



## Federal Pre-Budget Submission 2018

The St. John's Board of Trade is committed to helping business succeed. A strong vibrant private sector is critical for Newfoundland and Labrador's future.

August 2017





*“We need middle class Canadians to have money in their pockets to save, invest, and grow the economy – to bring back fairness and to strengthen the heart of the Canadian economy.” Prime Minister Justin Trudeau*

### **Federal Pre-Budget 2018**

We thank the Federal Government for soliciting views on the 2018 federal budget and the opportunity to provide recommendations. The St. John’s Board of Trade is committed to helping business succeed. Accredited nationally with distinction, the St John’s Board of Trade is a non-partisan business advocacy organization that is the principal voice of business in the St. John’s area. A strong, vibrant private sector is critical for Newfoundland and Labrador’s future.

To ensure we have a robust private sector the Federal Government must invest wisely in critical infrastructure, efficiently run its operations and keep taxes at rates that encourage investment and consumer spending.

On July 18, the Federal Government released a [white paper](#) containing alarming changes to the way Canadian businesses are taxed. We are very concerned about the impacts on our members and small business in Canada, who represent the middle class. The Federal Government asserts they value the contribution that small businesses and entrepreneurs make to the Canadian economy. However, our members believe the tone and language in the white paper portrays a different point of view.

### **The Proposed Changes Threaten Small Business**

We have heard from our members and they take offense to:

1. the tone of the document, implying entrepreneurs avoid paying their fair share of tax
2. the examples used to compare an employee to an entrepreneur are wrong; and
3. the timelines proposed do not allow for wholesome discussion and debate to determine the impacts of the proposed changes.

The proposed changes will have impacts on Canadian businesses, the middle class and women. Potentially raising taxes, increasing the administrative burden on SMEs, heightening the impact on family-run businesses and harming gender parity.

*"We will consider the gender impacts of the decisions we make," the Liberal platform promised. "Public policies affect women and men in different ways." Minister Morneau*

## **Unintentional Impacts**

1. **Gender parity:** Many SMEs have one family member leading the business. This individual works more than a regular 9-5 work week, while the other spouse is running the home front as well as supporting the businesses. The changes proposed under income sprinkling will have unintentional impacts on the spouse working at home, which in many cases are women. We recommend that the proposed taxation changes undergo a gender-based analysis for legislative changes. With the ambiguity of the term "reasonable contribution" spousal efforts towards the business could be devalued if the proposed changes are implemented.
2. **Comparing entrepreneurs with employees:** On page 13 of the white paper, it compares the taxes paid by an employee with an entrepreneur. Business takes offense to this example as it compares apples to oranges. An entrepreneur bears the risk, stress and rewards that comes along with owning a business. The legislative changes could unintentionally create barriers for entrepreneurs. The same entrepreneurs that are the backbone of the Canadian economy accounting for some 1.17 million businesses in 2015, of which 97.9% were small business.<sup>1</sup>
3. **Reasonable test:** On page 24 of the white paper, it suggests the introduction of a "reasonableness" test. We have questions about how this initiative will be interpreted, applied and enforced. We fear that entrepreneurs will spend more time on administration instead of growing their business and creating jobs.
4. **Succession planning:** Proposed tax reform is attacking family succession planning. Under the current proposal family businesses will face double taxation if the family business is to be sold or transferred to a family member. With over 70% of businesses expected to change hands in the next decade, tax changes will severely impact the ability for succession to occur. The unintended consequences will be that many small businesses will close when third party purchasers are not available.
5. **Investment income:** The proposed legislation on investment income will significantly impact a business ability to save for expansion and to weather economic downturn. Many entrepreneurs provide capital for entrepreneurs with new ideas. The extreme punitive proposed taxation on these funds will result in significant economic impacts on small business sustainability and growth.

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<sup>1</sup> [https://www.ic.gc.ca/eic/site/061.nsf/eng/h\\_03018.html](https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03018.html)



### **We have questions.**

- Has an economic impact study been conducted on the proposed changes?
- Has government evaluated the increased burden and cost to small businesses?
- Has government evaluated the increased cost and administration for CRA?
- How will the proposed changes be managed? Some of the language is vague and subject to interpretation. For example, implementing a “reasonableness” test.
- Has the benefit to the Canadian taxpayer been evaluated against the potential job loss and business failures this will result in once these measures are implemented?

### **Harming the middle class**

Small businesses are the employer of the middle class. Who will employ the middle class once many small businesses no longer exist? Has the potential ripple economic effect of these proposed changes been considered or evaluated?

### **Timelines**

Has consideration been given to the inadequacy of the short period of time for consultation of only 75 days on what are arguably some of the most complex changes in the Income Tax Act since 1972? A longer period of consultation is required to better understand the impacts of all legislative changes.

### **Atlantic Growth Strategy**

Small businesses will be required to make the Atlantic Growth Strategy a success, a priority of this government. How will this strategy be executed upon if entrepreneurs are discouraged by these recent tax changes?

We are committed to helping business succeed and want to ensure that all businesses are treated fair and equitable and are provided with the right environment to succeed. By legislating the above proposed taxation changes the government is using a sledgehammer to crack a nut which in the process will have many unintended victims.

## Recommendations

1. Stop proposed changes until impacts can be better understood.
2. Extend the consultation period to allow for a proper consultation period. The length of consultation should be in measure with the degree of wholesale changes proposed. We would suggest that a 12 to 18-month consultation period would be more appropriate and allow for appropriate dialogue and feedback.
3. Consideration should be given to the proper grandfathering and phasing-in of changes in the taxation system of small businesses.
4. Taxation changes must undergo a gender-based analysis.
5. Taxation changes must recognize and reflect the importance of small business to the economic engine of the country.
6. Taxation changes on succession planning must take into consideration the real restrictions present in rural areas of the country.

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### **Executive Summary**

The St. John's Board of Trade believes the proposed changes will have significant negative impacts on Canadian businesses, the middle class and women:

- Higher taxes;
- Increased administrative burden on small & medium sized enterprises;
- Financial impact on family-run businesses; and
- Reversing gender parity gains.

We believe the impact of these changes are not yet fully understood by tax professionals, taxpayers or the Department of Finance, and that a significantly longer consultation period is required. Recommendations:

1. Stop the Proposals until the impacts can be fully understood.
2. Extend the consultation period. The length of consultation should be commensurate with the degree of wholesale changes proposed. A 12 to 18month consultation period would be consistent with the significance of the changes being proposed, and would allow for meaningful consultation.
3. Establish a royal commission on taxation to undertake a comprehensive review of the taxing statues guided by the principles of simplification and modernization, with a goal of reducing compliance costs to enhances Canada's competitiveness.
4. 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.
5. Consider proper grandfathering and phasing-in of changes in the taxation system of small businesses.
6. The Proposals must undergo a gender-based analysis.
7. The Proposals must recognize and reflect the importance of small business to the economic engine of the country.
8. The Proposals, particularly in the area of succession planning must take into consideration the real restrictions present in rural areas of the country.