

Cranbrook Chamber of Commerce

MEDIA RELEASE

August 28, 2017 – For Immediate Release

Cranbrook Chamber Incensed Over Proposed Changes to Tax Legislation

The federal government has released a document *Consultations on Tax Planning Using Private Corporations*. This midsummer proposal to implement some of the most significant corporate tax changes in 50 years has drawn the ire of the Cranbrook Chamber of Commerce along with Chambers across Canada.

“The government has rather generously labels these changes as “tweaks”. “These are not tweaks! The government has just proposed the most radical tax overhaul in 50 years. We’re particularly worried about the impact on business from (1) a new tax on investment income in a corporation and (2) tough new rules for compensation in family businesses”, said Hendrik Brakel, Senior Director, Economic, Financial & Tax Policy with the Canadian Chamber of Commerce.

“Finance Minister Bill Morneau dropped this consultation paper in mid-July, in his words, “aimed at restricting the use of private corporations as tax-saving vehicles”,” said Cranbrook Chamber executive director David D. Hull. “The “consultation” is open to October 02 but let’s be honest, notwithstanding a successful coordinated uprising by the business community leading to change, this proposal will become legislation. Calling this a consultation will most certainly become rather disingenuous.”

“To the average person the words *Private Corporation* conjures up images of big business, the man”, said Hull. “In fact, most every business in Cranbrook is incorporated. The two-man plumbing company, the mom and pop small store, your dentist and the franchisee at the sandwich shop are corporations and certainly not “the man”. We are not talking multi million/billion dollar operations using so called loop holes to avoid paying taxes”.

The Cranbrook Chamber of Commerce has joined Chambers across Canada under the leadership of the Canadian Chamber of Commerce to mount opposition to what is considered draconian changes to tax legislation.

The Minister says it’s all about “fairness,” and his consultation document compares the tax treatment of a business owner with that of an employee to point out corporations have “unfair” advantages. But, the comparison makes no sense—there are good public policy reasons for why owners are taxed differently.

Unlike an employee, a business owner doesn’t get a pension or health benefits or vacation pay. They have invested their own money to get the business started. They have pledged their personal assets (house, car etc,) as collateral for a business loan. They have employees who depend on the business operating successfully. And, if nobody wants their goods or services next month, they do not earn a penny.

There are risks inherent in establishing a business that simply do not exist for salaried employees. If the rewards are squeezed too tightly, would-be entrepreneurs may opt for the safer option of salaried employment. This would be a huge detriment to the Canadian economy at small businesses drive more than 90% of the economy.

Brakel went on to say, “The government wants to tax “passive” (invested) income. It says it’s a crackdown on “high income individuals,” but the rules would apply to all incorporated businesses in Canada, most of whom are restaurants, retailers, farmers and consultants—to punish them for saving and investing. It gets worse!

Finance Canada also expects to raise \$250 million by cracking down on “unreasonable” salaries paid to family members, which it says diverts corporate income into lower tax brackets. But, to pull in \$250 million, CRA will have to tax over \$1 billion in salaries and audit hundreds of thousands of businesses. Imagine the litigation! You’re paying your spouse \$80K, but the CRA believes he or she should only be earning \$50K. Do you go to Tax Court? An owner told us, “if my son had not worked 12 hours a day, my business might not have succeeded. Painting us all as cheaters is unfair and discriminatory.”

Incredibly, Finance Canada has managed to design a set of tax measures that would hit the maximum number of businesses in the most complicated way for a small amount of revenue. The expected \$250 million is less than 1% of the federal deficit.

“Nobody supports tax evasion or loopholes. But these changes will punish legitimate businesses big and small and personal corporations”, said Hull. “These changes come on the heels of the government cancelling reductions in the small business tax rate, tightened rules on partnerships and started taxing work in progress. That’s on top of new carbon taxes, raised CPP premiums and an increase in the EI rate. Our members are asking why this government keeps raising taxes on business. Their focus should be on generating wealth, rather than taxing it.”

