THE MANITOBA CHAMBERS OF COMMERCE
ENTREPRENEURIAL SPIRIT - COMMUNITY VALUES

October 2, 2017

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

Dear Minister Morneau;

I am writing to you today on an issue of importance to the Manitoba Chambers of Commerce and our 71 local Chambers that represent more than 10,000 business in our province.

On July 18, 2017, Finance Canada launched a consultation on proposals to stop "tax-planning strategies involving corporations which are being used to gain unfair tax advantages." It is our belief following discussions with small business owners and tax experts that these changes will have a significant impact, raising taxes and increasing the administrative burden on thousands of businesses across Canada.

First and foremost, it is regrettable that the federal government has chosen to position this in terms of "fairness" and "loopholes." The tax strategies being followed date back to the 1960s and have been refined and tested over many decades. The federal government has engaged in rhetoric that divides the country, directly stating that small business owners do not "contribute" to the wellbeing of the country and implying poor character on their part if they employ tax planning strategies that were established many years ago, to encourage the growth and sustainability of innovation and entrepreneurship and to compensate small business owners for the higher level of risk they undertake in their venture, compared to that of an employee.

In consultation with the business community as well as tax professionals across the country, the following issues have been raised:

- The "employment" of family members of small business owners is hardly comparable to that of a standard employee. The roles and responsibilities are dynamic and vary dramatically with the stage of the business, time or year, skill set of the owner/operator, etc. The number that CRA deems to be a "reasonable" level of compensation for a specific role may not be reasonable given the demands on the individual's time and capacity, and certainly do not take into effect the risk that the family is taking on, frequently having to pledge jointly owned assets to support the growth of the business.

- There is no established standard by which this "reasonable" test will be measured. In many cases, it will come down to the specific CRA employee who is reviewing a file. In areas such as taxation, clarity and consistency are essential. This subjective approach will lead to inconsistency, disputes, and excessive levels of appeals that will tie up valuable resources, both on the part of the business as well as with the CRA.

- The tax deferral on portfolio investment inside a corporate is essential to the health and growth of businesses. We have been told by many business owners that this "rainy day fund" was what saved their businesses and their personal assets when they went through the inevitable downturn or has allowed them to make large capital investments to grow their business.

- In addition, this taxation on portfolio investment will result in a significant hit to those business owners who have already retired, with the intent of living off these funds for their retirement. To raise the tax to the level proposed by the government will, in many cases, cut retired business owner's income in half, putting their carefully planned retirement situation in jeopardy.

- We also note, with interest, that the proposed changes to taxation on portfolio investment only apply to privately owned corporations and do not extend to those publicly traded.

- Finally, the changes to tax planning strategies on capital gains are detrimental to those looking to sell their business, particularly to pass it along to their children. With an aging population, it is a well-established fact that a substantial wealth transfer is taking place, with many business owners actively pursuing exit strategies. The Chamber is also well aware that acquisition of these businesses is a substantial challenge for a number of reasons, but certainly due to challenges in accessing capital to acquire the business. Family-based succession planning is one of the more obvious solutions to this issue, yet it seems to be the strategy specifically targeted by the federal government in the contemplated changes with a doubling of taxes in the even to transfer to children.

At the most recent Canadian Chamber of Commerce Annual General Meeting in Fredericton, New Brunswick the Chamber network debated this issue and would urge the Federal government to take the following actions if it is genuinely interested in creating a fair tax system for all Canadians:

That the federal government:

1. Extend the current consultation period beyond October 2, 2017, so as to ensure broad participation by Canada's SME community.

2. Establish a royal commission to undertake a comprehensive review of taxing statutes guided by the principles of simplification and modernization, as well as having the goal of reducing compliance costs to make Canada a competitive tax regime once again.

3. Establish a standing committee with active representation from the SME community to support the commission by continuously monitoring changes and publicly reporting progress at least annually.

Sincerely,

Chuck Davidson
President & CEO
Manitoba Chambers of Commerce