

COALITION FOR SMALL BUSINESS TAX FAIRNESS

August 30, 2017

The Honourable Bill Morneau
Minister of Finance
Finance Canada
90 Elgin
Ottawa, Ontario K1A 0G5

Subject: Coalition for Small Business Tax Fairness letter on proposed tax proposals

Dear Minister Morneau,

We are the **Coalition for Small Business Tax Fairness**. Together, our organizations represent hundreds of thousands of independent businesses, professionals and taxpayers across a wide range of sectors and regions. As you and your colleagues frequently say, small businesses are the backbone of the economy and responsible for the majority of job creation in Canada. We generate economic growth, provide critical services, and support quality of life for all Canadians. We are writing to express our concern with proposed changes to the tax treatment of privately held corporations. After a careful review of these complicated changes, we strongly believe they will have very negative impacts on the ability of independent businesses, including professionals and farm families, to survive in challenging times, help finance growth, innovation and job creation, and encourage and support entrepreneurial families. These are not minor amendments, but are sweeping changes that will affect all sectors of Canada's business community and we ask **that you not move forward with these proposals. Instead, the organizations listed below stand ready to meet with you and your officials to offer our support and ideas for measures to address any shortcomings in tax policy affecting private corporations.**

Background:

While your government has suggested these changes are targeted to close tax loopholes aimed at the wealthy, they will affect the majority of business owners who are firmly in the middle class. Data collected from Statistics Canada and other official government sources shows that two thirds of small business owners earn less than \$73,000 per year and half of those earn less than \$33,000. These proposals will also make an already complex Income Tax Act even more difficult to interpret and understand. As such, the government will not achieve its goal of simplifying the Act, but will instead increase the challenge for CRA auditors to correctly interpret the rules. These proposals will lead to a significant increase in business uncertainty for independent business owners who already find CRA compliance a significant undertaking. In addition, if the goal of the government is to ensure fairness for the middle class, we question why publicly held corporations are completely exempt from the discussion.

While we respect the need for integration in tax policy, we believe this is already in place and these changes would instead unfairly increase the burden of middle income independent business owners to levels higher than those affecting other taxpayers. Our members, including many professionals, feel unfairly targeted, intentionally or not, by the changes and painted as "tax cheats" by the federal government simply for accessing tax planning tools that they have been encouraged to use for decades.

Many of these policies were put in place by previous Liberal and Conservative governments in order to support the growth of independent business and reflect the disproportionate burden they face in complying with regulations and accessing financing.

These changes are coming at a time when business owners are already facing a myriad of additional costs, including Canada Pension Plan and Employment Insurance premium increases for the next several years, as well as new provincial policies around carbon pricing and labour reforms. Creating additional business tax uncertainty is particularly unwelcome at a time when lower commodity prices and NAFTA negotiations are already causing stress among Canada's entrepreneurs.

Income Sprinkling:

The proposed changes demonstrate a lack of understanding on the part of the government on how independent business truly functions. When an entrepreneur opens a business, her or his family is often deeply involved in either formal or informal ways. This is particularly true on Canadian farms where each member plays a vital role, often from a young age. The comparison of an entrepreneur with a salaried employee is completely inappropriate. Many business owners not only use their family homes as collateral against loans taken to support the business, they also do not have access to safeguards such as employment insurance for job security. When the spouse or children are also involved in the business, the risk is exponentially larger as the entire family runs the risk of losing any means by which to support themselves.

Passive Income in a Corporation:

There are many important reasons why businesses may need passive investments. These types of investments serve as insurance against emergencies and unforeseen costs. The proposed change will limit certain forms of saving in the business, making the firm more vulnerable in bad economic times. In recent years, many business owners have had to cope with an unsteady economy, often depending on other investments as important means to help avoid layoffs and business closure. Passive investments also help them save for major investments, expansion and innovation. We believe these changes are not in line with the government's innovation agenda and would significantly reduce the ability of business owners in all economic sectors to make important investments in their business. These changes may also lead to instances of double taxation and retroactive taxation for small businesses.

It is also important to note that small business owners do not have access to the generous pensions, benefits and income security offered to many employees, including civil servants, across Canada. They rely on the value of the business, including any passive investments in their business to ensure they have enough resources for their own retirement.

Capital Gains:

Although this tax planning tool is very complex, the proposed changes could affect business value appreciations from the past, as almost a form of retroactive taxation. These changes could also result in the double taxation of some estates, and could make it more difficult for business owners looking to do intergenerational business transfers. We note that your government has opened the door for

feedback on how to allow genuine intergenerational business transfers in the Income Tax Act and encourage you to make this an important priority moving forward. Allowing for intergenerational transfers would be of significant help with succession planning, encouraging businesses to remain in the family and in their community.

