

NOVA SCOTIA COALITION FOR SMALL BUSINESS TAX FAIRNESS

September 20, 2017

The Honourable Stephen McNeil
Premier of Nova Scotia
Office of the Premier
7th Floor, One Government Place
1700 Granville Street
Halifax, Nova Scotia
B3J 1X5

Subject: Nova Scotia Coalition for Small Business Tax Fairness letter on proposed tax proposals

Dear Premier McNeil,

We are the **Nova Scotia Coalition for Small Business Tax Fairness**. Together, our organizations represent thousands of independent businesses, professionals and taxpayers across a wide range of sectors and regions of the province. As you and your colleagues frequently say, small businesses are the backbone of the economy and responsible for the majority of job creation in Canada. We generate economic growth, provide critical services, and support quality of life for all Canadians. We are writing to express our concern with the federal government's proposed changes to the tax treatment of privately held corporations. After a careful review of these complicated changes, we strongly believe they will have very negative impacts on the ability of independent businesses, including professionals and farm families, to survive in challenging times, help finance growth, innovation and job creation, and encourage and support entrepreneurial families. As you are no doubt aware, these are not minor amendments, but are sweeping changes that will affect all sectors of Canada's business community and we ask that **in your role as the government representative of the people of Nova Scotia, you strongly encourage the Prime Minister and the federal finance minister not move forward with these proposals.**

Background:

The federal government has suggested these changes are targeted to close tax loopholes aimed at the wealthy, they will affect the majority of business owners who are firmly in the middle class. Data collected from Statistics Canada and other official government sources shows that two thirds of small business owners earn less than \$73,000 per year and half of those earn less than \$33,000. These proposals will also make an already complex Income Tax Act even more difficult to interpret and understand. As such, the government will not achieve its goal of simplifying the Act, but will instead increase the challenge for CRA auditors to correctly interpret the rules. These proposals will lead to a significant increase in business uncertainty for independent business owners who already find CRA compliance a significant undertaking. In addition, if the goal of the government is to ensure fairness for the middle class, we question why publicly held corporations are completely exempt from the discussion.

While we respect the need for integration in tax policy, we believe this is already in place and these changes would instead unfairly increase the burden of middle income independent business owners to levels higher than those affecting other taxpayers. Our members, including many professionals, feel unfairly targeted, intentionally or not, by the changes and painted as “tax cheats” by the federal government simply for accessing tax planning tools that they have been encouraged to use for decades. Many of these policies were put in place by previous Liberal and Conservative governments in order to support the growth of independent business and reflect the disproportionate burden they face in complying with regulations and accessing financing.

These changes are coming at a time when business owners are already facing a myriad of additional costs, including Canada Pension Plan and Employment Insurance premium increases for the next several years, as well as new provincial policies around carbon pricing and labour reforms. Creating additional business tax uncertainty is particularly unwelcome at a time when lower commodity prices and NAFTA negotiations are already causing stress among Canada’s entrepreneurs.

Income Sprinkling:

The proposed changes demonstrate a lack of understanding on the part of the government on how independent business truly functions. When an entrepreneur opens a business, her or his family is often deeply involved in either formal or informal ways. This is particularly true on Canadian farms where each member plays a vital role, often from a young age. The comparison of an entrepreneur with a salaried employee is completely inappropriate. Many business owners not only use their family homes as collateral against loans taken to support the business, they also do not have access to safeguards such as employment insurance for job security. When the spouse or children are also involved in the business, the risk is exponentially larger as the entire family runs the risk of losing any means by which to support themselves.

Passive Income in a Corporation:

There are many important reasons why businesses may need passive investments. These types of investments serve as insurance against emergencies and unforeseen costs. The proposed change will limit certain forms of saving in the business, making the firm more vulnerable in bad economic times. In recent years, many business owners have had to cope with an unsteady economy, often depending on other investments as important means to help avoid layoffs and business closure. Passive investments also help them save for major investments, expansion and innovation. We believe these changes are not in line with the government’s innovation agenda and would significantly reduce the ability of business owners in all economic sectors to make important investments in their business. These changes may also lead to instances of double taxation and retroactive taxation for small businesses.

It is also important to note that small business owners do not have access to the generous pensions, benefits and income security offered to many employees, including civil servants, across Canada. They rely on the value of the business, including any passive investments in their business to ensure they have enough resources for their own retirement.

Capital Gains:

Although this tax planning tool is very complex, the proposed changes could affect business value appreciations from the past, as almost a form of retroactive taxation. These changes could also result in the double taxation of some estates, and could make it more difficult for business owners looking to do intergenerational business transfers. We note that your government has opened the door for feedback on how to allow genuine intergenerational business transfers in the Income Tax Act and encourage you to make this an important priority moving forward. Allowing for intergenerational transfers would be of significant help with succession planning, encouraging businesses to remain in the family and in their community.

Conclusions and Recommendations:

Independent business owners, including professionals, are telling us that these changes have the potential to discourage entrepreneurs from going into business and could hurt employment and growth as business owners look for other ways to offset the added costs to themselves and their business.

As the former operator of an independent business, you will be keenly aware of the difficulties these changes would impose upon your fellow Nova Scotians. Nova Scotia small business already is feeling the impact of a difficult tax load. We have heard from many members these changes could result in businesses closing in Nova Scotia and moving to other jurisdictions. Further, we believe these measures will fuel an exodus of businesses and professionals from Canada, discourage new businesses from forming and push those most vulnerable out of business. We respect the desire to ensure fairness and support that notion. However, those who are being targeted here are those paying the bulk of taxes in Canada, not tax evaders. Those who don't play by the rules now, will have even less incentive to do so under a new regime. In fact we believe that these measures will serve to stimulate the underground economy.

