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Department of Finance Canada

Responses can be made to:
Patrick Sullivan
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RE: Tax Planning Using Private Corporations

On behalf of the 1,600 members (83% of which are small businesses) of the Halifax Chamber of Commerce, I write to you to share our concerns regarding the unintentional impacts of the Department of Finance Canada's July 18, 2017 white paper and the proposed changes to private corporation tax policies.

The Federal Government asserts they value the contribution that small businesses and entrepreneurs make to the Canadian economy, however, our members have expressed serious concerns regarding the tone, language and what they see as the unintentional impacts of the paper. While the narrative appears to target those in the professional sector, the reality is the that this will impact the grocer, the electrician and the plumber, programmers, IT and innovation start-ups. The Federal Finance Minister states in the white paper, "Our intention, it bears repeating, is to help businesses grow, create jobs and support their communities." However, we see no evidence of this in the white paper. In addition, through our conversations with small business, we have learned that many have put purchase plans or expansion plans on hold already given the uncertainty around these potential changes, impacting the Halifax economy.

We have had the opportunity to meet with members to discuss the potential tax policy changes. Our members are concerned about:

1. The tone of the document, implying that entrepreneurs avoid paying their fair share of tax;
2. The examples used to compare an employee to an entrepreneur; and
3. The timelines proposed which do not allow for wholesome discussion and for stakeholders to determine the impacts of the proposed changes.

The proposed changes could have significant impacts on Nova Scotia's economy and more specifically small businesses and entrepreneurs within Halifax. From our review, it looks to run counter to the Federal Government's own initiatives to encourage the growth of SME's and reduce red tape. The changes could potentially raise taxes, increase the administrative burden on SME's, harm gender parity and provide negative impacts on family-run businesses.

Impacts to Businesses

1. **The difference between employees and business owners**: Business owners operate in a riskier environment than employees of larger businesses or government employees. They take greater risk in the developments of their businesses and often share these risks with other family members when pledging homes and other personal assets to build their businesses. Unlike most salaried individuals, most do not have health benefits, paid leave (vacation, sick, parental), take advantage of EI or a pension plan. Therefore, we find many of the examples provided by the white paper are poor examples when comparing entrepreneurs to employees who work for organizations.

2. **Investment income**: The proposed legislation on investment income will significantly impact a business's ability to save for expansion and to weather economic downturn. In addition, many entrepreneurs provide capital to other entrepreneurs with innovative ideas. The level of proposed taxation on these funds will result in significant negative economic impacts on small business sustainability and growth.

3. **Gender parity:** Many SMEs have one family member leading the business. This individual normally works far more than a regular 9-5 work week, while in some cases, the other spouse is running the home front as well as supporting the businesses. The changes proposed under income sprinkling could have unintentional impacts on the spouse working at home. We recommend that the proposed taxation changes and potential impacts be viewed through a gender lens. With the ambiguity of the term "reasonable contribution", spousal efforts towards the business could be devalued if the proposed changes are implemented. Certainly, it is well acknowledged, in matrimonial property, that spouses bear the same level of risk in growing a family business.

4. **Comparing entrepreneurs with employees:** The white paper compares the taxes paid by an employee with an entrepreneur. This is an apple to oranges comparison. An entrepreneur bears the risk, stress and rewards that comes along with owning a business. These changes could unintentionally create barriers for entrepreneurs. The same entrepreneurs that are the backbone of the Canadian economy, accounting for some 1.17 million businesses in 2015, of which 97.9% were small businesses.[1]

5. **Reasonable test:** The white paper suggests the introduction of a "reasonableness" test. Our members do not know how this initiative will be interpreted, applied and enforced. Entrepreneurs will end up spending more time on administration instead of growing their business and creating jobs. We recommend a cost benefit analysis be done on this initiative.

6. **Succession planning:** The proposed tax reform will impact family succession planning. Under the current proposal, family businesses may face double taxation if the family business is to be sold or transferred to a family member. With over 70% of businesses expected to change hands in the next decade, tax changes will severely impact the ability for succession to occur or the value of the business. The unintended consequences will be that many small businesses will close when third party purchasers are not available.

7. **No way out:** Although corporations provide their shareholders with many non-tax advantages, many small businesses operate through corporations primarily for the tax benefits provided by the existing rules. With the introduction of the new proposals, these benefits may no longer be available, thus eliminating the need to operate through a corporation. Unfortunately, many business owners will find that it is not so simple to unwind their corporations. Generally, this will result in a taxable event. If the projected tax bill on unwinding a corporation is too onerous, small business owners will find that they are stuck with a corporate structure that no longer works for them. In other words, small business owners are stuck with all the costs of operating a corporation, with none of the benefits.

8. **Social Changes:** The proposed changes would have an impact on communities. Small and large businesses support community identity, local investment, local jobs, entrepreneurship, local selections and the municipal tax base. The changes would hinder a business's ability to focus on these areas, potentially decreasing their opportunity for community investment.

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[1] https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03018.html

Questions that need to be answered before the changes proceed:

- Has an economic impact study been conducted on the proposed changes?
- Has government evaluated the increased burden and cost to small businesses?
- Has government evaluated the increased cost and administration for CRA?
- How will the proposed changes be managed? Some of the language is vague and subject to interpretation. For example, implementing a "reasonableness" test.
- Has the benefit to the Canadian taxpayer been evaluated against the potential job loss and business failures this will result in once these measures are implemented?
- Small businesses are the employer of the middle class. Who will employ the middle class once many small businesses no longer exist? Has the potential ripple economic effect of these proposed changes been considered or evaluated?
- Has consideration been given to the inadequacy of the brief period for invitation for consultation of only 72 days on what are arguably some of the most complex changes in the Income Tax Act since 1972?
- Small businesses will be required to make the Atlantic Growth Strategy a success, a priority of this government. How will this strategy be executed upon if entrepreneurs are discouraged by these recent tax changes?

Nova Scotia is currently the highest taxed province in Canada and with the large amount of red tape facing current and future businesses, the changes to Canada's tax policy could have a significant impact on the Nova Scotia economy. Adding more barriers in a climate ripe with roadblocks could hinder Nova Scotia's ability to support not only Halifax based businesses but those in rural Nova Scotia communities as well. We will be separately asking the provincial government to ask how they plan to compensate for these changes to ensure small business growth when there are less incentives to open or run a small business.

The Halifax Chamber is committed to helping business succeed and we want to ensure that all businesses are treated fairly and equitably and are provided with the right environment to succeed. We hope you take the time to review our questions and comments as we are certain the proposed changes to the current tax policy for private corporations would have a myriad of existential impacts on Canada's economy and Canadians well-being.

We ask you to delay the implementation of the tax changes and undertake meaningful consultations and discussion with the business community to fully consider and understand the impact of the proposed tax changes to small business.

Sincerely,

Patrick Sullivan
President & CEO, Halifax Chamber of Commerce