can lead to major innovations with strong development potential. Such occurrences are particularly common in the pharmaceutical and biotechnology sectors, which employ more than 40,000 people in the metropolitan area alone.

It is also acknowledged that within many economic sectors, tax credits granted to foreign researchers who move to Quebec contribute to the competitiveness of companies. In fact they enable many firms to attract internationally renowned scientists and to build teams around them that are awarded grants and subsidies by many local and foreign backers. Such measures thus make it possible to provide such researchers with state-of-the-art equipment and facilities and to generate innovations that can then be commercialized.

It has nevertheless been observed that innovations in Quebec, some of which result from such programs, have a hard time making it to market, primarily because the various assistance programs are limited to the experimental stage, ending just before the commercialization stage. This has been observed in Montréal as well, where we have seen that young companies have a harder time passing the critical two-year mark than those in other Canadian cities². Facilitating the commercialization of innovations would doubtless improve the survival rates of young businesses, regardless of whether they are located in the regions or within major cities and whether their innovations are commercialized locally or internationally.

The commercialization stage is critical to the development of innovations since it is the step wherein a return is secured on the investment made in a product's research and development. Through the marketing of products, it also promotes the creation of wealth, which is crucial to the future prosperity of Quebec. For this reason, the Board of Trade believes the government should carefully consider the possibility of supporting the commercialization stage of new products, either generally or sectorally.

¹ Brief of the Grappe des technologies de l'information et des communications du Grand Montréal, presented as part of the consultation of the Task force on tax assistance mandated by the Quebec Government in October 2007.

² Board of Trade of Metropolitan Montreal, Montreal Health Report, *A look at Montreal entrepreneurship*, 2006 edition.

Moreover, while government tax assistance programs are clearly tools that contribute to the prosperity of companies and the creation of wealth, they are not the only ones. These measures should obviously be accompanied – and even preceded – by many other initiatives. One of the most important of these, in the Board of Trade's opinion, is certainly that of labour force training. Indeed, while Quebec companies aim to acquire the best facilities and state-of-the-art technologies, these will be of no use to them without highly skilled workers. The funding of educational institutions charged with the university and technical training of future workers – as well as attracting foreign students – must remain a government priority if the need for skilled workers is to be met.

3. Ensure long-term predictability

The government assistance measures implemented in the 1990s will come to an end, in their present form, between 2009 and 2013. The Board of Trade believes their allocation methods should be reviewed with a view to improving the competitiveness of companies, creating wealth, generating profits, and ensuring their medium- and long-term predictability. Indeed the assurance that government assistance is predictable and available long term may, in some cases, encourage companies to make sizable investments. Given that many companies are already doing their planning for 2009 and beyond, it is important that the government make its intentions known soon. It would be unfortunate if initiatives in leading sectors aiming to retain or attract activity to Montréal and Quebec were announced too late to be taken into consideration.

That said, the Board of Trade also recommends the implementation of a mechanism providing for the regular review of assistance programs and their effectiveness. Since economic conditions and corporate needs change over time, the government should be able to adapt its programs to those changing conditions – while at the same time respecting the medium- and long-term commitments it has already made.

For these reasons, while the Board of Trade agrees that existing tax assistance measures in their present form should be terminated according to schedule, it also believes it important to study the repercussions of this decision and suggests that the need to implement transition measures should be assessed. The assistance granted constitutes important contributions to many companies, and it is important that every effort be made to ensure the durability of what, in fact, are public investments.

Another factor to be considered in the overhaul of future government assistance measures is their ease of application by government authorities and their ease of administration by companies. While government assistance plays an important role in economic development at the provincial level, it must not be allowed to compromise the competitiveness of companies by creating a tangle of red tape around qualification and administration.

Conclusion

The context of intense competition that has prevailed in recent years, particularly with the emergence of developing countries that compete with Quebec in niches where our expertise is acknowledged, demands that we develop efficient tools to promote our full and healthy development.

In this initiative of the Working group on tax assistance for the resource regions and the new economy, the Board of Trade sees an opportunity to improve government interventions and maximize their impact. Whatever they may be, we must ensure that government interventions generate the largest possible spin-off benefits. While the Board of Trade's comments in this brief deal primarily with territorial and sectoral tax measures, we nevertheless consider it essential to view this issue within the larger context of the competitiveness of Quebec's business environment and, in particular, the overall tax system.

The Board of Trade believes there is still much to be done to position Quebec among the world's most attractive investment destinations but recognizes that the Quebec government's financial situation leaves it very little flexibility with which to achieve this objective. Since it lacks the means to take decisive action on the system as a whole – by immediately eliminating the tax on capital, for example – the Board of Trade considers it would be judicious to target certain priority sectors of intervention – always with a view to maximizing wealth creation and thus the return on government investments.