To assist Cranbrook businesses and individual corporations to understand the magnitude these changes will affect their business the Chamber is holding two seminars Thursday, September 07. There will be a breakfast event starting at 7:30am and an afternoon session starting at 5pm. Tickets are available at www.cranbrookchambers.com.

For further information or comment
David D. Hull, Executive Director,
Cranbrook Chamber of Commerce,
250 426 5914 office
604 302 7212 mobile 24/7
davidhull@cranbrookchamber.com

Further Information Below

Consultations on Tax Planning Using Private Corporations Document Click [HERE](#)

Hammering Business - Finance Canada's New Crackdown

5 Minutes for Business by the Canadian Chamber of Commerce

These are not tweaks! The government has just proposed the most radical tax overhaul in 50 years. We're particularly worried about the impact on business from (1) a new tax on investment income in a corporation and (2) tough new rules for compensation in family businesses. Why is the government doing this?

The Minister says it's all about "fairness," and his consultation document compares the tax treatment of a business owner with that of an employee to point out corporations have "unfair" advantages. But, the comparison makes no sense—there are good public policy reasons for why owners are taxed differently.

Because unlike an employee, a business owner doesn't get a pension or health benefits or vacation pay. She invested her own money to get the business started. Or, she pledged her personal assets (house, car) as collateral for a loan. She has employees who depend on her. And, if nobody wants her goods or services next month, she does not earn a penny.

That's why in every advanced economy in the world, businesses can accumulate and invest after-tax retained earnings so they have money to get them through an economic downturn or to make big capital investments. One owner told us, "I keep most of the earnings in the company because we're trying to grow and because in construction, we go through tough cycles when business dries up."

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Nobody supports tax evasion or loopholes. But these changes will punish legitimate businesses. And, they come after the government cancelled reductions in the small business tax rate, tightened rules on partnerships and started taxing work in progress. That's on top of new carbon taxes, raised CPP premiums and an increase in the EI rate. Our members are asking why this government keeps raising taxes on business.

We're not sure what to tell them, but there is an important test ahead. Finance Canada has launched a consultation even though it is clearly determined to move forward—the legislation is already drafted. So email or call your local MP to tell him/her the government is proposing to hammer business with tax changes that will hurt families and punish entrepreneurs. Only MPs have the power to slam the brakes on Finance Canada's runaway train.

For more information, please contact:

Hendrik Brakel, Canadian Chamber of Commerce

MAJOR INCOME TAX CHANGES



TWO SEMINARS Thursday September 07

The Federal Government is Proposing Some of the
Biggest Tax Changes in the Last 50 Years That
WILL Affect EVERY Incorporated Business,
Big and Small, in Cranbrook

Cindy Popescul, CPA, CA, Partner, Tax with BDO Canada will breakdown and explain the effects these changes will have on your business.

The Cranbrook Chamber is working on this file in concert with the Canadian Chamber of Commerce's nation wide network in an attempt to have the government reconsider these very detrimental changes to tax legislation.



WHO SHOULD ATTEND?

**All Business Owners and Professionals
Currently Incorporated or Planning to Do So**
These Changes Will Dramatically Alter The Corporate Tax Landscape

This Issue is of Such Great Importance That Two Seminars are Being Offered to Ensure All Business Owners are Able to Attend

Thursday September 07 - Prestige Rocky Mountain Resort

**Breakfast Seminar
Afternoon Seminar**

Doors 7:00am - Breakfast & Seminar 7:30am
Doors 4:30pm - Appies & Seminar 5:00pm

TICKETS

Members & Guests - \$24
General Admission - \$29
www.cranbrookchamber.com/events

The Cranbrook Chamber of Commerce is a Member Based Business Organization Focused on Building Business & Community. With Over 500 Members the Chamber is the Recognized Voice and Leader of the Cranbrook Business Community.

The Blog; Huffington Post

Bill Morneau's discussion paper proposing changes to the taxation of small businesses completely misrepresents the facts.

08/21/2017 16:08 EDT | **Updated** 08/23/2017 10:48 EDT

Tim Paziuk Educator, Lecturer, Author and Financial Planner

Look at The Numbers: There's No Justifying A Tax Hike On Employers

Bill Morneau's discussion paper proposing changes to the taxation of small businesses completely misrepresents the facts.

