ASSOCIATION OF CONSULTING ENGINEERING COMPANIES | CANADA
ASSOCIATION DES FIRMES DE GÉNIE-CONSEIL | CANADA

Submission to the Standing Committee on Finance

A Renewed Vision for Resilient and Prosperous Communities

Submitted by:
The Association of Consulting Engineering Companies | Canada
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Recommendation 1

Engage with stakeholders to develop and implement a National Infrastructure Assessment and create a long-term strategy for addressing infrastructure needs in communities across Canada.

Recommendation 2

Renew the Investing in Canada Infrastructure Program or create a successor program to close the current infrastructure deficit.

Recommendation 3

Further study the impacts of changes to the capital gains inclusion rate on employee-owned businesses and defer its implementation until the next tax year.

About ACEC

ACEC is the national voice of over 400 companies that provide engineering and other professional services to both public and private sector clients across Canada and the world. Our members, who range from employee-owned small businesses to some of the largest engineering companies in the world, collectively employ over 60,000 Canadians. Consulting engineering firms are Canada's trusted advisors that are at the forefront of designing and building a more prosperous, sustainable Canada.

Visit www.acec.ca or contact us at president@acec.ca to learn more.

Introduction

Over the past several years, Canadian communities have grown at a rapid pace. To accommodate this growth and ensure that all Canadians have access to the infrastructure that they need – such as schools, roads, bridges, transit systems, water and wastewater systems, hospitals, *et cetera* – our country requires a plan and the resources to implement it.

The Association of Consulting Engineering Companies-Canada (ACEC) represents consulting engineering companies from coast to coast to coast. Our members play an essential role in building a more sustainable, more accessible, more connected Canada. Consulting engineering firms share the federal government's goals of strengthening and building sustainable communities, creating good jobs, and growing the economy.

ACEC applauds federal infrastructure investment programs, including Canada's Housing Plan, that recognize our country's infrastructure needs. While helpful, current programs are not enough to address Canada's aging infrastructure and meet our growing needs in the immediate and the long term. To adequately prepare, the federal government must not only address current requirements, but also adopt a cohesive, long-term, data-based approach to infrastructure investments. Reliable data and a strategic vision will allow municipalities, other owners and operators of infrastructure assets, and the businesses that deliver these services throughout the supply chain to make informed decisions.

To build the kind of communities that Canadians want and deserve, we need a long-term nationwide infrastructure strategy, predictable infrastructure funding, and consistency for the businesses that deliver these projects.

In brief, we recommend that the federal government:

1. Engage with stakeholders to develop and implement a National Infrastructure Assessment and create a long-term strategy for addressing infrastructure needs in communities across Canada.

2. Renew the Investing in Canada Infrastructure Program or create a successor program to close the current infrastructure deficit.

3. Further study the impacts of changes to the capital gains inclusion rate on employee-owned businesses and defer its implementation until the next tax year.

Recommendation 1

Engage with stakeholders to develop and implement a National Infrastructure Assessment and create a long-term strategy for addressing infrastructure needs in communities across Canada.

Understanding and meeting the infrastructure needs of a country as complex as Canada requires a comprehensive, data-based, long-term vision. This was recognized by the federal government with its commitment to creating a National Infrastructure Assessment (NIA). Announced in Budget 2021, the NIA will help all levels of government to understand the current state of our infrastructure and to establish a strategic approach to near-, medium-, and long-term investment priorities for Canada over the next 30 years. It will create an infrastructure investment roadmap for Canada to close the current infrastructure deficit and proactively address future needs. The housing crisis we are facing today is in part the result of the absence of the comprehensive, data-based, long-term vision the NIA would provide.

By drawing upon the experience and expertise of both public and private sector stakeholders, the NIA will help all orders of government make informed, data-driven, and effective public policy. The NIA will allow public officeholders and officials to make better investment decisions that are strategic, forward-thinking, and effective. Furthermore, the engineering, architectural, and construction sectors will be able to better invest in their human and technology resources and manage supply chains to deliver infrastructure effectively and efficiently.

Four pillars of the long-term plan in the National Infrastructure Assessment must be:

I. An assessment of the current infrastructure assets in Canada.
II. The establishment of long-term goals to meet Canada's future infrastructure needs.
III. A roadmap that predictably outlines the demand for new and renewed infrastructure that will be delivered over the decades ahead with regional specificity.
IV. Regular review, re-evaluation, and updating of the National Infrastructure Assessment.

