COALITION FOR SMALL BUSINESS TAX FAIRNESS

[Example]

May 28, 2018

The Honourable Carole James
Minister of Finance and Deputy Premier
Room 153 Parliament Buildings
Victoria BC V8V 1X4

Subject: Request for provincial assistance on the taxation of passive investment income

Dear Minister James,

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 request your assistance on the taxation of passive investment income of Canadian–controlled private corporations.

As you may recall, the federal government proposed a series of historic changes to tax planning mechanisms used by private corporations in July 2017. Many provinces joined the small business community to express their concerns regarding the potentially negative impact of these changes on businesses in their communities. Following unprecedented pushback, the federal government abandoned some of the more harmful components of the proposed changes and made some adjustments to others. Despite a new approach outlined in the 2018 federal budget, we remain very concerned with changes relating to the tax treatment of passive investment income earned within Canadian–controlled private corporations ("CCPCs").

The current business environment is becoming increasingly difficult for smaller firms. In addition to these tax changes, small business owners are facing payroll tax increases (CPP/QPP, EI), the implementation of carbon pricing measures and, in some provinces, increased labour costs. At the same time, there is added uncertainty over the prolonged renegotiation of NAFTA and significant tax reform in the U.S, which are raising questions about Canada's ability to effectively compete on a global stage.

New Rules on Passive Investment Income

As part of Budget 2018, the federal government proposed changes to the taxation of passive investment income in a corporation. According to the new rules, starting after 2018, businesses will start to lose access to the small business deduction once they earn more than $50,000 in passive investment income in a year, and completely lose access once they earn more than $150,000 per year. This means that businesses with more than $150,000 in passive investment income will have to pay the general corporate tax rate on their active business income.

While the process is somewhat simpler than previous proposals, we feel it will unfairly penalize businesses that accumulate capital to protect the business against economic downturns, purchase property or for future investments in their business. With the previous federal proposal, it was promised that all existing passive investments would be "grandfathered". However, the Budget 2018 proposal does not exclude existing passive investments from the new taxation regime. This will cause businesses with larger pools of passive investments to lose access to the small business tax rate on active business income starting in 2019. We also believe that small businesses will start to make business and investment decisions with a view to minimizing the impact of these new rules, with potentially negative long–term economic consequences.

Recommendations

While other federal tax changes (including changes to income splitting rules for small businesses) automatically apply to provincial tax systems, we have confirmed that federal changes that will claw back the small business tax rate based on a CCPC's passive investment income do not need to extend to the small business deduction provided by the provinces. In other words, the provinces can make their own decision on whether businesses can continue to access the provincial small business deduction, whether or not they have a stream of passive investment income.

While Prince Edward Island and Ontario have indicated that they will follow the federal government's lead, other provinces and territories have not indicated whether they will do the same.

In order to help protect businesses' hard-earned investments, we are urging your government NOT to follow the federal government in limiting businesses' access to the provincial small business deduction based on passive investment revenue. We urge the governments of PEI and Ontario to reconsider their decision on following the federal government's lead. In advance of the meeting of federal, provincial and territorial finance ministers in June, we encourage you to deliver a strong message to your colleagues and the federal government: Stand up for small businesses and support your local communities by taking a public stance against these proposals.

In addition, we would value your support in our ongoing efforts to encourage the federal government to do the following:

1. Immediately undertake an economic impact assessment of the package of proposed tax changes and delay implementation until this assessment is complete.
2. On **income splitting with family members:**
   - 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. On **passive investment income in a corporation:**
   - 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 to determine 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 Small Business Deduction 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 small business rate 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.

4. Undertake a comprehensive review of Canada's income tax system with a view to reducing complexity, thereby helping small business owners to better understand tax implications before making critical business decisions.

To ensure that small businesses in Canada can succeed, they need the support of all levels of government to help create a business environment that is fair for smaller firms and conducive to growth. If you have any questions or would like to meet to discuss our recommendations further, please feel free to reach out to any of the undersigned groups.

