SAINT JOHN REGION
THE CHAMBER
CHAMPIONS FOR BUSINESS

August 15, 2017

TO: Members of Parliament Wayne Long, Alaina Lockart, Karen Ludwig

RE: Tax Planning Using Private Corporations

On behalf of the members of the Saint John Region Chamber of Commerce, we write you to share our grave concerns regarding the unintended impacts of the Department of Finance Canada's July 18, 2017 white paper regarding proposed changes to how private corporations are taxed.

The Federal Government asserts they value the contribution that small businesses and entrepreneurs make to the Canadian economy. However, our members believe the tone and language in the recent white paper portrays a different point of view.

We have heard from many of our members and they take offense to:
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. Not allowing time for wholesome discussion and for stakeholders to determine the impacts of the proposed changes.

The proposed changes could have significant impacts on New Brunswick businesses: potentially raising taxes, increasing the administrative burden on SMEs, heightening the impact on family-run businesses and harming gender parity.

Areas of concern:

1. Gender parity: Many SMEs have one family member leading the business. This individual normally works more than a regular 9-5 work week, with a spouse running the home front as well as supporting the businesses. The changes proposed under the income sprinkling could have unintentional impacts on the spouse working at home, which in some cases are women. 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.

2. Comparing entrepreneurs with employees: On page 13 of the white paper it compares the taxes paid by an employee with an entrepreneur. Business takes offense to this example as it compares apples to oranges. Examples such as this pit employees against entrepreneurs. 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 business.

3. Reasonable test: On page 24 of the white paper it suggests the introduction of a "reasonableness" test. We have questions about how this initiative will be interpreted, applied and enforced. We fear that 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.

4. Succession planning: The proposed tax reform is attacking family succession planning. Under the current proposal family businesses will face double taxation if the family business is to be sold or transferred to a family

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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. The unintended consequences will be that many small businesses will close if third party purchasers are not available.

5. Investment income: The proposed legislation on investment income will significantly impact a business ability to save for expansion and to weather economic downturn. Many entrepreneurs provide capital for fellow entrepreneurs with new ideas. The extreme punitive proposed taxation on these funds will result in significant economic impacts on small business sustainability and growth.

We have questions:

- 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 short period of time 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 a key component for the success of the Atlantic Growth Strategy, which we understand to be a priority of for this government. How will this strategy be executed upon if entrepreneurs are discouraged by these recent tax changes?

We are committed to helping business succeed and want to ensure that all businesses are treated fairly and equitably and are provided with the right environment to succeed. By legislating the above proposed taxation changes the government is using a sledgehammer to crack a nut which in the process will harm many unintended.

We look forward to meeting with you on August 30 to discuss the above concerns.

Sincerely,

Claire Ryan	David Duplisea
Chair	CEO

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