All orders of government, businesses, and taxpayers will benefit from the NIA. Every dollar spent on infrastructure in this country will go further if delivered in the context of a long-term strategy. The NIA will also bring significant environmental benefits. An overarching strategy will allow policy leaders and decision-makers to consider all new assets in the context of one another, opening the door for planning and lifecycle efficiencies that enhance our climate resilience and help us move forward on the path to sustainability.

Establishing a long-term vision for Canada's local, regional, and national infrastructure needs will result in smarter decision-making, thereby allowing us to build resilient, prosperous communities.

Recommendation 2

Renew the Investing in Canada Infrastructure Program or create a successor program to close the current infrastructure deficit.

A strategic plan is only successful when tied to consistent, reliable funding. While the release of the Canada Housing Infrastructure Fund fills a gap in the short term, Canada does not have an ongoing funding source for infrastructure programs. The intake for new projects under the Investing in Canada Infrastructure Plan (ICIP) closed in March 2023, and its funding has not been renewed.

ACEC strongly recommends that the federal government immediately renew funding for the ICIP or a successor program. The consequences of lapsed infrastructure program funding are significant and disruptive, ultimately delaying necessary infrastructure repairs, revitalizations, and expansions. Without consistent funding, provinces, municipalities, and the private sector face uncertainty in terms of available resources needed to address infrastructure needs and upcoming projects.

There is significant demand for immediate infrastructure investment in communities across the country. Renewing the ICIP will help governments close the current infrastructure deficit and prevent a lack of action from worsening the situation. It will also ensure that owners and operators of infrastructure assets – as well as public and private-sector investors that plan, design, and build infrastructure – can make informed business decisions, manage supply chains, and develop the skilled talent necessary to deliver projects. Renewing funding will enable the private sector and all orders of government to work collaboratively to address many of our country's challenges, including mitigating the devastating effects of climate change, remedying supply chain issues, and addressing labour shortages. It will also help to achieve Canada's climate adaptation and resilience goals, environmental sustainability, and will grow the economy.

Recommendation 3

Further study the impacts of changes to the capital gains inclusion rate on employee-owned businesses and defer its implementation until the next tax year.

The 2024 Federal Budget announced changes to capital gains taxation, which came into effect on June 25, 2024. These changes include an increased inclusion rate from one-third to two-thirds for capital gains of over $250,000 per year for Canadians, and on all capital gains for corporations and most types of trusts.

These changes will have a significant impact on Canadian businesses, particularly employee-owned consulting engineering firms, most of which are small and medium sized enterprises. These firms are concerned about how this change will impact their succession plans, affect the future of their firms, and the impact that this will have on their communities. The increased capital gains inclusion rate will have significant implications on retirements and leadership transitions within these firms, as well as the number of Canadians who will take the financial risk to become business owners and support their communities.

ACEC strongly believes that further consultation is needed to fully understand the impact of these changes on employee-owned businesses and the Canadian economy overall. Governments rely upon consulting engineering firms of all sizes to implement their agendas, ranging from housing and infrastructure to climate change and the critical minerals strategy. However, it is often small and medium-sized employee-owned businesses that support communities by taking on smaller-scale but critical projects such as building in-home wheelchair lifts and secondary suites for families to live together. These firms also take on young employees and help them work their way up to participating in ownership of their firms. Additionally, small community-based firms are often the ones who donate to local charities and contribute to community sports teams. With the new capital gains tax inclusion increase, these firms will be disproportionately vulnerable to these changes, which is why ACEC recommends further study.

Furthermore, business owners who have taken substantial personal risk while growing their firms and fuelling Canada's economic growth are concerned that these changes will harm succession planning efforts for many years to come. It is already challenging to encourage the next generation of leaders to take on ownership stakes within a firm. The financial benefits of acquiring shares must outweigh the risks for a new generation of leaders in our industry. ACEC is concerned that this change will result in further industry consolidation and fewer employee-owned SMEs.

We strongly urge the government to defer the increase of the capital gains inclusion rate until the next tax year pending further study of the unintended consequences of these changes. Not only will this allow for proper tax planning by these firms, but it will also allow additional consultations to be undertaken to comprehensively understand and mitigate the negative consequences of this change on employee-owned businesses and the future of the Canadian economy and our country's productivity. In addition, implementing programs that will fill the gaps between the Canadian Entrepreneur's Initiative (CEI) and the Employee Ownership Trust tax exemption will be necessary to help with a smooth transition to this new capital gains inclusion rate.

Conclusion

A long-term strategic vision for infrastructure. A renewed infrastructure funding program. Consistency for the businesses that deliver these projects.

ACEC strongly believes that these three recommendations will work together to build the resilient and prosperous communities that Canadians deserve.