FAIR, SIMPLE AND COMPETITIVE TAXATION:

THE WAY FORWARD FOR CANADA

Report of the Standing Senate Committee on National Finance

The Honourable Percy Mockler, Chair

The Honourable Mobina S.B. Jaffer, Deputy Chair

The Honourable André Pratte, Deputy Chair

December 2017

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Fair, Simple and Competitive Taxation: The Way Forward for Canada

Standing Senate Committee on National Finance

Chair
The Honourable Percy Mockler

Deputy Chairs

The Honourable André Pratte

The Honourable Mobina S.B. Jaffer

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ORDER OF REFERENCE

Extract from the *Journals of the Senate*, Tuesday, September 26, 2017:

The Senate resumed debate on the motion of the Honourable Senator Cools, seconded by the Honourable Senator Forest:

That the Standing Senate Committee on National Finance be authorized to examine and report on the Minister of Finance's proposed changes to the *Income Tax Act* respecting the taxation of private corporations and the tax planning strategies involved, in particular:

•income sprinkling,

•holding passive investments inside a private corporation, and

•converting income into capital gains;

That the committee take particular note of the impact of the Government's proposed changes on:

•incorporated small businesses and professionals,

•economic growth and government finances,

•the fairness of the taxation of different types of income, and

•other related matters; and

That the committee submit its final report to the Senate no later than November 30, 2017, and retain all powers necessary to publicize its findings for 180 days after presenting the final report.

The question being put on the motion, it was adopted, on division.

Nicole Proulx

Clerk of the Senate

Extract from the *Journals of the Senate*, Thursday, October 26, 2017:

The Honourable Senator Cools moved, seconded by the Honourable Senator Ringuette:

That, notwithstanding the order of the Senate adopted on Tuesday, September 26, 2017, the date for the final report of the Standing Senate Committee on National Finance in relation to its study on the proposed changes to the *Income Tax Act* be extended from November 30, 2017 to December 15, 2017.

The question being put on the motion, it was adopted.

Nicole Proulx

Clerk of the Senate

CHAIR'S FOREWORD

When the Senate began sitting in September, it quickly became apparent that the Minister of Finance's proposed changes to the *Income Tax Act* regarding the taxation of private corporations were of deep concern to many Canadians. It was also apparent that Canadians needed a forum to express those concerns publicly, and that is where our committee, the Standing Senate Committee on National Finance, stepped in.

As Chair of the committee, I would like to express our sincere appreciation to all those who took the time and effort to appear before us, as well as submit written briefs, during the course of this study. They have helped illuminate the complex nature and the many unintended consequences of the government's proposals.

I would like to express my personal gratitude to the members of our committee who were available for the many hours of meetings in Ottawa and across the country in Vancouver, Calgary, Saskatoon, Winnipeg, St. John's, Halifax and Saint John, New Brunswick. It has been a pleasure to work with them, and I admire their diligence in seeking to understand the full ramifications of the proposed changes. In particular, I wish to recognize the work of Senator Anne Cools, whose deep constitutional knowledge has been an invaluable resource for the work of this committee.

I also want to thank the staff—the clerks, analysts, interpreters, translators, stenographers, technicians, assistants, senators' staff, communications team, and others—whose hard work made this study and the cross-country meetings possible. I am deeply appreciative of their long hours and professionalism, as they worked together seamlessly to carry out this study successfully in a very short period of time.

I am proud of the work our committee has done and stand behind this report and its recommendations. I sincerely hope the government carefully considers our recommendations and decides to withdraw its proposed changes in order to undertake a comprehensive review of Canada's tax system.

Senator Percy Mockler

Chair of the Standing Senate Committee on National Finance

EXECUTIVE SUMMARY

In July 2017, the Minister of Finance announced consultations on proposed changes to the *Income Tax Act* related to private corporations. The strong response from the Canadian small business community convinced the Standing Senate Committee on National Finance that it needed to hear from Canadians through an in-depth examination of these proposals.

With this in mind, on 26 September 2017, the Senate authorized our committee to study the government's proposed changes to the *Income Tax Act* respecting the taxation of private corporations and the tax planning strategies involved.

Over the course of 30 meetings across Canada with 138 witnesses and 32 written submissions, our committee heard from government officials, academics, tax specialists, think tanks, and most importantly, organizations that represent tens of thousands of Canadian small businesses, workers, farmers and physicians.

While the Minister of Finance amended his proposals in October 2017, which many witnesses called positive steps forward, the evidence presented to our committee demonstrates that many problematic elements remain.

For example, the income sprinkling proposal will be complicated to apply, require significant paperwork, and rely on the subjective determination of tax auditors, inevitably leading to inconsistency and litigation. It also would not recognize legitimate income splitting based on implied joint ownership of family property.

The passive income proposal is based on a one-size-fits-all approach, which would constrain the growth of small businesses and the regular operations of medium and large businesses. It would encourage businesses to take funds out of their corporation and create an uneven playing field with public corporations and non-Canadian controlled corporations.

Removing access to certain tax planning strategies for physicians would decrease their compensation, leading them to reduce their hours, move to another jurisdiction, or retire early, which would negatively affect patient care.

Many witnesses were concerned that the proposals could undermine Canada's competitiveness, resulting in less investment and less employment. At the very least, they have led to considerable uncertainty in the business community, and investment decisions have been put on hold.

For these reasons, **most witnesses told our committee that the proposed changes should be withdrawn in their entirety.** We are inclined to agree. We are not convinced that the government has made a good case for its proposals.

We also believe that we need an independent comprehensive review of our tax system to ensure that it is not overly complex, maintains our economic competitiveness and is fair to all Canadians. The world is changing, for example, the United States is considering significant tax reforms. Canada needs a strategy to ensure our tax system encourages, rather than inhibits, innovation, entrepreneurship and economic growth.

We recognize that there may be legitimate tax policy objectives and that the government has indicated that it may move forward with its proposed changes. Should it wish to proceed, we believe that the government should delay the implementation of its proposals until at least 1 January 2019 so it can undertake meaningful consultations on its draft legislation and thoroughly analyze the impact of its proposals on the economy, gender and health care system.

Taxation is one of the most sacred elements of the trust between people and their government, because it involves using private monies for public purposes. The tax system must be seen to be fair and equitable, and the use of public money must be appropriate, responsible, and economical. Reforming the tax system is delicate task for governments. If not undertaken with due care and consideration of the possible ramifications, tax reform risks rupturing the trust with citizens and disturbing their sense of fairness.

RECOMMENDATIONS

Recommendation 1

That the Minister of Finance withdraw his proposed changes to the *Income Tax Act* respecting Canadian-controlled private corporations.

Recommendation 2

That the Government of Canada undertake an independent comprehensive review of Canada's tax system with the goal of reducing complexity, ensuring economic competitiveness, and enhancing overall fairness.

Recommendation 3

That, should the Minister of Finance proceed with his proposals to amend the *Income Tax Act* respecting Canadian-controlled private corporations, then he should delay their implementation until at least 1 January 2019, and:

- **release, as early as possible, draft legislation and related guidance documents;**
- **undertake thorough, cross-Canada consultations with businesses, tax specialists, physicians, farmers, and other Canadians on draft legislation;**
- **undertake, and release publicly, an economic impact assessment of the proposals;**
- **conduct, and release publicly, a gender analysis of each of the proposals; and**
- **assess, in cooperation with provinces and territories, the potential impacts of the proposals on the accessibility of health care, and consider measures to avoid these consequences.**

INTRODUCTION

In July 2017, the Minister of Finance, the Honourable Bill Morneau, announced consultations on proposed changes to the *Income Tax Act* related to private corporations, with the stated intention of "clos[ing] loopholes that are only available to some—often the very wealthy or the highest income earners—at the expense of others," because some people "may be using corporate structures to avoid paying their fair share, rather than to invest in their business and maintain their competitive advantage."[1]

The strong and passionate negative response from the Canadian small business community and others, who objected to the government's language and the shortness of the consultation period (75 days) for what has been described as the most significant change to corporate taxation in 45 years, convinced the Standing Senate Committee on National Finance that it needed to hear from Canadians through an in-depth study on the proposed changes.

In discharging its obligations in the parliamentary process, a fundamental role of the Senate is to ensure that Canadians have the opportunity to express themselves to Parliament on matters that are important to them and that significant legislative changes are thoroughly considered and debated. While any changes to tax law would eventually come before the Senate, they are usually presented in the context of budget implementation bills. Due to time constraints and the number of matters presented, these bills offer limited opportunities for hearings and detailed examination, which is why our committee believes that a special study is needed at this time. Moreover, in a letter written to Senator Black in August 2017, the Minister of Finance said that he would welcome a study by the Senate on the subject.

