



October 2, 2017

The Honourable William Morneau, P.C, M.P.  
Minister of Finance  
Finance Canada  
90 Elgin St  
Ottawa ON K1A 0G5

Dear Minister Morneau,

We write today pursuant to your July 18 announcement of consultations on changes to tax planning using Canadian-controlled private corporations (CCPCs).

As Canada's largest taxpayer advocacy group, with over 137,000 supporters across Canada, we asked for and received detailed and specific feedback from thousands of our supporters. What we found were near-unanimous concerns about your proposed changes, and a palpable fear that if your government proceeds with these measures, it will result in great harm to small businesses and eliminate important incentives that are key to encouraging entrepreneurship and risk-taking. Even worse, small business owners who are decidedly middle-class are feeling targeted and vilified by a government which insists it has the interests of the middle-class at heart.

We applaud your government's focus on fairness and simplification. There is no question that all Canadians have a clear interest in a tax system which treats all Canadians fairly, and the CTF has long been a critic of Canada's sclerotic tax code, and urged successive governments to simplify it.

That said, we believe that you must tread carefully in proposing changes that could have a dramatic impact on incentives, especially as they relate to entrepreneurs and other small business owners. What is "fair" is highly subjective and we believe it is on this front that the current proposals miss the mark. Rather than simplifying the tax code, these measures would further complicate it; and instead of addressing the fundamental causes incentivizing use of CCPC tax planning, these proposals leave them untouched.

The government argues that many Canadian businesses are availing themselves of the lower tax rate on passive investments for purposes other than to reinvest in their business. It argues this is unfair because Canadians who do not have CCPCs cannot also avail themselves of this vehicle. But there are strong policy reasons to treat income earned by entrepreneurs differently than salaried employees. Entrepreneurs are job creators. They take substantial risks and receive no guaranteed salary. They must cover their own medical and dental costs. They must pay for any insurance their business requires. They have no paid holidays, and no paid sick days. They are

exposed to the fickleness of economic cycles entirely beyond their control. And they receive no guaranteed pension.

The net result of the government's proposed changes would be a substantially higher tax burden on thousands of Canadian businesses. There is simply no getting around this. The government cannot credibly claim that such a substantial increase in the effective tax burden will not decrease the incentives for Canadians to undertake the costs and risks of running small businesses.

We have also long opposed changes to the tax code which are simply tax hikes in disguise. If the government's objective is truly about "levelling the playing field" rather than simply attempting to extract additional revenue out of Canadian taxpayers, it would be important to demonstrate this by making corollary changes to the tax code which would ensure that any such changes are revenue neutral or negative. Such changes could include reducing personal income tax rates or increasing the basic personal amount. The government has until this point been completely silent on such additional measures, and it is imperative that they be included in the discussion in order for stakeholders to properly weight the trade-offs.

Your government leaves the unfortunate impression that it wants to have it both ways when it comes to incentives. It forces profitable businesses to subsidize failing ones through ill-advised corporate welfare handouts. It cancelled a promised reduction in the small business tax rate. It hit employers with a payroll tax in the form of higher CPP premiums. It should therefore come as no surprise that businesses are increasingly moved to avoid a rising tax burden. Simply put, the government cannot squeeze entrepreneurs and job creators indefinitely and expect no behavioural response.

There are several areas your government must clarify including:

- The basic unit of taxation. The Canadian tax system generally treats the individual income as the relevant unit for taxation, but many tax measures such as pension splitting for seniors and the recently-introduced means-tested Canada Child Benefit instead use household income as the relevant measure. This inconsistency causes great policy confusion and unfairness.
- What provisions will be taken to ensure that intergenerational transfer of businesses do not trigger punitive levels of taxation.
- How these changes will impact the relative competitiveness of CCPCs as compared to foreign-controlled private corporations and public corporations.
- The ways in which the government will return any new revenue to Canadians in the form of broad based tax relief.

Finally, the timing and speed with which your government is proposing to move forward with these changes is troubling. The change to the tax treatment of passive investments in particular represents a fundamental change to the tax code not seen since the early 1970s, which was itself a product of the 1966 Royal Commission on Taxation (aka the Carter Commission) – a process which took several years to complete.

Accordingly, the CTF calls upon your government to:

- Establish a Royal Commission on Tax Reform to undertake a comprehensive review of the tax code; and
- Release the results of the tax expenditure review commissioned by the government in Budget 2016, to provide all Canadians with a more complete picture of the costs associated with the various complexities of the tax code.

We attach for your reference a representative selection of responses made by CTF supporters who will be impacted by these changes. As you will see, their concerns are serious and deserve your thorough consideration.

Kind regards,

Aaron Wudrick  
Federal Director

Good Morning,

Perhaps changing how the government defines small business will provide some form of taxation flexibility. 1-99 employees is a huge range.

