

Kingston Advocacy for Small Business (KASB) response to Rt. Honorable William Morneau's tweets from August 28th, 2017

In Summary, KASB thinks:

- Current tax rules are not “loopholes”. They are legal tax rules. The use of pejorative language like this stigmatizes taxpayers whose affairs have been organized on a completely legal basis.
- The proposed changes are retrospective in impact and will undermine taxpayers' arrangements that were put in place, sometimes years ago, in good faith.
- The proposed changes are complex and include reasonableness tests which are as yet ill-defined and inherently subjective. This will increase uncertainty and the cost of doing business for most business owners.
- Small businesses and their owners are highly integrated. In the small business environment, the owner is the source of risk capital and the operator. Consequently, an adverse impact on the owner will translate into an adverse impact on the business.

Slow down and let's rethink the proposed changes together

The Tweet: We're consulting about closing unfair loopholes. We will NOT raise taxes on small business.

KASB Response:

- The use of the word “loopholes” suggests wrongdoing; the notion that small business owners are cheaters. It is not clear if this is intentional, but it is certainly misleading. Small business owners use tax laws created by the government and enforced by the Canada Revenue Agency (CRA) and the courts. These are legal tax rules and have been for decades. The government is proposing to change existing tax laws with the explicit objective of raising more tax from the small business community.

The Tweet: To clear some things up: 1) [#TaxFairness](#) changes would only take effect going forward.

KASB Response:

- The tweet is technically correct but, in substance, misleading. Though the rule changes are prospective, they are definitely **retrospective in impact**. A small business owner that has used legal tax planning for the past 30 years and has recently retired will see their retirement savings adversely impacted. The rules of the game will be unfairly changed and this will happen at the end of the game for this small business owner leaving no opportunity to recover. The impact could be significant.

The Tweet: Our proposals will protect [#smallbiz](#) ability to invest, grow & create good, middle-class jobs.

The Tweet: If you are investing profits back in your business or investing to create jobs, these changes will not affect you.

The Tweet: The rules are designed to help businesses grow - not shelter personal income from tax. Canadians deserve [#TaxFairness](#).

KASB Response:

- We view small businesses and their owners as integrated – the corporation is a tool used by the entrepreneur to achieve their objectives. The proposed rules will impact entrepreneurs; which will consequently impact the business itself. Businesses owned by the middle class often do not operate with significant excess cash. Therefore, increasing personal tax does hinder the business owner’s ability to reinvest in their business in favour of life’s necessities, such as buying groceries. In addition, the flexibility to plan for unforeseen business downturns or other uncertainties will be constrained.

The Tweet: If your family members make a meaningful contribution to your business, these changes will not affect you.

KASB Response:

- Our understanding of the proposed changes is the family member will need to make a “reasonable” contribution. Who defines what is reasonable? The vague legislative approach will increase the cost of conducting business and increase uncertainty for all business owners. We suspect it will take years of court cases to define what parliament intended. We are advocating for *simplicity*, not increased *complexity*.

The Tweet: Our proposals will not raise taxes. We have lowest [#smallbiz](#) tax in the [#G7](#) and we’re keeping it that way.

KASB Response:

- The proposal specifically states the changes will raise additional revenue for the government. As stated on page 15 & 16 of the proposal [http://www.fin.gc.ca/activty/consult/tppc-pfsp-eng.pdf ...](http://www.fin.gc.ca/activty/consult/tppc-pfsp-eng.pdf...)

“These actions will result in additional revenue for the government

- Proposed measures to address income sprinkling would result in additional revenue of some \$250 million per year once fully implemented.
- Private corporations currently hold significant amounts of passive investments, which generated approximately \$27 billion in passive income in 2015. A proportion of this

income is currently taxed appropriately under the current tax system, and would not be affected by the new tax rules. The overall revenue implications of actions to neutralize the tax-assisted financial advantages of investing passively would depend on the general approach followed to tax passive investment income, as well as specific design choices, including transitional rules. An estimate of additional revenues generated by the Government's actions will be provided once, taking into account the views expressed in consultations, the Government has made a decision on the final design of the new tax rules.

- The fiscal impacts of the proposed measure to prevent surplus income of a private corporation from being converted to a lower-taxed capital gain cannot be determined based on currently available information.”

The Tweet: Our proposals are targeted only at specific loopholes. Most [#smallbiz](#) won't be affected. Look for yourself: [http://www.fin.gc.ca/activity/consult/tppc-pfsp-eng.pdf ...](http://www.fin.gc.ca/activity/consult/tppc-pfsp-eng.pdf)

KASB Response:

- Most small businesses will be affected due to the sheer complexity of the proposed changes.