

# AMENDMENTS TO PROPOSED FEDERAL TAX CHANGES

## REBUILDING LOST TRUST...

"Whenever a process from government starts to position business people and the business community in such a negative light, it is an absolute disaster from a communications perspective and I think an apology from our federal minister to the Canadian business community would be appropriate," said Steve McLellan, CEO of the Saskatchewan Chamber of Commerce.

"The government of the day has a particular mission and they're going to get it done come hell or high water and I think that's a disservice to the men and women who have invested in their future of their company, communities, families and businesses," said Steve McLellan from the Saskatchewan Chamber of Commerce.

McLellan added his advice to the federal government was to "do a reset. Let's start again, let's allow them to get this right, because clearly they have not."

The CEO of the Saskatchewan Chamber has called on Finance Minister Morneau to "apologize" for his government's proposed income tax reform plan.



Saskatchewan, and across Canada.

I called the Federal government out on that, and asked them to 'Apologize to Business' when I spoke at a media conference in September with the Canadian Chamber of Commerce in Fredericton. That quote was carried hundreds of times across the country in the media.

As the Provincial Chamber, we have teamed up with our national, provincial and our local chamber counterparts in this fight. Our continued pressure on government to do the right thing, and to avoid implementing tax changes that would be damaging to business has yielded results, as seen in the federal government's statements on October 16, 2017.

We have worked hard to keep Saskatchewan businesses updated with backgrounders and information on the Federal plans and how your business could be affected. We released several videos, wrote to the Prime Minister and all key Ministers, and met with representatives from the Department of Finance to express our deep concerns in person. Our petition was signed by 600 companies, who represent the interests of over 15, 000 employees.

We have worked with local Chambers and trade associations across the province to ensure the voice of business is loud and clear. We all continue to stand up for all Saskatchewan business - retail, farmers, doctors, and manufacturers. Rural or urban, large or small, we are behind you.

While the reduction of the small business tax rate is clearly positive, it is still imperative that a complete economic impact assessment be done on the remaining changes, as well as a full review of the broader tax system. Chambers of Commerce across the country, as well as other business organizations, will remain vigilant as the federal government moves forward with trying to rebuild the trust with Canada's business community that has been lost in recent months.

We continue to advocate on this issue, so you can get back to doing what you do best - working on your business.

Yours truly,

Steve McLellan, CEO  
Saskatchewan Chamber of Commerce



SASKATCHEWAN  
CHAMBER of COMMERCE

# THE ISSUE

On July 18, 2017 the Federal Minister of Finance, Bill Morneau unveiled draft legislation that was intended to move forward with tax planning strategies related to the use of Canadian Controlled Private Corporations (CCPCs). The three measures included (i) income sprinkling (ii) converting a CCPC's regular income into capital gains, along with the multiplication of tax on (iii) passive investment income held inside a CCPC. The Federal Government launched a very brief 75-day consultation period that expired on October 2, 2017.

In response to Minister Morneau's announcement in July, business groups all across Canada came together. The business community strongly opposed the proposed tax changes. In response to overwhelming criticism, on September 21, 2017 Minister Justin Trudeau announced significant amendments to the earlier proposed measures during Small Business Week.

Some positive steps include:

- The Federal Government will move forward on a 2015 election pledge to reduce the Small Business Tax Rate from the current 10.5% to 10% on January 1, 2018, and then to 9% on January 1, 2019.
- The Federal Government will not move forward with an earlier proposed measure to limit access to the income tax credit for small business.
- After receiving heated criticism from farmers and small business owners, the Federal Government is abandoning the plan to convert regular income to capital gains. This measure caused issues for legitimate inter-generational business transfers and family businesses.
- Minister Morneau assured the public that tax incentives for venture capital and angel investors will be maintained and will be underway.

However, the Federal Government also announced that it would be moving ahead with some of the earlier proposed measures:

- The proposed measure to curtail income splitting for family members not deemed by the CRA as active in the business will remain. Minister Morneau stated that this proposal will be simplified in response to criticisms that the proposed reasonable person test was too difficult for businesses.
- A proposed measure meant to discourage the accumulation of passive investment income in a CCPC will remain. The new measure will allow up to \$50,000 in income per year to be exempt from the new, higher tax. This means that \$1 million held inside a CCPC will be taxed at 10.5% on the amount over \$50,000.

The Chamber is encouraged by Minister Morneau's most recent announcement surrounding the amendment to the LCGE, the reduction in the federal small business tax rate, and the cancelling of the plan to change the LCGE. While the Chamber believes it is imperative that a comprehensive economic assessment be done on the remaining changes and that Chamber remain vigilant as the Federal Government looks to rebuild trust with the business community that has been lost in recent years.

