

February 16, 2017

The Hon. Bill Morneau
Minister of Finance
House of Commons
Ottawa, ON K1A 0A6

Re: Possible changes to the capital gains inclusion rate

Dear Minister Morneau:

As you may know, the Canadian Federation of Independent Business (CFIB) is a not-for-profit, non-partisan organization that seeks to give independent business a greater voice in determining the laws that govern business and the country. With 109,000 members across Canada, we are the largest organization exclusively representing the interests of small and medium-sized enterprises (SMEs) to all levels of government.

We are writing to express our concern with potential changes to the capital gains inclusion rate. Succession planning remains a priority for many of our members. Our research has found that almost half of SME owners plan on exiting their businesses within the next five years, with the majority citing retirement as their main reason.¹ Since many small business owners do not have access to a pension plan, they rely primarily on the sale of their business in order to secure their retirement. Increasing the capital gains inclusion rate would reduce the amount that a small business owner would receive from the sale of their business that would go towards their retirement income.

Small business owners are part of the middle class and, like all Canadians, they are entitled to a secure retirement. An increase in the inclusion rate from 50 per cent to 60 per cent or 75 per cent, would have negative consequences on the succession plans of many small business owners, forcing many to either delay retirement, or even forgo it entirely. Less than half of small business owners have a succession plan in place,¹ therefore the federal government should instead focus on policies that would help small business owners transition more easily to retirement.

One measure the government can implement to help ensure small business owners' financial security is strengthening the Lifetime Capital Gains Exemption (LCGE). CFIB was encouraged by the increase in the LCGE to \$1 million for farmers and fishers; however, we are calling on the government to extend this increase to all small businesses. We also recommend that business-

¹ CFIB, *Passing on the Business to the Next Generation*, November 2012.

related assets are included in the LCGE, as they offer a better representation of the overall value of the business. Although many SME owners wish to keep their business within the family, it is more complex and expensive to sell their business to their children than it is to sell it to a third party. Current rules allow farmers and fishers to defer taxes on capital gains when transferring a business to family members, and we recommend that the government extend this benefit to SMEs in all sectors of the economy. Further to this, we urge the government pass legislation that would enable small business owners to sell their business to family members at no greater cost than to a non-related third party.

As the population in Canada ages, a greater number of small business owners will be ready to retire within the next ten years. As such, the government must ensure that they have the necessary tools at their disposal, including access to the proceeds from the sale of their business. The vast majority of small business owners are hard-working, middle-class Canadians, and they should be able to enjoy a secure retirement while ensuring that their business can easily be transferred to the next generation of entrepreneurs.

If you have any questions or would like to meet to discuss this issue further, please feel free to contact us at our Ottawa office at 613-235-2373 or email Corinne Pohlmann, Senior Vice-President, National Affairs and Partnerships at corinne.pohlmann@cfib.ca or Monique Moreau, Vice-President, National Affairs at monique.moreau@cfib.ca.

Sincerely,



Corinne Pohlmann
Senior Vice-President
National Affairs & Partnerships



Monique Moreau
Vice-President
National Affairs