



## Tax Reform

### Objectives

- Government needs to:
  - Rethink its proposed tax changes to ensure that #ProtectGrowth of small businesses across Canada, and continue to encourage entrepreneurship.
  - Launch meaningful consultations with the business community to review tax policy - without unfairly targeting independent businesses.
  - Consider a comprehensive review of the Canadian tax system with a view toward fairness and simplification for all taxpayers, an increasing competitiveness for all businesses.

### General Messaging

- The tax changes the government has proposed are the most significant tax changes we have seen in 45 years. They have the potential to alter our current tax system in fundamental - and negative - ways.
- We cannot be constantly changing the rules of the game, so government only has one shot at this. They need to get this right by having a more comprehensive consultation that includes business. The short 75-day consultation period started in the middle of summer, the limited information and the controlled access to roundtables currently in place are not enough.
- These tax changes will affect all private business owners, regardless of their level of income, size of business or conformity with fiscal rules. Many - if not most - business owners will end up paying higher overall tax in the future if these proposals go ahead, sometimes even paying higher rates of taxation than other Canadians at the same income level. This has been confirmed by accounting professionals across Canada.
- If the government is concerned with the growing number of Canadian Controlled Private Corporations (CCPCs), and are trying to ensure the delinquent business owners pay their fair share of taxes, they should be looking at targeted measures, not the broad, sweeping changes they have proposed.

- Many small business owners have indicated that if these rules pass in their current form, they will shut down their business, and turn to full time employment or move their business out of Canada. This could result in significant job losses, in addition to leaving Canada lagging behind other countries in terms of small business ownership statistics.

## Arguments

Argument	Rebuttal
<p>These changes are about ensuring tax fairness and making business owners pay their fair share of taxes.</p>	<ul style="list-style-type: none"> <li>• An overwhelming majority of SME owners are proud, tax-paying Canadians who support their communities and aim to create jobs;</li> <li>• It isn't "fair" to target them, and certainly isn't fair to put in place measures that could cost SME employees their jobs.</li> <li>• If there are delinquent individuals that use shell corporations to avoid taxes, let's put in place specific measures to target them. The government is using a bazooka where they should be using a scalpel.</li> <li>• Better yet, let's have a full, comprehensive review of the tax system through a thorough consultation that would involve the business community.</li> </ul>
<p>Income sprinkling allows business owners to pay family members a salary or dividends, allowing them to pay less taxes.</p>	<ul style="list-style-type: none"> <li>• SMEs are often family-run, involving spouses and kids contributing in one way or another.</li> <li>• There are many formal and informal ways family members in businesses play critical roles in contributing to the success of the business.</li> <li>• How will the government ever measure reasonableness of family involvement in the business? This will only lead to a sharp increase in audits and disputes.</li> </ul>
<p>These measures will still allow SME owners to sell their businesses and make</p>	<ul style="list-style-type: none"> <li>• There is concern that long-standing family businesses may be forced to sell the business to non-family members in order to decrease the ultimate tax bill on transition.</li> </ul>

<p>significant profit out of that sale.</p>	<ul style="list-style-type: none"> <li>• Many business owners will therefore turn to non-family, and sometimes even foreign, buyers for their SMEs when comes time to sell, instead of keeping the business in the family for another generation.</li> </ul>
<p>Business owners will still be able to save for retirement through measures such as RRSP, TFSA, etc.</p>	<ul style="list-style-type: none"> <li>• By removing income from inside the business and placing it in a RRSP, business owners are locking it away, and will not have access to this money (without paying heavy penalties) if there is a shortfall or a requirement to inject capital in the business;</li> </ul>
<p>This money is just being squirreled away and needs to circulate in the economy.</p> <p>The changes will not affect job creation or innovation because it redirects the tax advantage to active investment, instead of channeling funds into passive investments.</p>	<ul style="list-style-type: none"> <li>• There are several reasons why a business owner would choose to, or be required to, retain business earnings in the corporation: <ul style="list-style-type: none"> <li>i) Debt arrangements that require base amounts to stay in the business;</li> <li>ii) Going through “dry” stretches and having a cushion to use;</li> <li>iii) Investing in other businesses;</li> <li>iv) Saving up for large investments.</li> </ul> </li> <li>• Not all of this is active investment, some of it is passive and runs through long periods of inactivity, since it could be required for major investments or an unplanned crisis.</li> </ul>
<p>Stats Can shows majority of small business owners own less than \$150,000. Those earning less than \$150,000 should not be noticeably affected by these changes.</p>	<ul style="list-style-type: none"> <li>• Tax and accounting professionals have calculated that virtually all SME owners, regardless of size of business, will be affected by one of the three measures.</li> </ul>
<p>Government needs to close these unjust tax loopholes.</p>	<ul style="list-style-type: none"> <li>• These are not loopholes, they are a tax system designed to encourage entrepreneurship and help small businesses grow;</li> <li>• Altering these measures will have significant impact on SMEs, and many owners are already</li> </ul>

	<p>looking at shutting down their business or moving it away.</p> <ul style="list-style-type: none"><li>• The Chamber's objective is to protect the growth capability of our small businesses;</li><li>• If we are looking at improving the tax system, let's have a full, comprehensive review involving a thorough consultation that would include the business community.</li></ul>
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