GREATER KITCHENER WATERLOO
CHAMBER OF COMMERCE
BUSINESS BUILDING COMMUNITY

SUBMISSION TO

THE DEPARTMENT OF FINANCE CANADA

TAX PLANNING USING PRIVATE CORPORATIONS

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The Greater Kitchener Waterloo Chamber of Commerce and Waterloo Region – A Profile

The Greater Kitchener Waterloo Chamber of Commerce supports over 1700 members representing all sectors of the Waterloo Region economy. Our membership includes small, medium, and large employers in one of Canada's most progressive and innovative regions.

Waterloo Region is designated as Canada's tenth and Ontario's fourth largest urban area from last year's census, with a 2016 year-end population of 583,500 expected to reach 725,000 by 2031. Population growth is relatively consistent across the Region's seven lower-tier municipalities at one to two percent in both the cities and rural townships.

Our local economy is among the most diverse in Canada, with concentration across advanced manufacturing, financial services, post-secondary education, food processing/primary agriculture, and information technology. Industry analysts have frequently cited this diversity as the fundamental strength of Waterloo Region's globally successful and entrepreneur-driven business sector.

We are pleased to respond to the Department of Finance Canada's discussion paper *Tax Planning Using Private Corporations* and the proposals advanced for review.

Impact of Proposed Changes on Small Business

Our Chamber supports the position of the Coalition for Small Business Tax Fairness that the government **not move forward with the proposals contained in the aforementioned document.** In particular, we do not support changing current rules in the areas of:

- Sprinkling income using private corporations;
- Converting a private corporation's regular income into capital gains; and
- Holding a passive investment portfolio inside a private corporation.

While it has been suggested by senior government officials that the proposed changes are targeted to close tax loopholes aimed at the wealthy, they will rather affect the majority of business owners who are firmly in the middle class. Data collected from Statistics Canada and other federal sources shows that two-thirds of small business owners earn less than $73,000 annually and half of those earn less than $33,000. The proposals if implemented will make an already complex Income Tax Act more difficult to interpret and apply for many small businesses, will not achieve the objective of simplifying the Act, and conversely increase the many challenges for Canada Revenue Agency (CRA) auditors in interpreting all relevant rules. The proposals as written will only lead to a higher level of uncertainty for small and medium-sized business owners who currently find CRA compliance as a daily ordeal.

Many businesses across our community consider themselves unfairly targeted, intentionally or not, by the proposed changes and branded as tax cheats for simply accessing tax planning tools that have been available for decades. Many of these policies were implemented by previous Liberal and Conservative governments to support the growth of independent business and reflect the burden of complying with regulations and securing access to financing. Small businesses generally do not have in-house capabilities in areas such as taxation, marketing and human resources and must secure outside professional consulting services at additional costs.

These tax changes are being proposed at a time when business owners are contending with additional payroll expenses including Canada Pension Plan and Employment Insurance premium increases, as well as provincial polices in carbon pricing and labour reforms, particularly minimum wage increases. Creating additional business tax uncertainty is particularly problematic at a time when lower commodity prices and NAFTA negotiations are causing considerable stress among Canadian entrepreneurs. Also, provincial and federal payroll costs are generally fixed and do not incorporate the relative profitability of an organization.

Independent business owners, including professionals, have told our Chamber that these changes have the potential to discourage entrepreneurs from starting a new business and could hurt employment as owners look for options to offset the added costs of taxation.

Our Chamber members have told us repeatedly that since small business owners do not have guaranteed pensions and related benefits, savings accumulated through private corporations provide a level playing field with employees of both public and private sector employers. The federal government and their provincial counterparts recently directing significant resources to addressing the perceived lack of retirement savings across Canada by enhancing the CPP is somewhat perplexing in that proposals are now being taken to decrease the capacity of business owners to save. Again it is a matter of fairness for entrepreneurs.