# IN THE MEDIA



# OUR ADVOCACY EFFORTS

Since Minister Morneau's announcement, the Saskatchewan Chamber of Commerce has received numerous emails and phone calls from our members, and other concerned Saskatchewan business owners. Businesses fear that these tax changes will negatively affect their business, or cause job losses or closures.

The message has been consistently loud and clear – the business community **strongly** opposes the original tax changes as they would reduce the incentive for private investment, increase administrative complexity, and compliance costs for businesses, and create additional challenges to the inter-generational transfer of business shares to family members.

The Chamber continues to strongly urge the Government of Canada to retract their tax proposal and start fresh. Our advocacy efforts include:

- Releasing the report: *Issue in Focus Taxation: Proposed Changes to the Taxation of Private Corporations in Canada*
- Submitting an open letter to the Minister of Finance Bill Morneau
- Collecting over 600 petition responses, representing 15,000 employees with the TAXACTION petition
- Coordinating advocacy efforts with the Canadian Chamber of Commerce and local Chambers.
- Focusing on continued communication with the Federal Minister from Saskatchewan, the Honourable Ralph Goodale



Joël Lightbound, Parliamentary Secretary to the Minister of Finance, met with Joshua Kurkjian (left) and Steve McLellan (right) from the Saskatchewan Chamber.



Curtis Hemming and Joshua Kurkjian from the Saskatchewan Chamber of Commerce mailing the results of the TAXACTION petition opposing proposed tax changes to Ottawa.

to make changes to the Income Tax Act and deal with three strategies that were targeted included (i) the Lifetime Capital Gains Exemption (LCGE), (ii) a 30-day consultation period with stakeholders that

to deliver a loud and clear message – the Chamber, on October 16th Minister Morneau and Prime Minister Harper during Business Week.

Rate on the first \$500,000 of active income from

indexed LCGE.

abandoning its plan to curtail the conversion of RRSPs and insurance policies held inside CCPCs.

maintained. Consultations around this will soon

proposed measures, albeit in a scaled back form: the 5% rate in the business will move forward. Minister Morneau's plan to create a new small business tax status test created additional compliance costs

will go ahead, but a new threshold will allow for a CCPC to now earn a 5% rate of return.

Comments to the proposed tax changes, notably the announcement is a step in the right direction, but local Chambers of Commerce across the country remain concerned in recent months.

Government starts to position business community in such a negative light, it is an unfortunate communications perspective and I think an apology is due to the Canadian business community," said Steve McLellan, CEO of the Saskatchewan Chamber of Commerce.

The CEO of the Saskatchewan Chamber of Commerce has called on Finance Minister Bill Morneau to "apologise" for his government's proposed income tax reform plan - offering fresh fuel for the Tories to use in question period Monday.



# WHAT WE'VE HEARD FROM SASKATCHEWAN BUSINESS

*"This is an attack on private businesses across the country. It doesn't matter whether you're a dry cleaning outfit with four employees or you're a company like Brandt with 1,800 employees. The cumulative effect is brutal. What it does to our decision-making is we start to question our direction and our strategy. Do we want to invest here?"*

Gavin Semple, Chair of the Brandt Group of Companies

*"Firstly, I do not believe the proposed changes are representative of a war between business owners and employees. Yes, the business owner is the captain of the ship who may benefit from the current tax laws, but no matter how you slice it, it gets more and more difficult with each passing year to justify the effort and sacrifices put in to running a small business when staff deserve pay hikes, expenses get higher, customers want lower prices and the government wants to tax us even more."*

Jackie Hagens-Niwa, Oyen Optometry Clinic

*"I cannot believe the government would pass tax laws to LIMIT my company growth and long term success. I will have to choose between growing or my retirement and this may mean laying off people as a way to manage expenses and essentially get smaller as getting bigger is too expensive."*

Sara Wheelwright, S & E Trusted Online Directories

*"These (original) proposed changes accomplish nothing of significance other than very drastically penalizing business owners and professionals who have worked hard within the rules to plan for their families and their futures."*

Greg Thompson, McKercher LLP

## REMAINING VIGILANT

As a business organization, the Saskatchewan Chamber of Commerce will continue to advocate for businesses across Saskatchewan, on these and any other future tax reforms. It is the vision of the Saskatchewan Chamber, that this province thrives, maximizes its potential and remains the best place to live, work and invest.



SASKATCHEWAN  
CHAMBER *of* COMMERCE

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