I'm curious to know why you believe it's in Canada's best interest to discourage business and encourage socialism.

It is my opinion that your discussion paper proposing changes to the taxation of small businesses completely misrepresents the facts, and it's hard for me to imagine what your objective is. Hundreds of thousands of Canadians have spent their entire working lives building this country, and yet under the banner of "fair" you set out to destroy their businesses, and ultimately, their retirement plans. In many cases you're not simply changing the rules; you're changing the entire game.

In your discussion paper, you talk about what the government stands to gain from eliminating income splitting and increasing the tax rate on passive income within corporations, but nowhere do you quantify the cost. Have you and Mr. Trudeau thought about what the cost of your proposals will be?

We've heard from business owners all across Canada and regardless of the business, they all agree that higher taxes mean higher costs. Higher costs that will ultimately be borne by consumers — it's just that simple!

In the discussion paper, you use an example of neighbours who each earn \$220,000 per year. Have you looked at the statistics? According to Statistics Canada less than 2.35 per cent of Canadians make \$220,000 or more per year.

What you have failed to do is describe the difference between an employee and someone who's taken a chance and gone into business for themselves. You are trying to convince the Canadian public that all business people are rich and that they use all these tax loopholes to reduce or avoid.

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In the discussion paper, on page 13 you introduce us to Jonah and Susan. Jonah has a private corporation and Susan is an employee. You state that Susan's household pays \$35,000 more income tax than Jonah's, and that just isn't fair.

I've taken the liberty to outline the differences between being a self-employed private business owner and employee.

Let's look at the job description for a private business owner:

- Variable income not guaranteed
- No job security or workplace accommodation
- Must personally guarantee company/business debt
- No Employment Insurance (EI) coverage
- Canada Pension Plan (CPP) coverage at twice the legislated employee cost
- Hours extremely variable (can vary from 0 to 90 hours per week).
- Must be willing to work additional 20 hours or more a week without notice
- No overtime pay
- No paid holidays
- No paid parental/maternity leave
- No paid bereavement leave
- No extended health, dental or insurance benefits
- No employer matching retirement program
- Statutory holidays will not be covered
- Should you require additional employees for completing your work, you shall be personally liable for:

- guaranteeing they have a steady and reliable minimum income
- covering 58 per cent of their EI cost
- covering 50 per cent of their CPP cost
- meeting all statutory labour requirements for work hours, overtime hours and pay, holiday leave and pay, statutory holidays and parental/maternity leave.
- accommodating them for any limitation preventing them from completing the work they are providing you
- damages should you no longer require their assistance

Now let's talk about Susan the employee. Let's say she's one of your deputy ministers. A federal deputy minister makes about \$220,000 per year. What else would they be entitled to? Correct me if I'm wrong, but I think it looks something like this:

- Employer's pension contribution up to \$25,000
- Employee benefits \$6,000
- Employer CPP contributions \$2,569
- Employer EI contributions \$1,170
- Up to eight weeks of vacation (worth) \$33,846
- 10 statutory holidays (worth) \$8,461
- Up to 15 sick days per year (worth) \$12,692

All of these entitlements add up to \$89,738.

Did I miss anything? I'm not sure if I should add anything for employer paid parties, food and drinks.

Whether it's a physician or a plumber, it makes no difference. All businesses take risks. It looks to me like the extra \$35,000 that Susan is paying in income tax might not represent the full picture. When including the almost \$90,000 in benefits that she is entitled to that a business owner is not, she is in a much better position than the example you used to justify your changes and might actually be better off than Jonah.

You can't and shouldn't be allowed to compare an employee with an employer. What makes Canada great is having individuals who are willing to put their financial lives on the line to start businesses and employ those who chose not to take the chance. Whether it's a physician or a plumber, it makes no difference. All businesses take risks. What you're proposing strikes directly at the heart of small business. If Canadians really understood what the facts were I don't think they'd be inclined to support your proposal.

I ask, on behalf of all Canadians, kindly leave the current integrated tax system alone and honour the system that was put in place by your party 45 years ago.