Additional concerns advanced directly to our organization from Chamber members include:

- The proposals ignore risks taken by business owners, particularly the family unitôs involvement in the organization combined with the risk to family assets;
- All levels of government should be supporting business growth and innovation. These tax proposals do not meet that objective;
- Lack of clarity will lead to increased compliance time and related costs;
- The changes will discourage savings for future reinvestment which generally cover costs during an economic slowdown, expansion or retirement;
- Estate tax burdens will increase after generations of family members have planned transfers using the current tax system;
- The ability to finance small businesses could be impacted. For example businesses will lose capital through increased taxes which may diminish their capacity to secure additional financing when required;
- The ability of businesses to contribute to charities will be decreased on a national, provincial and local level. Many of our members expressed particular concern with the future of Waterloo Region non-profit organizations and the many essential services they support;
- Canadian competitiveness in an increasingly competitive global marketplace will be constrained;
- Revisions to inter-generational transfer of businesses will encourage less expensive sales to third parties rather than passage to next generations. Of particular concern is a potential ñdouble taxò ï parents at capital gains rates and sons/daughters at dividend rates.

No Canadian business or professional supports tax evasion. The proposed changes will simply punish legitimate businesses that employ millions of Canadian.

Impact on the Canadian Health Care System

Since 1998, the Greater Kitchener Waterloo Chamber of Commerce has lead local efforts to attract and retain family physicians and specialists to serve the growing population and economic base of Waterloo Region.

Through the continuing efforts of Chamber staff and committed volunteers, we have been able to recruit one new doctor monthly and decrease the number of local residents seeking a family doctor from 40,000 to 15,000. Many physicians that have recently arrived and those with long-standing practices have expressed concerns with the proposed tax changes to private corporations.

The presence of adequate primary and specialist health care services is an economic development imperative across our community. The exodus of professionals and related service delivery will lead to the departure of both businesses and their employees. A declining economic base leads to declining levels of service delivery across the federal, provincial and municipal levels of government.

The Ontario Medical Association (OMA) has indicated that two-thirds of practicing members in Ontario are incorporated and they do not believe it is appropriate or justified to tax small business owners, including health care professionals, using the same models as employed individuals. Small businesses invest capital and assume risks to earn income while employees do not.

If enacted, the proposals contained in the Tax Planning Using Private Corporations document will significantly increase the taxation of doctorõs incomes through a corporation. The OMA negotiated the right of members to incorporate in the 2000 Physician Service Agreement (PSA) with the government of Ontario and are very concerned that the federal government intends to remove these agreed-upon benefits.

The loss of benefits outlined in the consultation paper will affect doctors who are sole income earners, on parental leave and sick leave. They will essentially impact doctors at all stages of their careers.

At a meeting between our Chamber members and local MPs, a recent medical graduate who has established a practice in the underserviced area of downtown Kitchener indicated he has been attempting to recruit 2-3 family doctors to join his practice. He has not been successful and the proposed tax changes will further limit the possibility of receiving assistance to address an already excessive patient roster.

A Canadian Press article from September 12, 2017[1] indicated that Newfoundland Premier Dwight Ball was highly concerned over the ôunintended consequencesö of proposed tax reforms. The article further stated that ôcritics say drawing higher taxes from doctors could raise medical fees or make it tougher to attract them to rural areas.ö Premier Ball was quoted that ôI want to make sure that we have enough physicians and health care providers. We need to have those professionals available to deliver health care services. We also need vibrant small businesses, companies that are strong to actually create employment throughout Newfoundland and Labrador.ö

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[1] Premier tells feds he is hearing worries over planned tax changes. Times Colonist. Canadian Press article by Andrew Vaughan. September 12, 2017

Our Chamber agrees with Premier Ball and the Ontario Medical Association that the proposed tax changes will level a significant impact on the national and provincial health care systems and therefore should not be implemented. Family physician recruitment and retention will not be an exclusive issue for rural Canada but also major urban centres in all provinces and territories.

Recommendations

Our Chamber recommends that the Department of Finance Canada not proceed at this time with any changes proposed in the discussion paper *Tax Planning Using Private Corporations.*

Our members have indicated to us the current taxation system works well and allows businesses to retain earnings for growth, retirement, and other expenses. Therefore the proposed changes are not warranted given the current climate of business uncertainty across Canada.

Our membership supports a full and comprehensive review of all business taxes to simplify the current regime and make the system fair and efficient for small business owners.