Our residential construction company employs 7 people, of which my wife and I are 2. We build and renovate homes in the Shuswap where activity can range anywhere from \$1.5M to \$5M with net profits ranging in the -% to 7% range. Average sales, when we aren't seeing a global crash, oil issues in Alberta or uncertainty with provincial government politics, or let's not forget the HST debacle, could be considered around the \$3M mark due to the Shuswap's cyclical nature (small population dependent on Alberta and Vancouver retirees). Breakeven for us is in the low to mid 2M's. Jimmy Pattison and I are not doing lunch!

Our business supports several families. During a downturn, our goal is to ensure their employment. This means dipping into saved profits, when there are some, or using our lines of credit, both business and personal. I bristle at the implication by the Federal government that we somehow are taking advantage of our tax system, especially when, as owners, my wife and myself do not have access to some of the public's safeguards, such as employment insurance or government indexed pensions. It's challenging enough finding profits. It's a greater challenge saving them.

I am angry that our government wants to not only tax them at the same "public" rate, but also force us to incur further expense by having to pay interest on lines of credit when we can't keep profits invested within the company or not allow income splitting. It used to seem fair when government employees received a modest wage in return for employment consistency and protection knowing their compensation would come in the form of an indexed pension at retirement. As taxpayers, we seem to be paying for both now when, as business owners, neither is secured. Other than having some form of "independence" or "fulfillment of personal goals", why be in business if there cannot be a reasonable expectation of profit?

Perhaps we should be dividing small business by # of employees and/or revenues or those controlled by a formal board of directors? Or providing a support network through taxation or other means for the first 10 years of business incubation? Or allowing us to retain earnings in the company, make a small amount of tax free interest on same, and be able draw on same at a fair rate of tax when we retire and may not be in a position to find buyers for our businesses.

Other than my email, this is the first time I have responded to our governments proposals. I am angry and frustrated. If small business is the engine of the economy, our government is certainly doing a good job draining our gas tank and gumming up our carburetor while at the same time adding another toll for the road our vehicle operates on!

<name withheld upon request>

## A Case Study In Taxing Environment

We are a 50 year old business employing 18 full time and 1 part time employees. Last year for our March 31 fiscal year end we had a profitable year. Good profit sharing was paid out to staff and modest compensation for myself and two family members. Let's have a look at who makes what:

Sales of just over \$5,000,000.

COG - \$2.6 mil (Only two of our suppliers get as much as the government does)

Executive pay from the company - \$157,895 (three people).

Taxes over this time:

217975.	HST Remitted
14872	workers comp
36386	CPP
17318	EI
61000	Corp Tax
27485	municipal taxes
<b>\$375,037</b>	<b>TOTAL TAXATION FOR YEAR</b>

Not including in this are fees for landfill use, road taxes including licensing and CVOR, and other various fees and surcharges. This also does not include our donations to things like hospitals and arenas (that are underfunded by the current governments).

### **Net Profit for the year: \$318, 841**

If I wanted to get this money out of the business I would have to pay dividends tax rate, so more for the government.

Now our government, with "Prince John" Munroe, pretending to be Robin Hood, thinks that isn't fair?

And this was a profitable year. The last time I did this exercise was in 1990 at the time of GST entry. In that year, we collected over \$300,000 in taxes that year and lost \$30,000. We paid the government \$30,000 for the privilege of operating a business in Ontario and Canada.

I am especially concerned about taxing investments with corporations as we do not use a bank line of credit, but try to keep ample cash flow within the company so that we are not beholden to financial institutions trying to tell us how to run our businesses.

Small businesses pay the country's bills; don't kill us with **your** uncontrolled spending.

Sincerely

<name withheld upon request>

Dear Honorable Carla Qualtrough,

On July 18, 2017, Federal Finance Minister Bill Morneau released a policy paper announcing a series of broad proposals that impact private corporations and their shareholders.

These proposals come on the heels of recent changes that introduced a new top federal personal tax rate of 33% for income earners above \$200,000 and various restrictions on the use of the small business deductions. As a private business owner, my unequivocal message to you is that these tax measures are ill-conceived, heavy-handed, and will surely have unintended consequences. Ultimately, and most importantly, the proposal is harmful to families who assume the risk of running businesses in Canada.

This legislation assumes it is necessary to level the playing field by specifically taxing self-employed professionals and business owners at much higher rates, even though they take the highest risks within society in terms of their work and establishing their enterprises.

