STOP THE HARMFUL TAX CHANGES ON PRIVATE CORPORATIONS

Issue

On July 18, 2017, Finance Canada launched a consultation on proposals to stop “tax-planning strategies involving corporations which are being used to gain unfair tax advantages.” These changes will have a significant impact, raising taxes and increasing the administrative burden on thousands of businesses across Canada. The following policy will lay out several of the primary issues these proposed changes will create and outlines a recommendation for moving forward.

Background

First and foremost, it is very unfortunate that the federal government has chosen to position this in terms of “fairness” and “loopholes.” The tax strategies being followed date back to the 1960s and have been refined and tested over many decades. The federal government has engaged in rhetoric that divides the country, directly stating that small business owners do not “contribute” to the wellbeing of the country and implying poor character on their part if they employ tax planning strategies that were established many years ago, to encourage the growth and sustainability of innovation and entrepreneurship and to compensate small business owners for the higher level of risk they undertake in their venture, compared to that of an employee.

In consultation with the business community as well as tax professionals across the country, the following issues have been raised:

- First and foremost, the “employment” of family members of small business owners is hardly comparable to that of a standard employee. The roles and responsibilities are dynamic and vary dramatically with the stage of the business, time or year, skill set of the owner/operator, etc. The number that CRA deems to be a “reasonable” level of compensation for a specific role may not be reasonable given the demands on the individual’s time and capacity, and certainly do not take into effect the risk that the family is taking on, frequently having to pledge jointly owned assets to support the growth of the business.
- There is no established standard by which this “reasonable” test will be measured. In many cases, it will come down to the specific CRA employee who is reviewing a file. In areas such as taxation, clarity and consistency are essential. This subjective approach will lead to inconsistency, disputes, and excessive levels of appeals that will tie up valuable resources, both on the part of the business as well as with the CRA.
- The tax deferral on portfolio investment inside a corporate is essential to the health and growth of businesses. We have been told by many business owners that this “rainy day fund” was what saved their businesses and their personal assets when they went through the inevitable downturn or has allowed them to make large capital investments to grow their business.
- In addition, this taxation on portfolio investment will result in a significant hit to those business owners who have already retired, with the intent of living off these funds for their retirement. To raise the tax to the level proposed by the government will, in many

cases, cut retired business owner’s income in half, putting their carefully planned retirement situation in jeopardy.

- We also note, with interest, that the proposed changes to taxation on portfolio investment only apply to privately owned corporations and do not extend to those publicly traded.
- Finally, the changes to tax planning strategies on capital gains is detrimental to those looking to sell their business, particularly to pass it along to their children. With an aging population, it is a well-established fact that a substantial wealth transfer is taking place, with many business owners actively pursuing exit strategies. The Chamber is also well aware that acquisition of these businesses is a substantial challenge for a number of reasons, but certainly due to challenges in accessing capital to acquire the business. Family based succession planning is one of the more obvious solutions to this issue, yet it seems to be the strategy specifically targeted by the federal government in the contemplated changes with a doubling of taxes in the even to transfer to children.

THE CHAMBER RECOMMENDS

That the Federal Government:

1. Set aside the current proposals in order to allow for meaningful and fulsome consultation;
2. Implement a non-partisan tax commission to review the current tax policy, desired outcomes, and strategies to arrive at a greater level of fairness and competitiveness.

Submitted by the Kamloops Chamber of Commerce

Supported by Campbell River Chamber of Commerce, Chetwynd Chamber of Commerce, Cowichan Lake & District Chamber of Commerce, Cranbrook Chamber of Commerce, Dawson Creek & District Chamber of Commerce, Fort Nelson & District Chamber of Commerce, Greater Nanaimo Chamber of Commerce, Greater Vancouver Board of Trade, Greater Victoria Chamber of Commerce, Greater Westside Board of Trade, Houston & District Chamber of Commerce, Kelowna Chamber of Commerce, Nelson & District Chamber of Commerce, Prince Rupert & District Chamber of Commerce, Quesnel & District Chamber of Commerce, Surrey Board of Trade, Trail & District Chamber of Commerce, Tri-Cities Chamber of Commerce, WestShore Chamber of Commerce