Conseil du patronat du Québec

S'ALLIER POUR LA PROSPÉRITÉ

Comments by the Quebec Employers Council

Department of Finance Canada Consultation on the Phase-Out of the Labour-Sponsored Venture Capital Corporations Tax Credit

July 2013

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The Quebec Employers Council

The mission of the Quebec Employers Council (Conseil du patronat du Québec) is to ensure that businesses have the best possible conditions in Quebec – particularly in terms of human capital – in order to prosper in the context of global competition over the long term. An organization conducive to the development of employer solidarity, it exercises leadership that has established it as the essential reference in its fields of intervention. It uses its considerable influence constructively to create a more prosperous society in which entrepreneurship, productivity, wealth creation, and sustainable development are prerequisites for an enhanced standard of living for all citizens.

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Introduction

The Quebec Employers Council (Conseil du patronat du Québec) was surprised when the federal government announced, in its most recent budget, on March 21, 2013, the phase-out of the labour-sponsored venture capital corporations tax credit. At the time, it believed that this credit could have positive spinoffs, not only for the Quebec economy, but also for the well-being of workers who contribute to such funds. Its main criticism of this tax measure was the fact that similar incentives were not available to other venture capital corporations.

Based on the information it gathered since the announcement, the Council remains of the opinion that the advantages of this tax credit seem to exceed the disadvantages that it may have. Indeed, major organizations have criticized labour-sponsored funds for their overall lack of effectiveness in stimulating the venture capital industry. The critical mass they achieved, their form of governance and relationships with labour unions, as well as the competitive advantages they have over other financial institutions may also raise questions. However, the Council believes that, since the creation of the Fonds de solidarité in 1983, in response to the 1982 economic crisis, labour-sponsored funds have played a specific and important role in Quebec, and that solid, complete and detailed evidence has yet to be gathered before implementing a measure that might be significantly detrimental to their development and their unique contribution to the Quebec economy.

Even though several of the factors to consider in gathering this evidence are difficult to measure from a purely mathematical point of view, they are nonetheless quite significant to the development of the Quebec economy. Following is a list of considerations that the Council finds useful to note:

1. Workers' economic training

For the past 30 years, labour-sponsored funds have invested significantly in the economic training of their investors. As such, the more educated a society, the more likely it will be prosperous. Workers who are more aware of economic realities are better able to have realistic and constructive relationships with employers, to the greater benefit of the economy as a whole. Pursuing this education objective within large-scale, highly structured organizations such as labour-sponsored funds is certainly a *plus* for Quebec.

2. Encouraging retirement savings

In a context where a large number of workers do not have a pension fund and where retirement savings is a major issue for our society, any means to encourage workers to save more can only be beneficial.

Some believe that without tax-advantaged funds, many Quebec workers – among the approximately 700,000 contributors to the Fonds de solidarité and Fondaction – would not have saved for their retirement. In addition, it should be noted that those who contribute to labour-sponsored funds not only develop the habit of saving – and thus prepare for a better retirement – but also come to gradually diversify their investments over time. As a result, labour-sponsored funds, which might initially represent a threat to other existing investment vehicles, may help these vehicles generate additional revenues.

The fact that investors can withdraw the savings they accumulated in labour-sponsored funds only upon retirement also contributes to mitigating the significant issue of retirement savings for our society. Governments strive to find ways to encourage citizens to save more for retirement. Abandoning, for all practical purposes, labour-sponsored funds by eliminating the tax credit that is granted to their shareholders and that enables them to grow is undoubtedly a step in the wrong direction. It is more likely that, instead, a retirement savings shortage of several millions of dollars per year will be created in Quebec alone.

According to an IREC study quoted by the Board of Trade of Metropolitan Montreal[1], the tax and incidental tax spinoffs of the labour-sponsored funds tax credit are largely to the benefit of the governments. In the case of Fondaction, for instance, it is estimated that the federal government ultimately obtains $1.26 for each dollar of tax credit (15%) it grants. A SECOR study, quoted by the same source, reveals that, in the case of the Fonds de solidarité, the federal government will recover its investment within 3.8 to 4.7 years.

Regardless of the economic spinoffs of the additional $400 million that the federal government is committed to paying private venture capital funds in return for the phase-out by 2017 of the labour-sponsored funds tax credit, there is no question that this investment will not fill the retirement savings gap that this measure will create in Quebec.

3. Contribution to the development and survival of companies

As others mentioned, the (very) patient capital provided by labour-sponsored funds is not only used to start up companies; it can also be crucial at all stages of their development. Many flagships of the Quebec economy survived very hard phases of their development because of the financial support these tax-advantaged funds provided when other traditional financing sources were totally unavailable to them.

Conclusion

Quebec is special in a lot of ways. Let's take, for example, the exceptional influence that the cooperative movement gained here or the unimaginable size that some of its institutions, such as Hydro-Québec and Caisse de dépôt et placement du Québec, have reached.

The fact that labour-sponsored funds developed particularly in Quebec is by no means an accident. They found in our society and culture fertile ground for their growth and gradually grew to play an important role in our economy. The Quebec Employers Council believes that it would be inappropriate, especially in an economic environment that remains very fragile

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[1] Board of Trade of Metropolitan Montreal, *Rapport sur l'importance des fonds de travailleurs pour l'économie du Montréal métropolitain*, May 2013, p. 8, http://www.ccmm.qc.ca/fr/nouvelles/etude-ftq-a8a7a/

and in the absence of an extensive study of all their spinoffs, to adopt a measure that might disturb the balance that contributes to their success.

Some could accuse the federal government of favouring Quebec should it reconsider its decision to eliminate the labour-sponsored venture capital corporations tax credit, as Quebec is where these funds truly prospered. In that respect, let us mention that the role of a central government is to support the development of all regions of the country based on their specific characteristics. This is what it has done until now and should continue to do.