- We are individuals who employ almost 50% of the Canadian workforce, yet typically have no guaranteed income, pension, or employment insurance.
- We are entrepreneurs with no private health plan (medications, dental, other health professional services, etc.) and rely on profits to pay for our own care.
- Being self-employed, we are not afforded vacation days or sick time, including maternity benefits – when we are away from our businesses, we earn no income.
- We are families who pour our savings into our businesses and often must personally guarantee any debt related to our company or profession – this puts us at a saving disadvantage from Day One versus our salaried peers.

We rely on tax planning strategies to secure the lives of our families, support the livelihoods of our employees, and contribute to our country's economic health. Neither the politicians who have proposed these rules, nor the officials in the Department of Finance that drafted them, face these risks. We do not have defined pensions that accumulate tax free; in fact, our tax rates would increase. We also stand to lose opportunities afforded to civil servants, such as income splitting.

Moreover, in choosing to cover all private corporations, these proposals do not actually target the wealthy. Any middle-class entrepreneur who carries on business through a private corporation will be impacted by these changes. This legislates against the backbone of Canada's economy, without considering whether they are actually high-income earners – we are not all CEOs of major corporations (who are, by the way, salaried employees).

At its core, the issue is the difference in risk that an entrepreneur takes versus an employee in a company (large or small) or within the government. Considering the burden business owners take on, the tax system should be designed to reward said risk, because it creates jobs, growth, and supports a system that allows for transfer of business to the next generation.

As a citizen, constituent, and entrepreneur, I implore you to take a stand in Ottawa: do not allow the Federal Finance Minister to enact changes that unfairly tip the scales against me and fellow business owners across Canada. Two generations ago, The Carter Committee was given four years to develop a new tax framework for Canada and the then-Liberal government took another five years to finalize reasonable legislation. This government has allotted 75 days of consultation.

Please take your time and consider the full ramifications of what is being proposed. There is an opportunity to create tax fairness for all Canadians. As written, however, what the Federal Finance Minister has put forward falls well short of that goal. Additional, it is very likely that charitable organizations will be hurt by this legislation. I certainly will not have as many funds available to support the charities I have supported in the past.

Sincerely,  
Wayne Peace, Delta, B.C.

I'm writing to you with respect to proposed Tax changes that the Government has tabled for discussion.

This legislation assumes it is necessary to level the playing field by specifically taxing self-employed professionals and business owners at much higher rates even though they take the highest risks within society in terms of their work and establishing their enterprises. They also employ almost 50% of the Canadian workforce. This group of individuals typically has no guaranteed income, tenure, pensions, or employment insurance (including maternity leave benefits), and often personally guarantees any debt related to their business or profession. Neither the politicians who have proposed these rules, nor the officials in the Department of Finance that drafted them, face these risks.

Parts of the proposed changes contemplate taxing passive investment income (which small business owners hold for retirement) at rates as high as 70%. Clearly a confiscatory policy.

It is my view the changes proposed will be very disruptive to small business and will lead to major increased legal and accounting costs to these businesses as they try and re-organize their affairs to minimize the proposed tax costs. It should be the goal of Government to simplify the tax system, not make it more complicated which the proposed changes are bound to do.

**Robert C. Levine**

I own a small business that employs 5 people, I often go without a pay cheque when economy is down and I contribute to my own pension plan and I will never draw unemployment benefits. The only benefits I have are the ones I can utilize legally as a small business such as taking income as dividends To save a bit of tax and I consider that is a small repayment of the risks I take to run a small business and create employment in the private sector. Please do not amend this ruling it's the main drive behind the benefits of small business ownership which is the backbone of this country.  
Sincerely  
<name withheld upon request>  
Calgary

Thank you for listening to input regarding the proposed changes to the small business tax rules.

My wife and I were involved in a small business for most of our lives.

Running the business was complex enough, however navigating through the complex tax system was a nightmare. We soon realized we needed professional (and expensive) help. It didn't take long to realize our highest costs were payroll and taxes.

As a small business, we risked everything, putting up all of our assets including our home. Some years were good, others not so good, however we always made payroll and always paid our taxes.

The only retirement safety net was the hope that, if the business was successful, it someday could be sold to provide retirement funds.

Most profits were reinvested in the company or used to pay off debt. Any profits that were paid out were claimed at the full personal rate.

An interesting note is that all payroll taxes, including the Manitoba payroll tax had to be paid regardless of whether the business was profitable!

It seems this action is going after small business. The language used, paints all small business owners as villains. This country was built by small business and entrepreneurs. We, like many others risked it all, provided jobs, security and a future for dozens of families, not to mention the donations and support of our community.

While many public servants have the security of a job, pay check, and secure retirement plans, small business owners do not.

It is frustrating to listen to the rhetoric about small businesses "not paying their fair share" while at the same time watching civil servants pulling down six figure salaries, and retiring with a golden pension plan, while they have never taken that risk.