The members of our associations are also disappointed these proposals were launched in the dead of summer with a very restrictive time frame. Many leading tax experts are saying that the proposals represent the most significant changes to small business tax provisions they have seen over the course of their career. Canadian entrepreneurs, and their millions of employees, deserve better.

Should there be worrisome abuses of the current tax system, we stand ready to work with all levels of government to pursue ways to tighten rules. The current proposals are not the solution and are instead creating unnecessary uncertainty for business owners.

We make the following recommendation:

- **Stand up for Nova Scotia small business and insist the Finance Minister take these proposals off the table.**
- **Encourage the federal government launch meaningful consultations with the business community to address any shortcomings in tax policy without unfairly targeting independent businesses.**

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

Sincerely,



Jordi Morgan
Vice President, Atlantic
Canadian Federation of
Independent Business
5200 Members



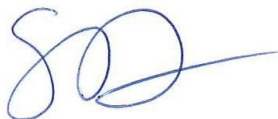

Patrick Sullivan
Chief Executive Officer
Halifax Chamber of
Commerce
1,600 Members




Duncan Williams
President
Construction Association of
Nova Scotia
780 Members




Jean-Marc Picard
Executive Director
Atlantic Provinces Trucking
Association
320 Members

Sherry Donovan
Chief Executive Officer
Canadian Homebuilders
Association
300 Members




Norman Nahas, B.Sc., P.Eng.
President
Lebanese Chamber of
Commerce in Nova Scotia
500 Members




Grant Feltmate
Executive Director
Nova Scotia Road Builder
Association
167 Members





Steve Jennex
Executive Director
Nova Scotia Dental
Association
500 Members




Dave McRitchie
President
Nova Scotia Automobile
Dealers Association





Gordon Stewart
Executive Director
Restaurant Association of
Nova Scotia
400 Members




Sheri Sommerville
Chief Executive Officer
Atlantic Chamber of
Commerce
16,000 Members (Atlantic)




Marco Navarro-Genie
President
Atlantic Institute for Market
Studies




Heather Cruickshanks
President
Merit Nova Scotia
120 Members




Luc Erjavec
Vice President Atlantic
Canada
Restaurant Canada
2,260 members




Paul Croft, BA, BSC, CIP,
CCIB, CRM
Chairperson
Insurance Brokers
Association of Nova Scotia
1,100 Members




Chris van den Heuvel
Executive Director
Nova Scotia Federation of
Agriculture
2,400 Members




Andrew Giles
President
Urban Development Institute



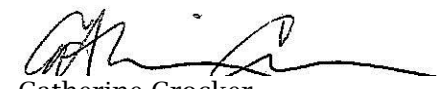

Phil Sullivan
President
Consulting Engineers of Nova
Scotia
55 Members



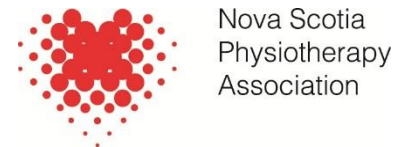

Juanita Spencer, BA, MPA
Executive Director
Spring Garden Road Area
Business Association
300 Members



Kevin Lacey
Atlantic Canada Director
Canadian Taxpayer
Federation
6,000 supporters

Catherine Crocker
President
Nova Scotia Physiotherapy
Association
600 Members



Nova Scotia
Physiotherapy
Association

Jim Cormier
Director, Atlantic Canada
Retail Council of Canada



Leo Muise
Executive Director
Nova Scotia Seafood Alliance
55 Members



Patti Wyllie,
General Manager
Egg Farmers of Nova Scotia



Nancy MacCreedy Williams
Chief Executive Officer
Doctors Nova Scotia
3,500 Physicians



Allison L. Bodnar LL.B.
CEO
Pharmacy Association of
Nova Scotia



Gerrit Damsteegt,
Chairman
Dairy Farmers of Nova Scotia



Jeremy Jackson
President
Investment Property Owners
Association Nova Scotia



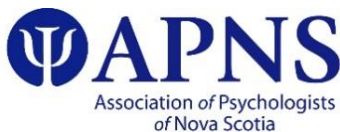
Brian Doherty
President
Music Nova Scotia



Shelly Acker
General Manager
Chicken Farmers of Nova
Scotia



Todd Leader, RSW, RPsych
President
Association of Psychologists
of Nova Scotia
400 Members



Alan Streach
President
Family Business Association
- Atlantic 100 Members



Roger Boutilier, BBA, MBA,
FCGA, CRAE
Chief Executive Officer
NS Association of Realtors
1,500 Members





Pam Woodman
Executive Director
Atlantic Concrete
Association




Bob Shephard
President
Nova Scotia Construction
Labour Relations Association




Allan Melvin
President
Kings County Federation of
Agriculture




Lori Ansem
Vice-Chair
Turkey Farmers of Nova
Scotia




Paul MacKinnon
Executive Director
Downtown Halifax Business
Commission



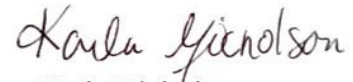

Patricia Cuttall, MURP
Executive Director
North End Business
Association




Michelle Champniss
Executive Director
Sackville Business
Association



Graziella Grbac
Executive Director
Village on Main - Community
Improvement District
160 Members

Karla Nicholson
Executive Director
Quinpool Road Mainstreet
District Association
150 Members

