

COALITION FOR SMALL BUSINESS TAX FAIRNESS

May 25, 2018

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

Subject: Coalition for Small Business Tax Fairness - Suggested approaches on how to protect past passive investments

Dear Minister Morneau,

We are writing on behalf of the **Coalition for Small Business Tax Fairness**. Together, our organizations represent hundreds of thousands of independent businesses, professionals and taxpayers, across all sectors of the economy and all regions of the country that employ millions of Canadians. We are writing today to express concern regarding the new rules around passive investment income announced in federal budget 2018.

We would like to start by thanking your government for making efforts to listen to the small business community and for beginning to address some of the most serious concerns related to passive investment income rules. The new rules are an improvement and will lessen the negative impact on some smaller businesses.

However, despite your government's promise that passive investments currently held by small businesses would be grandfathered under the new rules, we are deeply concerned that existing passive investments will be used as a measure to determine whether they qualify for the small business deduction (SBD) on their active business income starting in 2019. In the event that passive investment income surpasses the \$150,000 mark in a year, businesses will completely lose access to the SBD, significantly increasing their overall tax burden.

We believe this is unfair to those who have followed the rules and made prudent and appropriate business decisions to create a capital reserve within their business. Since the early stages of these proposals, business owners were told repeatedly by your government that their existing passive investments would be unaffected, and these new rules would only apply on a go forward basis. As these investments will now affect a firm's tax bill on its active income, this effectively ends any grandfathering protection. We urge you to stand by the spirit of your commitment.

As the Budget Implementation Act is currently making its way through the House, time is quickly running out. We therefore encourage your government to act immediately to ensure that there are no unintended negative consequences on the small business community. The Coalition has worked closely with tax and accounting professionals on suggested approaches to permit greater grandfathering under the new rules and/or to decrease the burden on business owners as a result. We would recommend the government consider the following approaches to address this:

- Do not proceed with the proposed passive investment rules.
- If determined to proceed, work with the Coalition and tax professionals to ensure that existing passive investments are not included in the formula in determining eligibility for the small business deduction going forward. We are committed to working with you to develop a way to grandfather past passive investments without adding significant new complexities to the system.
- Implement a more gradual “grind” in eliminating the benefit of the small business tax rate. For example, adjust the grind over \$50,000 of passive income to \$2.50 per \$1 of passive income (rather than \$5 per \$1 of passive income). This would mean that the SBD is not ground down to nil until passive investment income reaches \$250,000.
- Raise the threshold where passive investment income begins to affect a firm's access to the SBD from \$50,000 to \$100,000 to exempt more small firms.
- Index the \$50,000 and \$150,000 exemption limits to inflation to prevent small businesses from being subject to bracket creep on the taxation of their passive investment income in future years.

As noted, we are committed to working with the Department of Finance to find solutions to help address our concerns without creating significant new complexities for government or business taxpayers. In addition to our concerns regarding passive investment rules, the small business community remains distressed by, and unprepared for, the new rules on income splitting. This issue has not gone away and we believe it is critical that your government consider amendments to income splitting rules such as delaying its effective implementation to January 1st, 2019. We would like to reiterate our earlier recommendations:

1. Immediately undertake an economic impact assessment of the package of proposed changes and delay implementing any tax changes until this assessment is complete.
2. On **income splitting**:
 - Postpone the application of the changes until, at the very earliest, January 1, 2019.
 - Consider, at a minimum, a full exemption for spouses from the new income splitting rules.
3. Undertake a comprehensive review of Canada's income tax system with a view to reducing complexity, thereby helping small business owners better understand tax implications before making critical business decisions.

We remain committed to working with you. Please do not hesitate to reach out to any of the undersigned groups and associations should you have any questions or comments about the contents of this letter

Sincerely,



Greg Pollock
President and CEO, Advocis
The Financial Advisor
Association of Canada



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CEO
Association des
professionnels de la
construction et de
l'habitation du Québec




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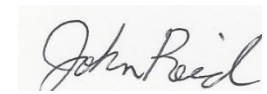
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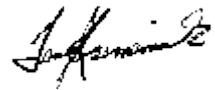
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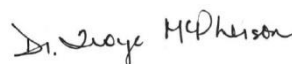
400 members



Aaron Wudrick, Federal
Director
Canadian Taxpayers
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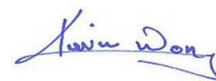
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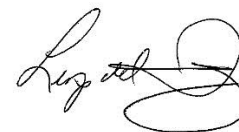
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Levi Wood
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Ettore Cardarelli
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Ontario Real Estate
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Executive Director
Private Capital Markets
Association of Canada



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Shane Jahnke
Saskatchewan Stock
Growers Association



SASKATCHEWAN
STOCK GROWERS
Association
600 members

cc: Mr. Peter Julian, NDP Member of Parliament for New Westminster–Burnaby, Finance Critic
Senator Percy Mockler, Chair of the Senate Committee on National Finance
The Honourable Pierre Poilievre, Conservative Member of Parliament for Carleton, Shadow Minister of Finance and National Capital Commission
The Honourable Wayne Easter, Liberal Member of Parliament for Malpeque, Chair of the Standing Committee on Finance
The Right Honourable Justin Trudeau, Prime Minister of Canada