If you truly care about our country's future, you should be encouraging entrepreneurs, showing them that you appreciate the risk they take, and that you will create an environment that that they can succeed and prosper. Not only that, but reassure them that they will not be penalized for being successful.

There are many ways to reduce government waste. There are also many questionable "charitable" or "private foundations" that pay no taxes. Why not audit & close those loopholes? Many of those entities spend the bulk of their money on administrative costs or political lobbying, yet governments never accuse them of not paying "their fair share".

Please leave small businesses alone, they will create jobs and wealth. Better yet, look for ways to reduce the burden of taxes, fees, levees, and red tape, then watch people respond!

Your attack on this sector is not encouraging growth, it only divides Canadians. Creating a small business was once a sense of pride.

With this "tax the rich" rhetoric, people are led to believe that business owners are tax evading criminals who are not paying their fair share.

I sincerely hope this does not fall on deaf ears

Thank you

<name withheld upon request>

To the Minister of Finance, Mr. Morneau.

Last year's income tax changes affected me, as a business owner, negatively as it will result in less working capital for the operating businesses. These proposed changes seem to take this one step further and will tax me yet more as I approach retirement and if I am fortunate enough to sell my business interests. Specifically, I have left money in my holding company in case the operating company needs more capital. Our recent business cycle (we operate in the petroleum sector) proved the value of having our own cash available as sales dropped over 80% and have not yet recovered to even 40% of the pre-crash volumes. In our effort to keep our employees and stay in business we burned through a lot of cash. In such a situation, one can not expect a responsible lender to advance funds. Last year's tax changes massively increased the tax payable on money I take out in future (being in Alberta we are hit with large tax increase personally and corporately, provincially and federally) and this proposed tax increase will make this even worse - it feels like I am being punished for prudent money management. Instead of taking money out, our practice has been to leave most of the earnings in the company for its security and to finance growth. Does that not benefit our general economy? Please do not proceed with the proposed changes.

Regards,  
Werner Harder

PS - Our businesses employ about 175 people in Alberta and BC, with an annual payroll over \$10,000,000. While this is significantly lower than before the crash, we are grateful that we have been able to preserve these jobs.

I am a small business owner that currently is renting space for an office with myself and four staff members. I have plans to purchase a permanent office location for my business, however I require 25% down. The cost for the unfurnished space is \$1.3 Million. This means I have to save \$325,000 in cash before I can build it. I have been saving for 2 years, and currently have about \$130,000 saved up for it. At this pace, it will take at least another 3 years, which is longer than my lease currently is and so have to do something soon. I've started investing the money in order to make it grow faster so we can get a location.

Since my lease will be up before I have enough for a deposit, my wife and I will likely have to take out a 2nd mortgage on our house in order to acquire the building, yet she is not active in the business. Neither of us aren't even close to the top tier of income tax brackets personally. She has unrelated employment income of around \$95,000 and I pull out \$106,000 in dividends from my business for our living costs (about \$125,000 taxable income). We have two children, aged 9 and 7 whom we contribute to their RESPs \$2,500 a year each. I have less than \$50,000 in RRSPs, as all my money has gone back into my business and to my kids' future.

I have no pension, no benefits, no extended health care coverage, no WCB (my industry is exempt), and did I mention, nominal RRSPs? My entire life has been devoted to my business and acquiring a permanent location. My retirement fund is my business and the building I intend to have it in.

Now this legislation wants my wife to sign off on debt for our matrimonial home to invest in our business, but tax her at the highest marginal rate on any income we allocate to her (those making more than \$300,000) when our household does not even make that much combined???

What happens when I die? The business and building I built will now be taxed as capital gains (from my shares) on my death, AND dividends at the highest tax rate to my estate (or wife and kids) when they pull out the value? All of this work, risk, and effort, just so my wife and children have nothing when I die???. They won't have any death benefit and they won't get any RRSPs from my passing.

The 1% don't get hurt by this legislation. Those with extremely high incomes are mobile (see Calgary Flames owner that moved to UK). They will just move to a different tax jurisdiction and pay tax somewhere else. Small business owners are the ones they are hurting the most.

If this legislation goes through, I will be looking to sell my business and walk away (even though it is likely no one will buy it), as there will no longer be any point in what I am doing.

If you really want to go after "loopholes" ... just reduce the small business deduction back to the original \$200,000. Anyone trying to multiply it by being creative, won't see an advantage of doing so from a cost perspective. Information from Statistics Canada shows that 67% of small business owners earn less than \$73,000. <http://www.cfib-fcei.ca/english/article/8343-canada-s-small-business-owners-are-four-times-more-likely-to-be-low-income-than-rich.html>

Why are you targeting small businesses and families with this legislation?

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Cory G. Litzenberger  
Red Deer AB