

COALITION FOR SMALL BUSINESS TAX FAIRNESS

March 26, 2018

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

Subject: Coalition for Small Business Tax Fairness feedback on revised passive investment rules.

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 raise concerns 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.

While progress has been made since the original proposals were brought forward last summer, we remain concerned with certain aspects of the new passive investment income rules that we hope will be addressed before legislation is brought forward in the House.

According to the proposed rules, starting in 2019, businesses will begin to lose access to the small business deduction once they earn more than \$50,000 in passive investment income in a year, and lose access entirely once they earn more than \$150,000 per year. This means that businesses with more than \$150,000 in passive investment income will pay the general corporate tax rate on their active business income.

While the suggested approach is somewhat simpler than previous proposals, we feel it will unfairly penalize businesses that use passive investments in order to save for downturns, to buy property or for future investments in their business. We also believe the scope of the proposals will be broader than the federal government predicted.

Previous proposals also indicated that all existing passive investments would be “grandfathered”. While we understand taxes on passive investments themselves will not change under the new proposal, those who have already built a significant pool of passive investments will be negatively affected by losing access to the small business rate for their active business income. As a result, there is a significant retroactive element to the new proposal as past decisions will have negative tax consequences in the future.

Many of the Coalition's members have begun to hear from small business owners who are deeply concerned with the new proposal, particularly due to the retroactive element. Many business owners took you at your word that their previous passive investment decisions would not negatively affect them going forward.

We urge you not to penalize business owners for past passive investments that were legally accumulated over the past several decades, by ensuring that those investments are excluded when calculating new taxes going forward. We are committed to working with the Department of Finance to find solutions to help address this issue without creating significant new complexities for government or business taxpayers. Additionally, we would strongly urge the government to 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 addition to our remaining 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. After reviewing the Parliamentary Budget Officer's (PBO) recent report, it is even more clear that government agencies and taxpayers continue to struggle to understand the scope of the new rules. The PBO report also reveals that the potential tax increase to small business families may be considerably higher than government estimates.

It must be remembered that in addition to these tax changes, small business owners are facing 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. We urge the government to continue to find solutions that do not negatively affect the small business community's ability to grow and prosper.

In summary, we recommend your government:

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 spousal income and dividends from the new income splitting rules.
3. **On passive investment:**
 - Do not proceed with the proposed passive investment rules.
 - If determined to proceed, ensure that past passive investments are excluded when determining eligibility for the small business deduction going forward.
 - 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.

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. We remain committed to working with you.

Sincerely,



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



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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




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Services Specialist
Director, Association of Tax
and Accounting Professionals



195 members



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CEO, Association québécoise des
informaticiennes et informaticiens
indépendants



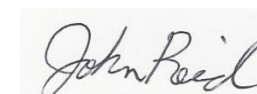
1,500 members



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 Managing Director
 Canadian Association of
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2,500 members



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 Canadian Association of
 Radiologists



Canadian Association of Radiologists
 L'Association canadienne des radiologistes

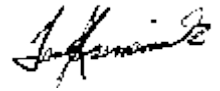
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 President,
 Canadian Bar Association



36,000 members



Terry Kremeniuk
 Executive Director
 Canadian Bison Association



550 members



Dr. Larry Levin
 President
 Canadian Dental Association




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 President and CEO
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 President of the Canadian
 Federation of Apartment
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 managers and rental industry
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Canadian Pork Council



Canadian Pork Council
Conseil canadien du porc

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1867-2017
150
85,943 members

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Chief Executive Officer
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commerce du Québec



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de commerce du Québec
139 Chambers and
50,000 businesses



Sandra Kegie
Executive Director
Federation of Mutual Fund
Dealers




Jaye Hooper, Chair of the
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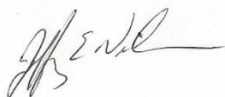
8,500 members



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Sean Reid
Vice President
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Grace Sammut
Directrice exécutive,
Resorts of Ontario



Shanna Munro
President and CEO
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Shane Jahnke
Saskatchewan Stock Growers
Association



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. 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