With this in mind, on 26 September 2017, the Senate authorized our committee to study the government's proposed changes to the *Income Tax Act* respecting the taxation of private corporations and the tax planning strategies involved, taking particular note of the impact on:

- incorporated small businesses and professionals,
- economic growth and government finances, and
- the fairness of the taxation of different types of income.

Over the course of eight weeks, our committee has heard from government officials, academics, tax specialists, think tanks, and most importantly, small and medium-sized business (SMB) owners and organizations that represent tens of thousands of Canadian small businesses, workers, farmers and physicians (see Appendix C). Our committee traveled from coast to coast, hearing from 138 witnesses over 30 meetings, and we received 32 written briefs. We have been overwhelmed by the interest of Canadians in this matter and the feedback we have received.

Our committee is greatly appreciative of the many Canadians who took the time and effort to appear before us or to submit written briefs. Through this information we learned more about the complex tax issues related to each proposal, as well as their potential ramifications on the fairness of the tax system, the economy, SMBs, farmers and physicians. We also heard numerous poignant personal stories of some of those who may be affected. This report summarizes the various perspectives and concerns we heard and presents our view of how the government should move forward in order to ensure that our tax system is fair, equitable, and conducive to economic growth.

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1 Department of Finance Canada, [Tax Planning Using Private Corporations](), 18 July 2017, p. 3.

1 BACKGROUND

1.1 A Brief History of Taxation

At Confederation, the federal government primarily generated revenue through customs duties and excise taxes. It wasn't until 1916, with the passage of the *Business Profits War Tax Act*, that the government began to tax business profits. In 1917, with the passage of the eleven-page *Income Tax War Act*, it began to collect personal income taxes. These taxes were intended to be temporary measures to pay for the war effort. However, they became permanent in 1948 with the passage of the 88-page *Income Tax Act*.

Due to concerns that the Canadian tax system had become overly complicated and unfair, the government appointed the Royal Commission on Taxation (also known as the Carter Commission) in 1962, which released a six-volume report in 1966. The Commission is known for its assertion that "a buck is a buck is a buck," whether it came in the form of wages, salary, or gains on the stock exchange or real estate transactions. The Commission's report resulted in strong opposition from individuals and corporations who benefited from various tax breaks. While not all of the Commission's recommendations were followed, the government introduced substantial changes to the *Income Tax Act* in 1971, including the taxation of capital gains, which came into force in the following year.

In 1996, the government appointed the Technical Committee on Business Taxation, chaired by Jack Mintz, which released its report the following year. The Committee recommended a more neutral business tax structure and a reduction of the corporate income tax rate. The government has reduced the federal corporate income tax rate from 29 percent in 2000 to its current rate of 15 percent.

One-hundred years after the creation of personal income taxes in Canada, the *Income Tax Act* has grown to 3,129 pages.[2]

1.2 Canadian-controlled Private Corporations

Canadian businesses may choose to incorporate for a variety of reasons, including limiting liability, having easier access to loans, or as a business requirement in some industries. Under the *Income Tax Act*, incorporated businesses have access to the small business tax deduction for active business income up to $500,000.

In recent years, the number of Canadian-controlled private corporations (CCPCs) has risen from 1.2 million in 2001 to 1.8 million in 2014. CCPC taxable active income as a share in GDP has doubled from 2002 to 2014, and the amount of taxable passive investment income earned by CCPCs increased even more significantly, from $8.6 billion in 2002 to $26.8 billion in 2015.[3]

Small and medium-sized businesses provide an important contribution to the Canadian economy, employing 8.2 million individuals, which is 70.5 percent of the total private sector labour force. In 2014, they accounted for 30 percent of Canada's GDP and 25 percent of exports. They are valued at $106 billion.

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2 As of 6 November 2017, see *Income Tax Act*.

3 Department of Finance Canada, *Tax Planning Using Private Corporations*, 18 July 2017, p. 3.

The Department of Finance Canada (the Department) asserts that the growth in CCPCs may be related to certain tax planning strategies that are motivated by the gap between corporate income tax rates and the top personal income tax rates, a gap that has widened from about 26 percentage points in 2000 to over 37 percentage points today.[4] The Department notes, “Low tax rates designed to encourage investment have increased the rewards associated with tax planning in a private corporation, and have been partly used to opt out of higher personal income tax rates.”[5]

The Department is concerned about the resulting effects on the fairness of the tax system and Canada’s tax base, stating, “Action is needed to ensure that the tax rules apply in a fair manner and in a way that is consistent with their intent. If current trends continue, the significant growth in the use of CCPCs by high-income individuals will continue to weaken the tax base, increasing the tax burden on those who cannot benefit from incorporation.”[6]

1.3 Proposals to Limit Certain Tax Planning Strategies

In March 2016, the Department launched a review of federal tax expenditures, and the 2017 budget noted that this review “highlighted a number of issues regarding tax planning strategies using private corporations, which can result in high-income individuals gaining unfair tax advantages.”[7] The budget indicated that the government would be reviewing the following tax planning strategies:

- sprinkling income using private corporations;
- holding a passive investment portfolio inside a private corporation; and
- converting a private corporation’s regular income into capital gains.

In a discussion paper released on 18 July 2017, the Department provided draft legislation designed to limit the tax benefits of sprinkling income and converting income into capital gains, and outlined possible approaches for passive investment income.[8] (The Department’s proposals are described in subsequent sections of this report.) Canadians were asked to submit their input by 2 October 2017.

In response to concerns raised during the consultations, the Minister of Finance announced, through a series of news releases during the week of 16 October 2017, modifications to the original proposals. He also outlined five guiding principles as the Department further develops these measures:

1. supporting small businesses;
2. keeping taxes low for small businesses;
3. avoiding unnecessary red tape;
4. recognizing the importance of maintaining family farms, and ensuring that the transfer of a family business to the next generation is not affected; and

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4 Ibid., p. 12.

5 Department of Finance Canada, *Progress for the Middle Class—Fall Economic Statement 2017*, 24 October 2017, p. 45.

6 Ibid.

7 Department of Finance Canada, *Building a Strong Middle Class*, Budget 2017, 22 March 2017, p. 199.

8 Department of Finance Canada, *Tax Planning Using Private Corporations*, 18 July 2017.

5. conducting a gender-based analysis to ensure that any changes to the tax system promote gender equity.[9]

The Minister of Finance also announced on 16 October 2017 that the government would be reducing the federal small business tax rate from the current level of eleven percent, to ten percent, effective 1 January 2018, and nine percent, effective 1 January 2019.[10] This change would reduce federal revenues by $2.9 billion over 2017–2018 and the following five fiscal years.[11]

2 WHAT THE COMMITTEE HEARD

2.1 Income Sprinkling

2.1.1 Proposed Measure

According to the Department of Finance Canada, “income sprinkling” is a tax planning strategy whereby a business owner provides shares of his/her privately owned business to family members in order to distribute the business’ after-tax profits to them in the form of dividends. If the personal income tax rates of these family members are lower than that of the business owner, then this distribution of the after-tax profits may result in a lower amount of personal income tax being collected from the family than would have been the case if those profits had instead been distributed solely to the business owner.

Under the Department’s proposed measures, the distribution of dividends to a family member would be “reasonable” to the extent that the distribution is less than or equal to the remuneration that would be paid to a non-family member (or an arm’s length individual) under similar circumstances. Whether the distribution of dividends is “reasonable” would be determined with respect to the family member’s labour contributions, asset contributions, risks assumed, and the amount of past contributions in these areas.

Also, the Department proposed constraining the multiplication of claims to the lifetime capital gains exemption (LCGE).

According to the Department, only an estimated 50,000 family-owned CCPCs are sprinkling income, which represents about 3 percent of CCPCs. About 80 percent of these families earned more than $125,000 in total income, and 50 percent earned more than $200,000 in total income. And 70 percent of the individuals sprinkling income are male.[12]

In response to concerns raised during the consultations, the government decided not to move forward with measures that would limit access to the LCGE, due to unintended consequences related to intergenerational transfers of family businesses. Additionally, the government indicated that it would

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9 Department of Finance Canada, Backgrounder: Support for Small Business and Fairness for the Middle Class, 16 October 2017.

10 Department of Finance Canada, News Release: Government Moves to Reduce Small Business Tax Rate and Support Fairness for the Middle Class, 16 October 2017.

11 Ibid.

12 Department of Finance Canada, Backgrounder: Income Sprinkling Using Private Corporations, 16 October 2017.

simplify the measures related to income sprinkling with the aim of providing greater certainty for family members who contribute to a family business, including a family farm.[13]

2.1.2 Rationale

The Minister of Finance said that the proposed rules are about making the tax system fairer, as most taxpayers cannot split income with spouses or adult children.

A few witnesses defended the proposed measures because income sprinkling is:

- unfair between individuals with the same income and erodes the progressivity of the income tax system;
- economically inefficient, because it provides a benefit unrelated to business needs;
- a recent phenomenon and not an entitlement; and
- realized mostly by wealthier Canadians.

