A BIG ADVOCACY WIN FOR THE CHAMBER NETWORK AROUND THE CHANGES TO BUSINESS TAXATION!

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As we head into the second half of February, I am very happy to report that the Saskatchewan Chamber of Commerce, along with business groups across Canada scored a major advocacy win on the tax front. This was a tremendous effort on the part of the business community and we should take this opportunity to reflect on our successes, while always remaining vigilant.

To begin, what should have been an otherwise quiet and uneventful summer at the Chamber office ended up being anything but. In July 2017, the Federal Minister of Finance, Bill Morneau unveiled draft legislation intended to make changes to planning strategies used by Canadian-Controlled Private Corporations (CCPCs). CCPCs are defined as incorporated businesses that are neither foreign-owned nor publicly traded.

Accompanying the draft legislation was a technical paper from the Department of Finance Canada entitled, Tax Planning Using Private Corporations. For those unfamiliar, the three tax planning strategies targeted by the federal government were: (i) income sprinkling; (ii) converting income from a CCPC into capital gains; and (iii) passive investment income held inside a CCPC.

In response to Minister Morneau's announcement, the Chamber received numerous phone calls and emails from concerned members on this issue and the message was consistently loud and clear – the business community strongly opposed the proposed tax changes for a whole host of good reasons.

In response to heated criticism from the business community, Minister Morneau and Prime Minister Justin Trudeau announced during Small Business Week back in October that significant amendments to the earlier proposed tax measures would be made.

First and foremost, the federal portion of the small business rate on the first $500,000 of active income is scheduled to decrease from its current 10.5% to 9% by 2019. It has been estimated that this measure in and of itself will leave an additional $1,600 per year for entrepreneurs to reinvest into their businesses. Approximately 61,000 Saskatchewan small businesses (including many incorporated farms) are expected to benefit because of the rate cut.

What makes this noteworthy is that despite actively campaigning on a small business tax cut during the 2015 election, the Liberal Government of Justin Trudeau abandoned this campaign promise soon after being elected. It was only because of the persistence of the Chamber Network that the Federal Government decided to re-introduce this campaign pledge as a policy decision.

It is worth noting that while taxes on small businesses are being lowered, the effective tax rate on non-eligible dividend income will increase in order to maintain what the CRA refers to as the 'integration' of the personal and business income tax system. As a result, the increased rate applied to non-eligible dividends will at least partially offset the gains in take-home income from the rate cut. Minister Morneau assured the public that tax incentives for venture capital and angel investors will be maintained.

Secondly, the federal government also announced that it was abandoning its plan to curtail the conversion of income to capital gains. This measure would have caused many headaches for those involved in legitimate intergenerational business transfers and those holding insurance policies inside CCPCs. If this measure were to move ahead as planned, it would have disproportionately impacted Saskatchewan business owners, given the prominent role that incorporated family farms and the agriculture sector play in our provincial economy.

The federal government also announced that it would be moving ahead with some of the more controversial measures, albeit scaled back. For example, a proposed measure meant to discourage the accumulation of passive income in a CCPC will go ahead, but a new threshold will allow for $50,000 in income annually to be exempt from the new, higher tax. This means that $1 million held inside a CCPC could now earn a 5% rate of return while meeting the $50,000 revenue mark.

The Department of Finance Canada reports that only 3% of CCPCs would be impacted by the new measure. The federal government's own Fall Economic Statement confirmed that income earned from past investments will be grandfathered in and that the new measures as they relate to passive investment income will apply only on a go-forward basis.

In addition, the proposed measure to curtail income splitting for family members not deemed by the CRA as active in the business will move forward. After business groups voiced concerns about the subjective nature of applying the reasonableness test to the contributions of family members, along with the added compliance costs the measure would create, Minister Morneau stated that this measure would be simplified further.

While the federal government will move forward with the simplified rules to limit income sprinkling using CCPCs, they have promised that the new rules would not impact businesses to the extent that there are clear and meaningful contributions by spouses, children, and other family members. This measure will be effective for the 2018 and subsequent taxation years. The Chamber believes that this measure should still be scrapped, or at very least, an exemption be made for spouses.

Not all news from the federal government around business was negative, however. In Federal Budget 2017, the federal government announced that $400 million will be made available for the Business Development Bank of Canada's new Venture Capital Catalyst Initiative (VCCI). The goal of the VCCI is to increase the viability of late-stage venture capital.

Federal Budget 2017 also announced almost $1.4 billion in federal funding to help businesses in the clean technology sector scale up. A cornerstone of Federal Budget 2017 was the decision to make available $950 million for a select number of industry-led 'superclusters' aimed at driving innovation, boosting productivity, and creating the jobs of tomorrow. We at the Chamber are proud to announce that the supercluster from Saskatchewan, Protein Industries Canada, has been shortlisted for a portion of the $950 million and is one of nine superclusters left in the running.

On the infrastructure front, the federal government has invested nearly $600 million in Saskatchewan highways, bridges, streets, transit systems, wastewater treatment plants, and recreational facilities over the past two years.

The Chamber would like to thank the Federal Minister of Finance Bill Morneau and the senior minister from Saskatchewan, Ralph Goodale for granting us the opportunity to meet with them and listen to our members' concerns. While we may sometimes disagree on policy-related matters, a healthy and respectful dialogue is always welcome.

As we move into 2018, the Chamber will continue to recommend that the federal government not proceed with their recent amendments around income sprinkling and passive investment income until a thorough economic impact analysis is carried out. The Chamber also believes that now is the time for the federal government to establish a Royal Commission-type panel to undertake a comprehensive review of the tax system.

As we reflect on our success, the business community should be proud of its advocacy efforts to date around the recent tax changes. The significant amendments made by the federal government as a result of the enormous pushback they received should serve as a testament to the power of the Chamber network.

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