Senate Finance Committee Hearings
Proposed Tax Changes

Speaking Notes for Mark Jones

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Good morning. I’d like to welcome you all to Winnipeg and thank you for giving us the opportunity to be here this morning.

My name is Mark Jones and I am a board member of the Winnipeg Chamber of Commerce. I am also a partner with Olafson and Jones, Chartered Professional Accountants.

Just a little bit about the Winnipeg Chamber of Commerce to start. Founded in 1873, the Winnipeg Chamber of Commerce is older than the City of Winnipeg itself, and is one of the oldest chambers of commerce in Canada. With over twenty-one hundred members representing ninety-thousand employees, the Chamber represents the voice of business in Winnipeg.

It is my pleasure to be here today to talk about an issue that rocked our Chamber and business community this summer, that being the Finance Department's proposed tax changes for private corporations.

When we are talking about private corporations, we really are talking about small businesses. There are over 1.1 million employer businesses in Canada. Of those, 95% have less than 50 employees and almost 75% have fewer than 10 employees. These are the local shop-owners who are our neighbours, friends, community builders and job creators.

From 2005 to 2015 the private sector created over 1.2 million jobs in Canada, with over a million or approximately 90% being created by small businesses. As this committee has said several times, small businesses truly are the backbone of the economy.

The changes under consideration are broad, far-reaching and as a result carry many unintended consequences.

The Winnipeg Chamber of Commerce was pleased to see the government make changes to their original proposals in October. There is no question that there were some improvements, however we are concerned about the ongoing lack of details in the announcements and that some of the biggest risks remain unaddressed.

All businesses accumulate surpluses funds that can be used to take advantage of opportunities to grow or conversely to get them through economic downturns.

During the 2008 financial crisis for example, there were over 30,000 more business exits than starts in Canada. Approximately 30% of all businesses started don’t last two years and close to 40% don’t last 3 years. It is already extremely difficult to start and maintain a successful business and inhibiting the ability to build a financial cushion will increase the risk of failure of small businesses in future economic downturns.

If the government hits investment income with a 73% tax, business owners won't have any incentive to keep surplus assets in the business. Many will be forced to make a bad business decision solely to avoid losing three-quarters of their surplus assets.

The Minister announced a passive income threshold of $50,000 below which passive income would not be taxed at these higher rates, which is an improvement over the initial announcement.

However, that low threshold doesn’t give much room to save for a capital investment. This punitive tax would cause them to invest less, cap the size of their savings and hold less productive assets. This means it will take them even longer to save up to expand or grow their business and ultimately will impact job creation.

Moreover, the complexity this would bring is mind-boggling: Investments that are currently existing will be grandfathered in, so we assume there will have to be some sort of valuation day to report on existing investments as well as the ongoing reporting requirements to separate post valuation day investments and related income. One of the government’s principles in this process is to “avoid creating unnecessary red tape for hard-working small businesses”.

This change obviously is counter to that principle, and will dramatically increase the red tape burden for small businesses. The proposed changes and the uncertainty around them has created great concern in our local business community.

On income sprinkling, the Government clarified that their reasonableness tests would look at whether a family member has made:

- Labour contributions;
- Capital or equity contributions;
- Taken on financial risks and/or
- Prior contributions in respect to any of the above three areas.

Once again, much uncertainty remains over these subjective reasonability tests and the lack of guidance on how Canada Revenue Agency will measure reasonability is akin to driving your car on the highway but not knowing the speed limit until you get pulled over.

For example, if one spouse is paid $50,000, but the CRA assesses the value of his/her labour at $30,000, how does one prove the value of the contribution?

Clearly, being forced to substantiate the value of a spouse's contribution will increase red tape for small businesses. The income sprinkling changes are scheduled to come into effect on January 1st 2018, which is only weeks away. Businesses need to actually be given the rules and then given some time to plan to work within the new rules, as opposed to being shoved into the unknown with suspended disbelief.

There is also the fairness question, as to why shouldn't business owners be allowed to split income? For the vast majority of small businesses, family savings are invested to start the business. Those savings could have gone into a RRSP, which would be fully tax-deferred and then upon withdrawal it is eligible to be split 50/50 with the spouse after age 65. If the intent is to make the playing field equal, why shouldn't business owners be allowed similar tax treatment as one gets with a RRSP?

Most of our competitors are looking to reduce taxes. France has just embarked on major tax reforms, while in the US, Congressional Republicans are determined to press ahead with the biggest tax reform in 30 years.

They are looking support their job creators, while our federal government is looking to do the opposite. The content of these proposed changes was a terrible signal to the business community, and the way they were communicated has set an environment of conflict for business to operate in. The changes first were announced on July 18th and since then we've seen flat GDP growth in July, and a 0.1% contraction in August. While many factors influence GDP growth, the immediate data sets show that just the specter of these changes haven't helped our economy.

Canada's tax system should support investments in productive assets and business growth. Instead of penalizing passive savings, Canada could offer incentives to invest in the business.

Our members are deeply worried about their ability to grow their businesses if these changes come to pass. That is why the Winnipeg Chamber of Commerce recommends that the government:

- First, take these proposals off the table.
- Second, launch a more meaningful consultation period. Over 21,000 submissions were received in the original paltry 75 day consultation period. Canadians obviously have a lot to say on this matter and more time is required. The sober second thought and thorough study that the Senate provides is exactly what is needed.

- Third, present clear and transparent economic modelling which demonstrates the various impacts of the changes.
- And finally, establish a commission to undertake a comprehensive review of our tax system to make sure it is fairer, simpler and more competitive. The Winnipeg Chamber of Commerce would be more than pleased to work with the government to help with such a review.

With an independent review, Canada could create an internationally competitive system of business tax that rewards entrepreneurship, attracts capital and encourages businesses to invest and grow. I'd like to thank you again for giving the Winnipeg Chamber of Commerce the opportunity to be here this morning and I would be happy to answer any questions.