> *It doesn't matter whether you have good ideas. It doesn't matter if you are investing in your company. It just matters that you happen to have kids of a certain age and, you know, you happen to be married with a spouse at home versus not married.*
> *- **Kevin Milligan**, Professor at the University of British Columbia*

2.1.3 Reasonableness Test

Officials from the Canada Revenue Agency said they can work with a reasonableness test. They are working to develop a guidance document, which will be issued shortly after the release of the legislation. They recognized some challenges, but said reasonableness tests are currently found throughout the *Income Tax Act*.

Most witnesses expressed concerns over the likely subjectivity in interpreting the rules and the consistency of their application because:

- auditors will use personal judgment to determine what is and is not reasonable;
- current reasonableness tests are hard to apply;
- any challenges to an auditor's determination would be very expensive; and
- the people who draft the legislation are not the ones who enforce it.

> *[W]e're going to be asking the thousands of auditors across Canada to be using personal judgment to determine what is and is not reasonable, and we will not have any consistency across the country, and so we're going to be in litigation for years and years and years before we have any indication of what this is.*
> *- **Kim Drever**, Partner at MNP LLP*

2.1.4 Complexity

Most witnesses believe that the reasonableness test will be complicated to apply for small businesses, thereby increasing red tape and the costs of tax compliance, for example:

- small businesses receive substantial formal and informal support from family members;

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13 Department of Finance Canada, News Release: Government Thanks Canadians for Helping Get Tax Fairness Right, 17 October 2017.

- farm families live where they work and rarely keep track of who does what when;
- considerable paperwork will be needed to justify dividends;
- many people have been using dividends rather than salaries due to the effort that it would take to determine a reasonable salary;
- holding a share is not an employment contract and the rules cannot be the same; and
- no other jurisdiction applies a reasonableness test to dividends.

Most witnesses said that the difficulty of understanding and complying with the rules will lead to uncertainty, foster tax appeals and litigation, and ultimate clarification will only come after many years through court decisions.

The complexity generated by these requirements led many to wonder whether the projected $250 million in additional revenue would be worth the added costs of compliance to small businesses. At the very least, witnesses felt that the Department and the CRA needed to consult with tax specialists and industry representatives on the draft legislation and the subsequent guidance document.

2.1.5 Unintended Consequences

Many witnesses were concerned about possible unintended consequences of the proposed income sprinkling rules, such as:

- having to buy out family members because the tax on their dividends would be too high;
- not being able to facilitate the smooth transition of a family business from one generation to the next;
- deterring investments by family members in start-up companies; and
- having retroactive effect on “estate freezes.”

Some witnesses noted that the government would be involving itself in business decisions and intruding on the value of spouses and other family members.

Aaron Wudrick, Federal Director at the Canadian Taxpayers Federation, warned that, “You’re attempting to graft on rules that apply to income to property, which is what holding a share is. If you try and apply those same rules, you’re going to have all kinds of unintended consequences.”[14]

Unintended Consequences – Income Sprinkling

Dr. Joanne Sivertson, President of the Saskatchewan Medical Association, described a resident physician who is deciding where to practice medicine. She has been considering Prince Albert, a smaller city of 40,000 people, because of the interesting work she can do.

However, should the resident and her husband, who is a geologist, move to Prince Albert, it is unlikely that her husband would be able to find work in his field. He wants to support his wife, but he wonders whether the proposed income sprinkling rules would mean that he could not participate in his wife’s business.

Dr. Sivertson said the income sprinkling rules may make it harder for smaller communities to attract new physicians.

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14 Senate, Standing Committee on National Finance, 1st Session, 42nd Parliament, *Evidence*, 17 October 2017.

2.1.6 Splitting Income with a Spouse

A number of witnesses asserted that spouses should be exempted from the income sprinkling rules, in part because spouses bear the risk of the business, including bankruptcy. Some witnesses suggested that changing the unit of taxation from the individual to the family would resolve the issue.

Several witnesses pointed out the unfairness of the fact that retired couples are able to split income, but business owners who have saved through their corporations will be unable to do so.

On the other hand, officials from the Department of Finance Canada said that it is a personal decision for spouses to stay at home and not work.

2.1.7 Reforms

Most witnesses would like to see the proposed income sprinkling rules withdrawn, because they don't recognize the reality of family contributions to small businesses.

Others suggested extending the tax on split income to adult children aged 18–24, because, as acknowledged by the Department, they "present particular advantages for those seeking to sprinkle income."[15] Such a rule would be objective, fairly easy to apply and address most of the concerns regarding inappropriate income sprinkling.

At the very least, some witnesses proposed delaying the implementation of the income sprinkling rules until 1 January 2019, which would give businesses more time to prepare for them.

2.2 Passive Investments Held Inside a Private Corporation

2.2.1 Proposed Measure

According to the Department of Finance Canada, because corporate tax rates are generally lower than personal income tax rates, it may be financially advantageous for the owners of a private corporation to hold an investment portfolio inside the corporation rather than personally; this approach facilitates the accumulation of earnings that can be reinvested in the portfolio.

In its July 2018 consultation document, the Department proposed approaches that could "improve the fairness and neutrality of the tax system, such that savings held within corporations are taxed in a manner that is equivalent to savings held directly by individuals, for example salaried employees."[16]

While the Department did not propose a specific approach to address passive investment income, it did suggest removing the refundability of passive investment taxes, which, as many witnesses pointed out, could lead to marginal tax rates of 73% on passive income. The rules would only apply on a go-forward basis and would exempt existing passive investments.

On 18 October 2017, the Minister of Finance announced amendments to the passive investment income proposal.[17] In order to provide business owners more flexibility to hold savings for multiple purposes,

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15 Department of Finance Canada, *Tax Planning Using Private Corporations*, p. 21.

16 Department of Finance Canada, *Tax Planning Using Private Corporations*, p. 38.

passive income up to a $50,000 threshold in a year (equivalent to $1 million in savings, based on a nominal five percent rate of return) would not be subject to additional taxation. Also, the government would ensure that capital and angel investors could continue to invest in innovation. Draft legislation would be released with the 2018 budget.

The Department pointed out that of the 1.8 million active CCPCs in Canada in 2015, about 97 percent reported taxable passive income below the proposed $50,000 threshold. The remaining 3 percent, those that reported more than $50,000, accounted for about 88 percent of passive income in 2015.[18]

2.2.2 Rationale

According to the government, the rules would ensure that some high-income individuals do not benefit from an unlimited, tax-preferred savings account via their corporation.

Professor Kevin Milligan supported the proposed changes because "the goal of our small business tax system [is] to provide incentives for active investment in the business, not for a place to park your savings."[19]

Many business owners said they use passive investments for a variety of reasons, including saving for business expansions or capital investments, preparing for economic or seasonal downturns or unexpected events, such as sick leave, or for personal reasons, such as maternity leave and retirement income.

2.2.3 Complexity

Most witnesses pointed out that the new passive investment income rules would make tax filing and business accounting more complicated, especially as the government is planning to "grandfather" existing passive investments, which would have to be tracked separately.

Carl Scholz, Tax Partner at Catalyst Group LLP, described the nature of the complexity, as tax specialists would have to:

> allow for investment turnover and substitution to ensure grandfathering of the investment capital; differentiate between different sources of the investment capital; specify the types of income included in measuring the $50,000 threshold; presumably create rules to prevent the multiplication of the $50,000 threshold where there is more than one holding company in the corporate structure; create ordering provisions when dividends are paid; allow for the conversion of operating businesses into investment-holding companies that were in existence at the time the passive investment rules were enacted; create exceptions to the passive investment rules where investments are made in other operating companies, i.e. the start-up situations.[20]

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17 Department of Finance Canada, News Release: Targeted Tax Fairness Measures Will Protect Middle Class Small Business Owners, 18 October 2017.

18 Ibid.

19 *Evidence*, 6 November 2017.

20 *Evidence*, 7 November 2017.

It wasn't just complexity that concerned witnesses, but a lack of clarity, as the government's amendments to its proposed rules are only outlined in a press release.

2.2.4 One-Size-Fits-All

For some witnesses, the primary concern was that the government appears to be taking a one-size-fits-all approach to passive investment income. While a $50,000 threshold may work for some small businesses, there are many medium and large businesses for whom the proposed rules would act as a serious constraint.

