



September 5, 2017

The Honourable Karina Gould
Minister of Democratic Institutions
Member of Parliament for Burlington
777 Guelph Line, Suite 209
Burlington, ON L7R 3N2

Subject: Proposed Tax Changes Will Hurt Small Business

Dear Ms. Gould:

I am writing to express the Burlington Chamber of Commerce's objection to the government's proposed changes to the tax system.

The Burlington Chamber of Commerce has received several questions and comments about the government's proposed tax changes. Many of our members are very concerned about the impact the plan could have on their businesses.

We are writing to express our concern with proposed changes to the tax treatment of privately held corporations. We strongly believe these changes will have very negative impacts on the ability of independent businesses to survive in challenging times, help finance growth, innovation and job creation, and encourage and support entrepreneurial families. These are not minor amendments, but are sweeping changes that will affect all sectors of Canada's business community and we ask **that your government not move forward with these proposals. Instead, we stand ready to meet with you to offer our support and ideas for measures to address any shortcomings in tax policy affecting private corporations.**

Background:

While your government has suggested these changes are targeted to close tax loopholes aimed at the wealthy, they will affect the majority of business owners who are firmly in the middle class. Data collected from Statistics Canada and other official government sources show that two thirds of small business owners earn less than \$73,000 per year and half of those earn less than \$33,000. These proposals will also make an already complex Income Tax Act even more difficult to interpret and understand. As such, the government will not achieve its goal of simplifying the Act, but will, instead, increase the challenge for CRA auditors to correctly interpret the rules. These proposals will lead to a significant increase in business uncertainty for independent business owners who already find CRA compliance a significant undertaking. In addition, if the goal of the government is to ensure fairness for the middle class, we question why publicly held corporations are completely exempt from the discussion.



While we respect the need for integration in tax policy, we believe this is already in place and these changes would, instead, unfairly increase the burden of middle income independent business owners to levels higher than those affecting other taxpayers. Our members, including many professionals, feel unfairly targeted, intentionally or not, by the changes and painted as “tax cheats” by the federal government simply for accessing tax planning tools that they have been encouraged to use for decades. Many of these policies were put in place by previous Liberal and Conservative governments in order to support the growth of independent business and reflect the disproportionate burden they face in complying with regulations and accessing financing.

The changes are coming at a time when business owners are already facing a myriad of additional costs, including Canada Pension Plan and Employment Insurance premium increases for the next several years, as well as new provincial policies around carbon pricing and labour reforms. Creating additional business tax uncertainty is particularly unwelcome at a time when lower commodity prices and NAFTA negotiations are already causing stress among Canada’s entrepreneurs.

Income Sprinkling:

The proposed changes demonstrate a lack of understanding on the part of the government on how independent business truly functions. When an entrepreneur opens a business, her or his family is often deeply involved in either formal or informal ways. The comparison of an entrepreneur with a salaried employee is completely inappropriate. Many business owners not only use their family homes as collateral against loans taken to support the business, they also do not have access to safeguards such as employment insurance for job security. When the spouse or children are also involved in the business, the risk is exponentially larger as the entire family runs the risk of losing any means by which to support themselves.

Passive Income in a Corporation:

There are many important reasons why businesses may need passive investments. These types of investments serve as insurance against emergencies and unforeseen costs. The proposed change will limit certain forms of saving in the business, making the firm more vulnerable in bad economic times. In recent years, many business owners have had to cope with an unsteady economy, often depending on other investments as important means to help avoid layoffs and business closure. Passive investments also help them save for major investments, expansion and innovation. We believe these changes are not in line with the government’s innovation agenda and would significantly reduce the ability of business owners in all economic sectors to make important investments in their business. These changes many also lead to instances of double taxation and retroactive taxation for small businesses.

It is also important to note that small business owners do not have access to the generous pensions, benefits and income security offered to many employees, including civil servants, across Canada. They rely on the value of the business, including any passive investments in their business to ensure they have enough resources for their own retirement.

Conclusions and Recommendations:

Independent business owners, including professionals, are telling us that these changes have the potential to discourage entrepreneurs from going into business and could hurt employment and growth as business owners look for other ways to offset the added costs to themselves and their business.

Should there be worrisome abuses of the current tax system, we are ready to work with the federal government to pursue ways to tighten rules. The current proposals are not the solution and are, instead, creating unnecessary uncertainty for business owners.

We make the following recommendations:

- **Take these proposals off the table.**
- **Launch meaningful consultations with the business community to address any shortcomings in tax policy without unfairly targeting independent businesses.**

Please do not hesitate to reach out to the Burlington Chamber of Commerce should you have any questions or comments about the contents of this letter. We remain committed to working with you.

Yours truly,

A handwritten signature in blue ink, appearing to read 'Keith Hoey', with a stylized flourish at the end.

Keith Hoey
President & CEO
Burlington Chamber of Commerce