Conclusions and Recommendations:

Independent business owners, including professionals, are telling us that these changes have the potential to discourage entrepreneurs from going into business and could hurt employment and growth as business owners look for other ways to offset the added costs to themselves and their business.

The members of our associations are disappointed that the proposals were launched in the dead of summer with a very restrictive time frame. Many leading tax experts are saying that the proposals represent the most significant changes to small business tax provisions they have seen over the course of their career. Canadian entrepreneurs, and their millions of employees, deserve better.

Should there be worrisome abuses of the current tax system, we stand ready to work with the federal government to pursue ways to tighten rules. The current proposals are not the solution and are instead creating unnecessary uncertainty for business owners.

We make the following recommendation:

- **Take these proposals off the table.**
- **Launch meaningful consultations with the business community to address any shortcomings in tax policy without unfairly targeting independent businesses.**

Please do not hesitate to reach out to any of the undersigned groups and sectoral associations should you have any questions or comments about the contents of this letter. We remain committed to working with you.

Sincerely,



Greg Pollock, M.Ed., LL.M.,
C.Dir., CFP
President and CEO, Advocis
The Financial Advisor
Association of Canada



13,000 members



Liz Robertson
Executive Director
Canadian Association of Farm
Advisors



400 members

A.Z.

John Reid
CEO, Canadian Advanced
Technology Alliance




Jac van Beek
CEO
Canadian Association of
Management Consultants



2,500 members

Dr. Michael Dennis, President
Canadian Association of
Optometrists



4,800 members

Dr. Emil Lee, President
Canadian Association of
Radiologists



2,182 members

René J. Basque, Q.C.
President, Canadian Bar
Association



36,000 members

Dan Darling, President
Canadian Cattlemen's
Association



60,000 members

Perrin Beatty
President and Chief Executive
Officer
Canadian Chamber of
Commerce



200,000 members

Michael Atkinson
President
Canadian Construction
Association



20,000 members

Dr. Larry Levin
President
Canadian Dental
Association



Ron Bonnett
President
Canadian Federation of
Agriculture



200,000 members

Dan Kelly
President and CEO
Canadian Federation of
Independent Business



109,000 members

Kevin Lee, Chief Executive
Officer, Canadian Home
Builders' Association



8,500 members

Alvin Keenan,
President
Canadian Horticultural
Council



27,500 members



Keith Costello, BADM, MBA–
Strategy
President & Chief Executive
Officer
Canadian Institute of Financial
Planners



8,000 members



Ralph Suppa, CAE, President
& General Manager
Canadian Institute of
Plumbing and Heating



260 members



Dr. Laurent Marcoux
President
Canadian Medical
Association



85,943 members



Samantha Gale
Executive Director
Canadian Mortgage Brokers
Association



5,000 members



John Ross
Executive Director
Canadian Pork Council



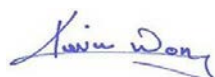
9 association members



Aaron Wudrick, Federal
Director
Canadian Taxpayers
Federation



123,000 supporters



Kevin Wong, CAE, MBA
Executive Director
Canadian Water Quality
Coalition



208 members



James Swan, MD, FRCPC
Coalition of Ontario Doctors



2,450 members



Guy Legault
President
Conference for Advanced Life
Underwriting



670 members



Bill Brushett
President and CEO
Family Enterprise Xchange




Jaye Hooper, Chair of the
Federation of Ontario Law
Associations



8,500 members



Barry Senft
CEO
Grain Farmers of Ontario



28,000 members

Jeff Nielsen
President
Grain Growers of Canada



50,000 members

Nancy Allan
Executive Director
Independent Financial Brokers
of Canada



3,500 members

Richard McKeagan, Chief
Executive Officer
Mechanical Contractors
Association of Canada



900 members

Dr. Cora Pettipas
President
National Exempt Market
Association



400 members

Mark Prieditis, MD, FRCPC
President
Ontario Association of
Radiologists



Ontario Association of Radiologists

1,400 members

Dr. Shawn Whatley,
President
Ontario Medical Association



43,493 members

Shanna Munro
President and CEO
Restaurants Canada



The voice of foodservice | La voix des services alimentaires

30,000 members

Diane J. Brisebois
President & CEO
Retail Council of Canada



Retail Council of Canada

45,000 members