Witnesses expressed concern that the rules will make it harder for small businesses to grow into medium or large business, as they will force owners to withdraw funds from their corporation. Mark Jones, Board Member of the Winnipeg Chamber of Commerce, observed:

> If the government hits investment income with a 73 percent tax, business owners will have no 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. […] 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 longer to save to expand or grow their business, and ultimately it will impact job creation.[21]

2.2.5 Unintended Consequences

Witnesses noted that the proposed rules would:

- hurt business owners who had chosen to receive dividends rather than a salary, as they would have accumulated limited registered retirement savings plan (RRSP) room to save outside the corporation;
- encourage businesses to take funds out of their corporation, which would reduce flexibility;
- diminish the availability of capital investment from established businesses for seed funding or loans to small businesses;
- provide an uneven playing field for Canadian-controlled private corporations competing against public corporations and non-Canadian controlled private corporations; and
- create a two-tiered tax system favouring those who hold existing wealth in corporations over those trying to accumulate wealth.

> *The treatment of passive income already puts us at a competitive disadvantage relative to public companies, and these changes will make it worse. Who would find a 73 per cent tax rate fair? […] These proposed tax changes are a disaster. They will hurt our ability to grow, to create jobs and to invest in our communities.*
> *- **James Crosby**, President, Crosby Molasses Company Inc.*

21 *Evidence*, 9 November 2017.

Entrepreneurial Spirit – Fiasco Gelato

In Calgary, our Committee met with James Boettcher, the 34-year-old Chief Executive Officer of Fiasco Gelato, who described the commitment, risk and sacrifice of being a small business entrepreneur.

Mr. Boettcher took over Fiasco Gelato in 2009, when it had one full-time employee and $100,000 in annual revenue. His dedication and hard work has grown the business to close to $10 million in annual revenue and 41 full-time employees.

Mr. Boettcher said he is determined to be a force for good, providing full benefits and a living wage to employees, ensuring environmental stewardship in company operations, and contributing to community activities.

However, he wouldn't have been able to grow his company without the assistance of a short-term loan from the passive investments saved inside the corporation of another entrepreneur. Mr. Boettcher believes that the federal government's proposed changes to the taxation of passive investment income could inhibit these transactions, and thereby success stories like Fiasco Gelato.

2.2.6 Reform

While some witnesses said the proposed $50,000 threshold on passive investment was a step in the right direction, they had many questions, noting that the "devil is in the details."

As businesses may earn more investment income in some years than others, or may realize capital gains, some witnesses suggested that the threshold should be accumulated over time, and at the very least be indexed to the rate of inflation.

A few witnesses suggested that the threshold should take into account different business sizes and needs, for example by being tied to a percentage of existing capital.

Many witnesses simply felt that the passive investment income rules should be withdrawn because it was not clear that the rules are needed.

2.3 Conversion of Income into Capital gains

2.3.1 Proposed Measure

Canada's income tax system operates in accordance with the "tax integration" principle, whereby the combination of the corporate and personal income taxes that is payable is approximately equal to the income tax that would have been payable if the income had been earned directly by the taxpayer in the absence of a corporation.

However, according to the Department of Finance Canada, tax integration is not achieved if "surplus stripping" occurs—a process that involves dividends being converted into capital gains. Because only one half of capital gains are included in income, this conversion results in business profits being taxed at a rate that, overall, is lower than the rate that would have been applied if those profits had been distributed as dividends.

The Department had proposed tax measures that would extend the operation of section 84.1 of the *Income Tax Act* to prevent the extraction of corporate surplus as a return of capital.

In its discussion paper, the Department acknowledged that a major policy concern was distinguishing a genuine intergenerational transfer of a corporation from a tax avoidance transaction, and it solicited the views of stakeholders on how to accommodate intergenerational transfers while still protecting against potential abuses.[22]

On 19 October 2017, the Minister of Finance announced that the government would not be moving forward with these measures.[23] During the consultations, the government heard that the measures could result in unintended consequences, such as double taxation upon death and potential challenges with intergenerational transfers of businesses. The government said it would work with family businesses, including farming and fishing businesses, to make it more efficient, or less difficult, to hand down their businesses to the next generation.

2.3.2 Intergenerational Transfers

The Committee heard that these proposals received a lot of criticism because many small business owners plan to pass on their business to the next generation. For example, 98% of farms in Canada are family run.

Despite acknowledging the issue in their discussion paper, officials from the Department of Finance Canada said they are still struggling with it.

Several witnesses observed that even current tax rules inhibit intergenerational transfers. Warren Blatt, Board Member of the Conference for Advanced Life Underwriting, pointed out that due to our aging demographics, close to 75 percent of current business owners plan to sell or exit their business in the next 10 years, and many will want to pass on their businesses to family members. However, he said:

> [E]xisting tax rules can penalize owners who want to sell their business to family members since it is more expensive, from a tax perspective, to sell to a non-arm's-length person than to a stranger. Accordingly, business owners are often faced with the difficult decision of selling a business outside of the family in order to preserve more after-tax proceeds to fund their retirement, or to receive less money in order to pass their business to their children.[24]

A couple of witnesses suggested adopting rules recently put in place by the Government of Quebec, which makes intergenerational transfers easier.

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[22] Department of Finance Canada, *Tax Planning Using Private Corporations*, 18 July 2017, p. 59.

[23] Department of Finance Canada, News Release: Targeted Tax Fairness Measures Will Protect Small Business Owners Including Farmers and Fishers, 19 October 2017.

[24] *Evidence*, 24 October 2017.

2.4 Impacts of the Proposed Changes

2.4.1 Economy

Many witnesses were concerned about the possible negative effects on the Canadian economy of the proposed changes to the taxation of private corporations. They believe that the changes:

- have led to considerable uncertainty – businesses have been in limbo for almost six months;
- could discourage investment and job creation; and
- could weaken tax competitiveness, especially in light of likely tax reforms in the United States.

> *This tax could be a massive job killer, undermining Canada's competitiveness and causing less investment, less of a cushion to get us through the economic downturn, whenever it comes, less venture capital and less foreign investment.*
> *- The Honourable* ***Perrin Beatty****, P.C., President and Chief Executive Officer of the Canadian Chamber of Commerce*

This has led to investments being put on hold and capital leaving to other countries. The changes may, in fact, lead to less revenue over time if they discourage new investment.

A number of witnesses called for a full economic impact assessment of the proposed changes before moving forward.

A Concrete Case: Compass Compression

In Calgary, our Committee had the chance to visit the facilities of Compass Compression, which specializes in the manufacture of compressors used in the extraction of natural gas.

We met with John Forgeron, President, and Phil Ness, Vice-President Operations, who talked about the impact on their company of the government's proposal to significantly increase the taxes on annual passive investment income above $50,000. It would:

- reduce the capacity of their business to operate, since the equipment manufactured by Compass takes several months to build and requires millions of dollars of investment before they can deliver their products and receive payment from their customers;
- reduce the ability of their business to stay on the cutting edge of technology, as it can take more than a year to raise the capital needed to purchase new equipment; and
- reduce the amount of funding available and necessary for business start-ups in Canada, since Compass was able to invest in other companies.

According to Mr. Forgeron, the proposed tax changes have forced Compass to put a hold on any further capital expansion in Canada and instead look south of the border for expansion.

2.4.2 Fairness of the Tax System

The Minister of Finance told our committee that our tax system "encourages those individuals who are already successful to incorporate simply to pay less personal tax. This situation, we know, is unfair, and our goal is to address it."[25]

David Duff, professor at the University of British Columbia, argued that the government needs to maintain the neutrality of the tax system among various forms of income. Thus, income derived through a corporation should be taxed no differently than income that is earned by an individual directly.

He maintained that the government's proposals on passive investments are not a radical departure from existing rules, but seek to better target the small business deduction on its real purpose – encouraging reinvestment in small businesses.

A number of small business owners and their representatives argued that fair does not mean equal. The government has made a false equivalence between business owners and employees, but business owners do not receive vacation pay, sick leave, overtime, pensions, Employment Insurance, severance pay, or health benefits, some of which are guaranteed by law. Instead, small business owners are at risk of losing all their personal assets, and their spouses and families share that risk with them. Ray Orb, President of the Saskatchewan Association of Rural Municipalities, observed, "There is no safety net for business owners. If the business doesn't make a profit then they do not get paid."[26]

> *"My life is my business. My pension is my business. Whether I make it or I don't make it in my life, this will be based on my business. My business is, in fact, my retirement fund, my estate, my everything."*
> *- **Michel Coderre**, Lawyer-Director, De Jure, Lawyers, speaking about a client*

They argued that as business owners take on a great deal of risk, they should be appropriately compensated for that risk.

2.4.3 Small businesses

According to Corinne Pohlmann of the Canadian Federation of Independent Business, 94 percent of small business owners surveyed did not support the government's proposed changes.[27] Reflecting an overall lack of trust, many witnesses did not believe the Department's assertion that only 3% of private corporations would be affected by the proposed income sprinkling and passive income rules.

A number of witnesses indicated that small businesses are family-owned, and it can be hard to identify the contributions of each family member who supports the business in numerous informal ways.

