

# 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




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




Phil Sullivan  
President  
Consulting Engineers of Nova  
Scotia  
55 Members




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




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




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




Marco Navarro-Genie  
President  
Atlantic Institute for Market  
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Chris van den Heuvel  
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Nova Scotia Federation of  
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2,400 Members




Kevin Lacey  
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Federation  
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Heather Cruickshanks  
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Merit Nova Scotia  
120 Members




Andrew Giles  
President  
Urban Development Institute




Catherine Crocker  
President  
Nova Scotia Physiotherapy  
Association  
600 Members

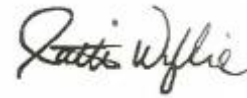




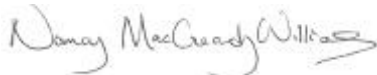
Jim Cormier  
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Retail Council of Canada




Leo Muise  
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Nova Scotia Seafood Alliance  
55 Members

Patti Wyllie,  
General Manager  
Egg Farmers of Nova Scotia

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



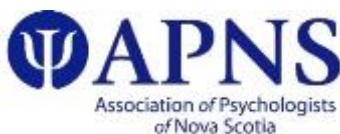

Brian Doherty  
President  
Music Nova Scotia



Shelly Acker  
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Chicken Farmers of Nova  
Scotia




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

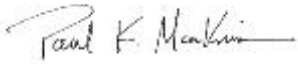



Alan Streach  
President  
Family Business Association  
- Atlantic 100 Members

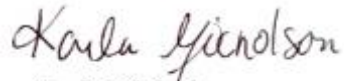


Roger Boutilier, BBA, MBA,  
FCGA, CRAE  
Chief Executive Officer  
Nova Scotia Association of  
Realtors  
1,500 Members

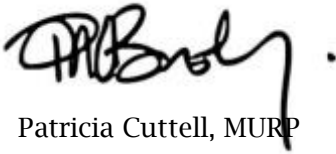




Paul MacKinnon  
Executive Director  
Downtown Halifax Business  
Commission

Karla Nicholson  
Executive Director  
Quinpool Road Mainstreet  
District Association  
150 Members

Patricia Cuttell, 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

