



**North Bay & District
Chamber of Commerce**

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September 29, 2017

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

Via email: fin.consultation.fin@canada.ca

Re: Tax Planning Using Private Corporations – Consultation Process Submission

Dear Minister Morneau,

First, we give consent to the disclosure of our submission in whole regarding the consultation for tax planning using private corporations.

While many of the public are thinking in terms of large corporations, doctors, lawyers, and accountants as the context of your recent proposed tax changes, the North Bay & District Chamber of Commerce represents over 850 small businesses in our area and there is great concern among many of these small businesses that are also incorporated.

We take great exception to these hard-working individuals and their families being viewed as paying less than their fair share of taxes. As you are well aware, the Canadian economy is made up of 85% to 90% of SMEs; the economic engine of the country.

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.

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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. In fact, many of our accounting professionals locally have provided sessions for our members to discuss the proposed changes; and quite frankly, many are very disenchanted with the government’s short process, and down right concerned for their business if these changes go through as proposed.

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.

The government keeps referring to its intention to shut down “tax loopholes” for the wealthiest Canadians. These are not tax loopholes. Tax planning occurs based on current tax legislation and case law. Moreover, the structures that the government is proposing to change (income splitting, passive income for example) are not limited to the wealthiest taxpayers but are used by middle class business owners.

Those affected by these tax changes will lose important incentives to take the risk they take as business owners. Many middle-class business owners are affected. They are the entrepreneurs who put mortgages on their homes to finance their business and have other family members sign guarantees as collateral security for business loans. These are the business owners who take risks to create jobs for others in the community. Much of the proposed legislation is based on equating business owners with employees. Nothing could be further from the truth. Small business owners take far more risk, more responsibility in meeting payroll, and invest far more time and effort in their businesses than employees, and do so without the same level of benefits or pension entitlement afforded to employees.

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Our concerns include what the “reasonableness test” would look like. There are no details to ensure reasonableness. Many companies have many scenarios and as such one size fits all for this type of testing may not be appropriate.

We’ve already seen struggles with succession planning in small businesses over the past 10 years as baby-boomers seek to retire. The proposed changes in capital gains and passive investment will absolutely preclude any family member of the business owner to even consider taking over the company. Why would anyone want to even start a business under these conditions?

These small businesses that bring jobs, pay employees, and reinvest in their companies, should have every right to the current taxation as a corporation, as they are the ones risking their own assets, taking a “pay cheque” only if they are in good times, have no paid holidays or sick days, no employment insurance if there is a problem, invest in the company as technology changes or to even consider expansion and essentially are saving a little for retirement in the end.

What we do agree with is minors who have no real assets in the company, or no active engagement in the company’s activities, should not be allowed the tax benefit as it currently stands. On the other hand, if family members and more specifically the spouse of the owner, whom may or may not have an active role but rely solely on the owner for support, they should be able to share in the benefits, just as they would share in the failures if something should happen to the company.

At the end of the day, the consultation is flawed. At the end of the day, while unintended, the consequences of these proposed changes will affect our small business owners in North Bay and area; not withstanding across Canada.

This is about economics. What the government will do here is stifle entrepreneurs who have been the backbone of Canada's growth and prevent further investment in their companies.

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We respectfully ask that you take a step back and not only listen to the business community, but HEAR what they are saying. Rethink your government's proposed tax changes to ensure that no harm is done to small businesses. Launch meaningful consultations with the business community to address any shortcomings in tax policy without unfairly targeting independent businesses. Finally, consider a comprehensive review of the Canadian tax system with a view toward fairness and simplification for all taxpayers, which was recommended by the Standing Committee on Finance in their report dated December 2016.

Sincerely,

**NORTH BAY AND DISTRICT
CHAMBER OF COMMERCE**

A handwritten signature in black ink, appearing to read 'P. Chirico', with a stylized flourish at the end.

Peter Chirico
President and CEO

cc: MP Anthony Rota – Nipissing Timiskaming