Sincerely,

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

13,000 members

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

John D. Gamble, CET, P.Eng.
President & CEO
Association of Consulting Engineering Companies

Alan Rowell, MFA, DFA–Tax Services Specialist
Director
Association of Tax and Accounting Professionals

195 members

Caroline De Guire, M.Sc. Écon.
CEO
Association québécoise des informaticiennes et informaticiens indépendants

Jean Thiffault
President
Association québecoise des pharmaciens propriétaires

Darlene Hyde
CEO
British Columbia Real Estate Association

John Reid
CEO
Canadian Advanced Technology Alliance

1,500 members

187 members

Mary Blair
Managing Director
Canadian Association of Management Consultants

2,500 members

Dr. Emil Lee
President
Canadian Association of Radiologists

2,182 members

Terry Kremeniuk
Executive Director
Canadian Bison Association

550 members

Dr. Larry Levin
President
Canadian Dental Association

Dan Kelly
President and CEO
Canadian Federation of Independent Business

110,000 members

John Dickie
President of the Canadian Federation of Apartment Associations

11,200 rental owners, rental managers and rental industry suppliers

John Wissent, Hons.B.Comm., J.D.
Interim President & Chief Executive Officer
Canadian Franchise Association

750 Corporate members representing 40,000+ franchised outlets

Kevin Lee, Chief Executive Officer
Canadian Home Builders' Association

8,500 members

Keith Costello, BADM, MBA–Strategy
President & Chief Executive Officer
Canadian Institute of Financial Planners

8,000 members

Ralph Suppa, CAE,
President & General Manager
Canadian Institute of Plumbing and Heating

260 members

Edward Whalen, P.Eng.
President & CEO
Canadian Institute of Steel Construction

Dr. Laurent Marcoux
President
Canadian Medical Association

85,943 members

Samantha Gale
Executive Director
Canadian Mortgage Brokers Association

5,000 members

Glen Doucet
Interim Chief Executive Officer
Canadian Pharmacists Association

Gary Simonsen
Chief Executive Officer
Canadian Real Estate Association

122,000 Realtors

Bob Brunet, CAE, BComm
Executive Director
Canadian Roofing Contractors' Association

400 members

Aaron Wudrick
Federal Director
Canadian Taxpayers Federation

123,000 supporters

Dr. Troye McPherson
President
Canadian Veterinary Medical Association

6 665 members

Kevin Wong, CAE, MBA
Executive Director
Canadian Water Quality Coalition

208 members

Sean Hu
Executive Director
Chinese Business Chamber of Canada

1,300 members

James Swan, MD, FRCPC
Coalition of Ontario Doctors

2,450 members

Guy Legault
President
Conference for Advanced Life Underwriting

670 members

Léopold Turgeon
Président-directeur général
Conseil québecois du commerce de détail

5,800 members

Jeff Koller
Executive Director
Electrical Contractors Association of Ontario

Bill Brushett
President and CEO
Family Enterprise Xchange

Stéphane Forget, MBA
President and CEO of the Fédération des chambres de commerce du Québec

139 Chambers and
50,000 businesses

Sandra Kegie
Executive Director
Federation of Mutual Fund Dealers

Jaye Hooper
Chair of the Federation of Ontario Law Associations

8,500 members

Mark Brock
Chair
Grain Farmers of Ontario

28, 000 members

Iain J.S. Black
President and CEO
Greater Vancouver Board of Trade

5,200 members

Warren Heeley
President
Heating, Refrigeration and Air Conditioning Institute of Canada

Nancy Allan
Executive Director
Independent Financial Brokers of Canada

3,500 members

Jeff Wachman
President
Institute of Advanced Financial Planners

Pierre Boucher
Chief Executive Officer
Mechanical Contractors Association of Canada

900 members

Terrance Oakey
President
Merit Canada

3500 members

Mark Prieditis, MD, FRCPC
President
Ontario Association of Radiologists

1,400 members

Dr. Nadia Alam
President
Ontario Medical Association

43,493 members

Ettore Cardarelli
President
Ontario Real Estate Association

Tony Elenis
President & CEO
Ontario Restaurant Hotel and Motel Association

11,000 members

Doug Bedard, Chair

Georgina Blanas
Executive Director
Private Capital Markets Association of Canada

500 members

Sean Reid
Vice President
Progressive Contractors Association of Canada

180 members

Grace Sammut
Executive Director
Resorts of Ontario

Shanna Munro
President and CEO
Restaurants Canada

30 000 members

Shane Jahnke
Saskatchewan Stock Growers Association

600 members

Levi Wood
President
Western Canadian Wheat Growers Association

John Schmeiser
CEO
Western Equipment Dealers Association

800 members

Cc: Mr. Andrew Wilkinson, Q.C. Leader of the Official Opposition
Mr. Bruce Ralston, Minister of Jobs, Trade and Technology