A few witnesses stated that the $50,000 annual threshold on passive investment income may be sufficient, but the threshold will also limit their ability to grow and become larger businesses. Once businesses get to the threshold, owners will start to pull passive investments out of their corporations, making them less stable, less able to get through a downturn, and less able to take advantage of growth opportunities.

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25 *Evidence*, 1 November 2017.

26 *Evidence*, 24 October 2017.

27 *Evidence*, 18 October 2017.

It is also very difficult for small business owners to distinguish between savings for business purposes and for personal reasons because the business itself is the savings and retirement plan.

Some witnesses were concerned that the proposed rules may act as a disincentive for the next generation to become entrepreneurs and to start their own businesses.

> *[T]he reason I drove for seven hours to talk to you for 15 minutes [...] is that, personally, my ultimate goal as a 30-year-old entrepreneur is growth. I voluntarily reduce my salary to invest in the company in order to be ready for a potential business opportunity. [...]I'm here, standing up for passive investments, which are the crux of the issue.*
> - ***Laurent Proulx**, Chief Executive Officer of* Groupe Le Canadien

2.4.4 Physicians

A number of physician representatives discussed the impacts of the proposed changes to the taxation of private corporations on physicians, because as many as 54,000 physicians across Canada have incorporated their practice. In a number of provinces, physicians were encouraged through the collective bargaining process to incorporate in lieu of a direct increase to their compensation.

According to Dr. Maria Alexiadis, Past President of Doctors Nova Scotia, "We view the benefits of incorporation as one component of a physician's total compensation package. A change to any component of the compensation package, which has existed for more than 20 years, will impact the capacity of physicians to practise."[28]

Witnesses suggested that the proposals could lead to cuts to patient care, as physicians are not able to pass increased expenses on to their patients. Physicians could also decide to reduce their hours or retire early. Some physicians could decide to leave Canada, especially international medical graduates. Any reduction in physicians would hit rural and northern communities particularly hard, where already there are insufficient physicians, and it is challenging to recruit and retain new ones.

Physicians maintained that they are entrepreneurs who take risks to manage their businesses and make significant investments in medical equipment. They also do not receive paid maternity leave, sick leave, or pensions and thus need to keep savings in their corporations.

Dr. Rita McCracken supported the proposals because people making more should pay more in taxes as a step towards reducing income inequality.[29] She also pointed out that the right to incorporate hasn't reduced doctor shortages.

2.4.5 Farms

Several farm representatives appeared, and they pointed out that most farms in Canada are family owned. While only about 25% of farms are currently incorporated, more will do so because incorporation facilitates the transfer of farms to the next generation.

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28 *Evidence*, 21 November 2017.

29 *Evidence*, 25 October 2017.

Witnesses pointed out that farm families live where they work, and thus it is very difficult to distinguish and record the contribution of each family member for the proposed income sprinkling rules.

They also noted that farm equipment can be very expensive and that land prices are rising, so a $50,000 threshold based on $1 million in passive investments will be insufficient for larger farms.

Additionally, farmland rental is a common practice for stabilizing and diversifying revenue, as well as facilitating farm succession, and thereby should not be considered to be passive income.

Impact on Family Farms

"The agriculture industry has been founded on family farms where they're run by siblings, husband and wife teams, or multi-generational families. They are often run through partnerships or corporations. Heather and her husband, John, run a family farm in Saskatchewan. They have been in partnership for over 20 years, and together they have grown a very successful farm operation. While John is often out in the field directing employees, running equipment and making different decisions, Heather maintains the farm finances and provides meals for the crew during seeding and harvest. On top of this she is also required to manage the daily house duties, to raise their three children, to run to town for groceries, at the same time pick up some parts along the way, and to do the banking. The work that both John and Heather do together is the reason for the farm's success.

The [tax on split income] rules will soon force us to make a decision about whether John's contribution to the farm is the same as Heather's contribution to the farm. We will need to quantify the amount that we would pay to an arm's-length person. We will need to look at the capital invested and we will need to look at the risks they're incurring. This may work for certain businesses but it really discounts the role that spouses play in family business, particularly in farms."

- Tanya Knight, Senior Vice President at MNP LLP

2.4.6 Government Finances

The proposed changes would increase the federal government's annual tax revenues, though more precise estimates for the amount of revenues may have to wait until the draft legislation is released.

With respect to income sprinkling, the Department of Finance Canada estimated that the proposed rules would result in $250 million in additional revenue annually, once fully implemented.

With respect to the passive investment income rules, the Department did not provide an estimate because the government had not yet decided on the design of the new tax rules. It committed to provide an estimate once the associated draft legislation was released.

Based on assumptions about the government's likely approach, the Parliamentary Budget Officer estimated that the changes could increase annual federal revenues by up to $1 billion in the short term (one to two years after implementation), $3 to $4 billion over the medium term (five to ten years after implementation) and up to $6 billion over the long term.[30] He also estimated that 47,000 (2.5 percent) of private corporations would be affected by the changes. The report notes that the figures don't account for any behavioral changes in response to the new rules, which could decrease the revenue estimates by as much as 15 percent.

30 Parliamentary Budget Officer, *Analysis of Changes to the Taxation of Corporate Passive Investment Income*, 23 November 2017.

3 OBSERVATIONS AND RECOMMENDATIONS

In light of the numerous foregoing concerns and unintended consequences, **most witnesses told our committee that the proposed changes should be withdrawn in their entirety.** Given the strength of their arguments and the extent of the problems identified, **we are inclined to agree**. We are not convinced that the government has made a good case for its proposals. Our committee recommends:

Recommendation 1

That the Minister of Finance withdraw his proposed changes to the *Income Tax Act* respecting Canadian-controlled private corporations.

3.1 Comprehensive Tax Review

Many witnesses said that our tax system has become overly complex with layers upon layers of changes undertaken without considering their effects on the tax system as a whole. Bruce Ball, Vice-President of Chartered Professional Accountants of Canada, said, “Ad hoc incremental changes to the tax system are not a long-term solution. In fact, they create further complexities, inefficiencies and unintended consequences down the road.”

For example, our committee heard that the tax planning strategies the government is trying to limit are the result of divergences between the tax treatments of capital gains and dividends, personal and corporate tax rates, and the small business and general corporate tax rates. Trying to limit the use of certain tax planning strategies without addressing the underlying incentives is unlikely to be effective.

> *[T]here’s something wrong if business people are spending their time trying to fit their company in between a comma and a semicolon in the Income Tax Act instead of focusing on how you develop a business plan, attract new customers and develop new products.*
> - ***Perrin Beatty****, President and Chief Executive Officer of the Canadian Chamber of Commerce*

More importantly, other countries, including France, the United Kingdom, and the United States have recently embarked on significant tax reforms. The United Kingdom simplified its tax system by adopting a single corporate rate, and the United States is considering reducing its corporate tax rate from 35 percent to 20 percent.

The testimony before our committee revealed significant differences in the interpretation of the fairness of our tax system, with some witnesses arguing that tax rates should be based on the ability to pay, and others arguing that businesses should be rewarded for the risks they undertake.

Many witnesses called for a comprehensive review of our tax system, which was last undertaken in the 1960s, and our committee agrees. We need to ensure that our tax system is not overly complex, imposing an undue compliance burden on small businesses and individuals. We must ensure that we are internationally competitive and able to attract and retain capital investment and highly qualified people from all over the world. If not, Canada will be at an economic disadvantage. We also need a neutral review of the fairness of our tax system.

The Minister of Finance did not seem interested in undertaking a comprehensive review of our tax system, but **we believe it is time.** The world is changing, for example, the United States is considering significant tax reforms. Canada needs a strategy to ensure our tax system remains competitive for the future. We need to encourage, rather than inhibit, innovation, entrepreneurship, and economic growth, while at the same time enhancing the overall fairness of our tax system.

A review of the tax system is needed irrespective of whether the government moves forward with its proposed changes. Our committee does not have a preference for a Royal Commission or other form of panel, committee, or task force, but the review must be independent of government and composed of highly regarded tax experts and consult Canadians from coast–to coast–to coast. Our committee recommends:

Recommendation 2

That the Government of Canada undertake an independent comprehensive review of Canada's tax system with the goal of reducing complexity, ensuring economic competitiveness, and enhancing overall fairness.

3.2 Moving Forward

We also recognize that there may be legitimate tax policy objectives and that the government has indicated that it may move forward with its proposed changes. Should it wish to proceed, the government needs to assure Canadians that all unintended consequences are minimized and that benefits outweigh possible negative effects.

Additionally, in order to reduce uncertainty and provide businesses time to prepare for the changes, the government needs to release its draft legislation and related guidance documents as soon as possible. While we understand that the legislation related to income sprinkling will be released this fall, the legislation related to passive investment income is not scheduled to be released until March or April 2018.

We believe that the government needs to delay the implementation of its proposed changes so it can undertake meaningful consultations on its draft legislation, as well as analyze the impact of its proposals on the economy, gender and the health care system.

Our committee recommends:

Recommendation 3

That, should the Minister of Finance proceed with his proposals to amend the *Income Tax Act* respecting Canadian-controlled private corporations, then he should delay their implementation until at least 1 January 2019, and:

- **release, as early as possible, draft legislation and related guidance documents**;
- **undertake thorough, cross-Canada consultations with businesses, tax specialists, physicians, farmers, and other Canadians on draft legislation;**
- **undertake, and release publicly, an economic impact assessment of the proposals;**
- **conduct, and release publicly, a gender analysis of each of the proposals; and**

- **assess, in cooperation with provinces and territories, the potential impacts of the proposals on the accessibility of health care, and consider measures to avoid these consequences.**

3.3 Meaningful Consultations

Our committee heard loudly and clearly that business owners were offended by the government's framing of its proposed changes in terms of "defending the middle class" and the "fairness of the tax system." Many witnesses objected to the government's inflammatory language, which referred to "loopholes" and "wealthy Canadians getting an unfair advantage."

> *We have always operated according to the parameters in the legislation. It is unfair to portray business people as profiteers.*
> *- **Joanne Sirois**, President Assurances Sirois Insurance Inc*

As was pointed out to us time and again, small business owners are very much a vital part of Canada's middle class, and they are not seeking to gain an unfair advantage or use loopholes in the tax system. They are simply trying to maintain and grow their businesses under the rules established by the government and upheld by the courts. Our committee is disappointed by the government's unnecessarily divisive and provocative language.

Witnesses pointed out that the 75 day consultation period was too short for meaningful study and debate of such complex and potentially far-reaching proposals. Moreover, by releasing draft legislation with implementation dates, the government sent a message that it was not interested in consulting on the merits of its proposals, but on how best to fine-tune its legislative wording.

Our committee traveled the country and openly listened to Canadians to ensure that their concerns were heard. And it is clear that Canadians want to be heard on these matters—we are still receiving submissions and requests to appear. As our meetings and foregoing analysis have shown, they have numerous valid concerns.

Much of the outrage and the government's subsequent amendments to its proposals could have been avoided if it had undertaken thorough, open consultations based upon neutrally stated tax objectives.

3.4 Analyzing the Economic Impacts

Over and over again our committee heard that the government's proposed changes have created incredible uncertainty in the business community, leading to delayed, if not cancelled, investment decisions.

We heard numerous examples of capital and people either leaving Canada, or exploring their options to do so, especially in light of likely tax reforms in the United States. The proposed passive investment income changes will encourage entrepreneurs to restructure their businesses as non-Canadian-controlled private corporations, or simply move their operations out of Canada.

Our committee is deeply concerned about the possible negative effects of the proposed changes on the Canadian economy. They could undermine Canada's competitiveness, leading to less investment and less employment.

We are alarmed that the government has not conducted an economic impact analysis of its proposals.

3.5 Gender Analysis

Witnesses presented a number of concerns on how the government's proposed changes could adversely affect women.

Most small businesses, especially farms, are family-owned, and it can be hard to quantify the contribution of spouses, often women, who support the businesses in numerous formal and informal ways. It would be very complicated for family businesses to meet the government's proposed "reasonableness test," thereby limiting their ability to split income with spouses.

Many witnesses argued for a spousal exemption from the income sprinkling proposal because a spouse shares in the risks of a family business, and the value of the business would be equally divided upon the dissolution of the marriage. Some witnesses pointed out that making the family the unit of taxation, or allowing all couples to split income, would eliminate the problem.

In cases where the business is the retirement plan, the proposed changes would result in demonstrable unfairness, because retired business couples would be unable to split their income, which all other retired couples are entitled to do.

Female physicians stressed the importance of incorporation in balancing the costs of debt, running a business, and saving for maternity leave. Without the current tax strategies, it would be very difficult, if not impossible, for female physicians to take time away to have a family.

The Department of Finance Canada committed to conducting a detailed analysis of the gender impacts of the passive income proposal before the government decides on the final design of the new tax rules.[31] While our committee appreciates that a gender analysis of this proposal will be done, we think it should cover all future tax changes, including the proposals related to income splitting.

3.6 Health Care System

Witnesses told our committee that the proposals would reduce physician compensation, which could lead them to move to another jurisdiction, reduce their hours or retire early.

Any reduction in the number of physicians or their hours worked could have a significant impact in certain parts of Canada. Our committee heard, for example, that 90 percent of rural Manitoba municipalities have a physician shortage and more than 50,000 New Brunswickers and 100,000 Nova Scotians do not have a family doctor. Any changes that result in fewer practicing physicians or reducing physician compensation would have negative effects on patient care and further strain our health care system.

3.7 Conclusion

The moral authority of constitutional governments rests upon the consent of the governed. The people place a trust in their government, through their representatives, to govern wisely and justly on their

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[31] Department of Finance Canada, *Progress for the Middle Class—Fall Economic Statement 2017*, 24 October 2017, p. 56.

behalf. Governments must never break that trust by undertaking actions that are excessive, unreasonable or unjustified.

Taxation is one of the most sacred elements of that trust, because it involves using private monies for public purposes. The tax system must be seen to be fair and equitable, and contribute to economic competitiveness. The use of public money must be appropriate, responsible and economical.

This explains why reforming the tax system is delicate task for governments. If not undertaken with due care and consideration of the possible ramifications, tax reform risks rupturing the trust with citizens and disturbing their sense of fairness.

Our cross-country hearings made it clear that the Government of Canada risks breaking the trust with Canada's business owners, farmers, and physicians over its proposed changes to the taxation of private corporations. Once trust is lost, it is hard to regain. The government should take greater care in its approach to tax reform, in order to maintain, if not restore, trust in our tax system.

APPENDIX A – WITNESSES WHO APPEARED BEFORE THE COMMITTEE

Acton, Alan, Vice President and Portfolio Manager, Polaris Financial Inc.
(25-10-2017)

Agricultural Producers Association of Saskatchewan
Todd Lewis, President
(08-11-2017)

Alberta Chambers of Commerce
Ken Kobly, President and Chief Executive Officer
(07-11-2017)

Alliance Concerning the 2017 Tax Reform
Benedict Leung, Liaison
(01-11-2017)

Atlantic Chamber of Commerce
Glenn Davis, Vice President, Policy
(21-11-2017)

Atlantic Provinces Economic Council
Finn Poschmann, President and Chief Executive Officer
(21-11-2017)

BC Chamber of Commerce
Val Litwin, President and Chief Executive Officer
(06-11-2017)

BDO Canada LLP
Rachel Gervais, Partner, GTA Group Tax Service Line Leader
(25-10-2017)
Jennifer J. Dunn, Tax Service Line Leader, Atlantic Canada
(23-11-2017)

Beers Neal LLP
Christopher Neal, Partner
(22-11-2017)

Bluesky Equities Ltd.
Derrick Hunter, President
(07-11-2017)

Boudreau, Robert, President, Robert Excavating
(25-10-2017)

Brassard, Éric, Partner, Brassard Goulet Yargeau Integrated Financial Services
(31-10-2017)

British Columbia Agriculture Council
Garnet Etsell, Past Chair
(06-11-2017)

Business Council of Canada
Brian Kingston, Vice President, International and Fiscal Issues
(18-10-2017)

Calgary Chamber of Commerce
Adam Legge, President and Chief Executive Officer
(07-11-2017)

Canada Revenue Agency
Stéphane Prud'homme, Director, Reorganizations Division, Income Tax Rulings Directorate
Geoff Trueman, Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch
(31-10-2017)

Canadian Association of Radiologists
Dr. Magalie Dubé, Member
(25-10-2017)

Canadian Centre for Policy Alternatives
David Macdonald, Senior Economist
(17-10-2017)

Canadian Chamber of Commerce
The Honourable Perrin Beatty, P.C., President and Chief Executive Officer
Hendrik Brakel, Senior Director, Economic, Financial and Tax Policy
(01-11-2017)

Canadian Dental Association
Dr. Larry Levin, President
(25-10-2017)

Canadian Federation of Independent Business
Corinne Pohlmann, Senior Vice President, National Affairs and Partnerships
(18-10-2017)

Canadian Franchise Association
Ryan J. Eickmeier, Vice-President, Government Relations and Public Policy
(24-10-2017)

Canadian Home Builders' Association
Eric DenOuden, President
(24-10-2017)

Canadian Home Builders' Association - Newfoundland and Labrador
Des Whelan, Chair
(20-11-2017)

Canadian Horticultural Council
Mark Wales, Chair of the Business Risk Management Committee
(24-10-2017)

Canadian Manufacturers and Exporters
Mike Holden, Chief Economist
(22-11-2017)

Canadian Medical Association
Dr. Laurent Marcoux, President
(25-10-2017)

Canadian Taxpayers Federation
Aaron Wudrick, Federal Director
(17-10-2017)

Cape Breton Barristers' Society
Nicole LaFosse, Lawyer, LaFosse MacLeod
(21-11-2017)

Catalyst Group LLP
Cam Crawford, Partner
Carl Scholz, Tax Partner
(07-11-2017)

Chartered Professional Accountants of Canada
Bruce Ball, Vice-President, Taxation
(18-10-2017)

Coalition for Small Business Tax Fairness
Jason Burggraaf, Policy and Government Relations Advisor
Loren Kroeker, Senior Vice President of Taxation Services
(01-11-2017)

Coderre, Michel P., Lawyer-Director, De Jure, Lawyers
(17-10-2017)

Concerned Ontario Doctors
Dr. Kulvinder Gill, President
(25-10-2017)

Conference for Advanced Life Underwriting
Warren Blatt, Chair, Government Relations Committee, Board Member
Kevin Wark, Tax Advisor
(24-10-2017)

Conseil économique du Nouveau-Brunswick
Michel Noel, Administrator
Thomas Raffy, Chief Executive Officer
(22-11-2017)

Crosby, James, President, Crosby Molasses Co Ltd
(23-11-2017)

Dairy Farmers of Nova Scotia
Gerrit Damsteegt, Chair
(21-11-2017)

Department of Finance Canada
Ted Cook, Director, Tax Legislation Division
Brian Ernewein, General Director, Legislation, Tax Policy Branch
Miodrag Jovanovic, General Director - Analysis, Tax Policy Branch
Andrew Marsland, Senior Assistant Deputy Minister, Tax Policy Branch
(03-10-2017)
Paul Rochon, Deputy Minister
(01-11-2017)

Doctors Manitoba
Dr. Aaron Chiu, President
(09-11-2017)

Doctors Nova Scotia
Dr. Maria Alexiadis, Family Doctor, Past President
(21-11-2017)

Duff, David G., Professor and Director Tax LLM Program, Peter A. Allard School of Law, University of British Columbia
(06-11-2017)

Dyke, Robert A., President, Dyke & Murphy Professional Corporation
(25-10-2017)

Erikson, Valentin, Real Estate Tax Lawyer, Erikson Law Firm Professional Corporation
(25-10-2017)

Ernst & Young LLP
Barry G. Munro, Partner, President
Warren Pashkowich, Partner, Transaction Tax
(07-11-2017)

Etter, Philippe, Dairy Farmer
(24-10-2017)

Fédération des chambres de commerce du Québec
Stéphane Forget, President and Chief Executive Officer
(17-10-2017)

Fiasco Gelato
James Boettcher, Chief Executive Officer
(07-11-2017)

Flaim Wolsey Hall Chartered Professional Accountants
Don Wolsey, Partner
(21-11-2017)

Forgeron, Dr. Patti, Specialist in Physical Medicine and Rehabilitation, Past President of the Medical Staff Organization Saint-John Hospital
(22-11-2017)

Fraser Institute
Charles Lammam, Director, Fiscal Studies
(06-11-2017)

Fredericton Chamber of Commerce
Krista Ross, Chief Executive Officer
(22-11-2017)

The Honourable Cameron Friesen, Minister of Finance, Government of Manitoba
(09-11-2017)

Gorman Nason
Andrew Costin, Corporate Lawyer and Partner
(22-11-2017)

Grain Farmers of Ontario
Mark Brock, Chairman
(24-10-2017)

Greater Saskatoon Chamber of Commerce
Darla Lindbjerg, President and Chief Executive Officer
(08-11-2017)

Greater Vancouver Board of Trade
Iain Black, President and Chief Executive Officer
(06-11-2017)

Green, Jill, Chief Executive Officer, Green Imaging Technologies Inc.
(23-11-2017)

Halifax-Dartmouth & District Labour Council
Suzanne MacNeil, President
(21-11-2017)

Insurance Brokers Association of Canada
Peter Braid, Chief Executive Officer
(24-10-2017)

Halifax Chamber of Commerce
Patrick Sullivan, President and Chief Executive Officer
(21-11-2017)

HollisWealth, a division of Industrial Alliance Securities Inc.

Larry Short, Portfolio Manager, Senior Investment Advisor and Executive Director,
(20-11-2017)

Investment Industry Association of Canada
Jason O'Halloran, Tax Advisor
Ian Russell, President and Chief Executive Officer
(24-10-2017)

Johnston, Dr. Paul, Physician
(20-11-2017)

Kepes, Robert G., President and Chief Executive Officer, Tensor Machinery Ltd.
(25-10-2017)

Keystone Agricultural Producers of Manitoba
Dan Mazier, President
(09-11-2017)

Kingston Advocacy for Small Business
Karen Sands, Member and Spokesperson
Jason Skilnick, Member and Spokesperson
(01-11-2017)

LAT49 Architecture Inc.
Jim Case, President
(20-11-2017)

Locke, Wade, Professor of Economics and Department Head, Department of Economics, Memorial University of Newfoundland
(20-11-2017)

Manitoba Chambers of Commerce
Chuck Davidson, President and Chief Executive Officer
(09-11-2017)

Maritime Resident Doctors
Dr. Caitlin Lees, Chair
(21-11-2017)

May, Doug, Professor of Economics, Collaborative Allied Research in Economics (CARE) initiative, Memorial University of Newfoundland
(20-11-2017)

McCracken, Dr. Rita, Family Physician and Healthcare Advocate
(25-10-2017)

Milligan, Kevin, Professor, Department of Economics, University of British Columbia
(06-11-2017)

Mintz, Jack, President's Fellow, The School of Public Policy, University of Calgary
(31-10-2017)

MNP LLP
Kim Drever, Partner, Taxation Services
Tanya Knight, Senior Vice President, Client Service
(08-11-2017)

Moody, Kim G. C., Director, Canadian Tax Advisory, Moodys Gartner Tax Law LLP
(04-10-2017)
(07-11-2017)

Mortgage Professionals Canada
Paul Taylor, President and Chief Executive Officer
(24-10-2017)

The Honourable Bill Morneau, P.C., M.P., Minister of Finance
(01-11-2017)

New Brunswick Dental Society
Dr. Kelly Manning
(22-11-2017)

New Brunswick Federation of Labour
Nancy Arseneau, 2nd Vice President
(22-11-2017)

New Brunswick Medical Society
Dr. Dharm Singh, President
(22-11-2017)

Newfoundland and Labrador Association of Realtors
Bill Stirling, Chief Executive Officer
(20-11-2017)

Newfoundland and Labrador Federation of Labour
Kerry Murray, Director of Policy
(20-11-2017)

North Saskatoon Business Association
Keith Moen, Executive Director
(08-11-2017)

Nova Scotia Federation of Agriculture
Chris van den Heuvel, President
(21-11-2017)

Office of the Parliamentary Budget Officer
Mostafa Askari, Deputy Parliamentary Budget Officer
Jean-Denis Fréchette, Parliamentary Budget Officer
Chris Matier, Senior Director, Economic and Fiscal Analysis

(31-10-2017)
Mostafa Askari, Deputy Parliamentary Budget Officer
Jean-Denis Fréchette, Parliamentary Budget Officer
Govindadeva Bernier, Financial Analyst
(28-11-2017)

Ontario Medical Association
Dr. Shawn Whatley, President
(25-10-2017)

Owens MacFadyen Group
Barry Van Steeg, Vice President, Tax and Estate Planning
(23-11-2017)

Paquet, Alain, Full Professor, Department of Economics, Management Sciences School, University of Quebec at Montreal
(31-10-2017)

Proulx, Laurent, Chief Executive Officer, Groupe Le Canadien
(25-10-2017)

Power, Michael F., Owner, Power & Associates
(20-11-2017)

Pryor, Ian, Tax Lawyer, Pryor Tax Law
(04-10-2017)

Regina & Region Home Builders' Association
Stu Niebergall, President and Chief Executive Officer
(08-11-2017)

Saint John Region Chamber of Commerce
David Duplisea, Chief Executive Officer
(22-11-2017)

St. John's Board of Trade
Dorothy Keating, Chair
(20-11-2017)

Saskatoon and Region Home Builders' Association
Chris Guérette, Chief Executive Officer
(08-11-2017)

Saskatchewan Association of Rural Municipalities
Ray Orb, President
(24-10-2017)

Saskatchewan Chamber of Commerce
Steve McLellan, Chief Executive Officer
(08-11-2017)

Saskatchewan Medical Association
Dr. Joanne Sivertson, President
(08-11-2017)

Schmit, Pierre, Associate Professor, Radiology and Pediatric, Dalhousie University - IWK Health Centre
(21-11-2017)

Schneider, Dr. Amy, Doctor of Veterinary Medicine
(23-11-2017)

Seeman, Bob, Chief Executive Officer, Clera Inc.
(06-11-2017)

Skinner, Laurie, Chief Financial Officer, KMK Capital Inc.
(20-11-2017)

Sirois, Joanne, President, Assurances Sirois Insurance Inc.
(25-10-2017)

Steeves Porter Hetu & Associates Inc.
Dean Mullin, Partner
(23-11-2017)

Sullivan, Jason, President, Stone Island Enterprises Inc.
(20-11-2017)

Surrey Board of Trade
Anita Huberman, Chief Executive Officer
(06-11-2017)

Teed Saunders Doyle
Jeff Saunders, Tax Partner
(22-11-2017)

Thorsteinssons LLP
David Christian, Partner
(06-11-2017)

Unifor
Michelle Doucet, Chairperson, District 508, Local 2002
Ian Hutchison, Atlantic Council Chair
(23-11-2017)

Union des producteurs agricoles
Marc St-Roch, Accounting and Taxation Coordinator
(17-10-2017)

Winnipeg Chamber of Commerce
Mark Jones, Board Member
(09-11-2017)

Wolfson, Michael, Adjunct Professor, School of Epidemiology and Public Health and Faculty of Law, University of Ottawa
(04-10-2017)

Woolley, Hugh C., Income Tax Consultant
(06-11-2017)

Youzwa, Terry, Independent Farmer
(08-11-2017)

APPENDIX B – WRITTEN BRIEFS

Alan Acton

Alberta Chambers of Commerce

BDO Canada LLP

Eric Brassard

Canadian Federation of Independent Business (2)

Canadian Franchise Association

Canadian Home Builders' Association

Canadian Medical Association

Canadian Taxpayers Federation

Centurion Asset Management Inc.

Chartered Professional Accountants of Canada

Michel P. Coderre

Conference for Advanced Life Underwriting

Fédération des chambres de commerce du Québec

Raymond Frank

Government of Saskatchewan

Hatch Ltd.

David Llewelyn Iles

Insurance Brokers Association of Canada

Robert G. Kepes

Kingston Advocacy for Small Business

Newfoundland and Labrador Medical Association

Rotenberg Tax and Investment Consulting

Thorsteinssons LLP

Troubled Monk Brewery

Union des producteurs agricoles

Yukon Office of the Premier

White Rock Technology

Winnipeg Chamber of Commerce

Michael Wolfson

Hugh C. Woolley

APPENDIX C – WITNESSES REPRESENTING A GROUP OF MEMBERS

Witness	Organization	Represents
Ken Kobly, President and Chief Executive Offier	Alberta Chambers of Commerce	24,000 businesses
Todd Lewis, President	Agricultural Producers Association of Saskatchewan	98 rural municipalities, 18,000 agricultural producers
Glenn Davis, Vice President, Policy	Atlantic Chamber of Commerce	16,000 businesses
Val Litwin, President and Chief Executive Officer	BC Chamber of Commerce	120 chambers of commerce and boards of trade
Garnet Etsell, Past Chair	British Columbia Agriculture Council	30 member associations
Brian Kingston, Vice President	Business Council of Canada	The chief executives and entrepreneurs of 150 leading Canadian companies
Adam Legge, President and Chief Executive Officer	Calgary Chamber of Commerce	1,700 businesses
Dr. Magalie Dubé, Member	Canadian Association of Radiologists	2,500 members
Dr. Larry Levin, President	Canadian Dental Association	18,000 practising dentists
The Honourable Perrin Beatty, P.C., President and Chief Executive Officer Hendrik Brakel, Senior Director, Economic, Financial and Tax Policy	Canadian Chamber of Commerce	450 chambers of commerce and boards of trade, representing 200,000 businesses
Corinne Pohlmann, Senior Vice-President	Canadian Federation of Independent Business	109,000 small and medium-sized companies across Canada
Ryan J. Eickmeier, Vice-President, Government Relations and Public Policy	Canadian Franchise Association	600 corporate members and 40,000 franchisees
Eric DenOuden, President	Canadian Home Builders' Association	8,600 company members
Des Whelan, Chair	Canadian Home Builders' Association - Newfoundland and Labrador	200 members
Mark Wales, Chair of the Business Risk Management Committee	Canadian Horticultural Council	27,500 farms

Witness	Organization	Represents
Mike Holden	Canadian Manufacturers and Exporters	2.500 members
Dr. Laurent Marcoux, President	Canadian Medical Association	85,000 members
Bruce Ball, Vice-President	Chartered Professional Accountants of Canada	210,000 Canadian chartered professional accountants
Jason Burggraaf, Policy and Government Relations Advisor Loren Kroeker, Senior Vice President of Taxation Services	Coalition for Small Business Tax Fairness	79 business associations
Warren Blatt, Chair, Government Relations Committee, Board Member	Conference for Advanced Life Underwriting	12,000 insurance and financial advisers
Michel Noel, Administrator Thomas Raffy, Chief Executive Officer	Conseil économique du Nouveau-Brunswick	900 businesses
Gerrit Damsteegt, Chair	Dairy Farmers of Nova Scotia	200 farms
Dr. Aaron Chiu, President	Doctors Manitoba	3,000 physicians
Dr. Maria Alexiadis, Past President	Doctors Nova Soctia	3,500 physicians
Stéphane Forget, President and Chief Executive Officer	Fédération des chambres de commerce du Québec	140 chambers of commerce and 1,150 corporate members; 50,000 businesses
Krista Ross, Chief Executive Officer	Fredericton Chamber of Commerce	900 members
Mark Brock, Chairman	Grain Farmers of Ontario	28,000 farmers across Ontario
Darla Lindbjerg, President and Chief Executive Officer	Greater Saskatoon Chamber of Commerce	1,400 businesses
Ian Black, President and Chief Executive Officer	Greater Vancouver Board of Trade	5,000 members
Patrick Sullivan, President and Chief Executive Officer	Halifax Chamber of Commerce	1,600 businesses
Suzanne MacNeil, President	Halifax-Dartmouth & District Labour Council	24,000 workers
Dan Mazier, President	Keystone Agricultural Producers of Manitoba	4,000 members
Karen Sands, Member and	Kingston Advocacy for Small	59 Kingston and area accountants, lawyers and

Witness	Organization	Represents
Spokesperson Jason Skilnick, Member and Spokesperson	Business	academics
Peter Braid, Chief Executive Officer	Insurance Brokers Association of Canada	36,000 insurance brokers
Ian Russell, President and Chief Executive Officer	Investment Industry Association of Canada	130 member firms in Canada's securities industry
Chuck Davidson, President and Chief Executive Officer	Manitoba Chambers of Commerce	71 local chambers, 10,000 businesses
Dr. Caitlin Lees, Chair	Maritime Resident Doctors	600 members
Paul Taylor, President and Chief Executive Officer	Mortgage Professionals Canada	11,500 individuals and approximately 1,000 companies
Dr. Kelly Manning	New Brunswick Dental Society	270 dentists
Nancy Arseneau, 2nd Vice President	New Brunswick Federation of Labour	40,000 workers
Dr. Dharm Singh, President	New Brunswick Medical Society	1,700 physicians
Bill Stirling, Chief Executive Officer	Newfoundland and Labrador Association of Realtors	700 realtors
Kerry Murray, Director of Policy	Newfoundland and Labrador Federation of Labour	25 affiliated unions, 500 union locals and 65,000 workers
Keith Moen, Executive Director	North Saskatoon Business Association	700 businesses
Chris van den Heuvel, President	Nova Scotia Federation of Agriculture	2,400 farms
Stu Niebergall, President and Chief Executive Officer	Regina & Region Home Builders' Association	260 member companies
Ray Orb, President	Saskatchewan Association of Rural Municipalities	All 296 rural municipalities in Saskatchewan
Chris Guérette, Chief Executive Officer	Saskatoon & Region Home Builders' Association	270 member companies
Dr. Shawn Whatley, President	Ontario Medical Association	30,000 practising physicians
David Duplisea, Chief Executive Officer	Saint John Region Chamber of Commerce	1,000 businesses
Dorothy Keating, Chair	St. John's Board of Trade	800 small businesses
Steve McLellan, Chief Executive Officer	Saskatchewan Chamber of Commerce	700 members and 10,000 businesses
Dr. Joanne Sivertson, President	Saskatchewan Medical	2,500 physicians

Witness	Organization	Represents
	Association	
Anita Huberman, Chief Executive Officer	Surrey Board of Trade	2,500 businesses
Michelle Doucet, Chairperson Ian Hutchison, Atlantic Council Chair	Unifor	315,000 workers
Philippe Etter, Vice-President	Union des cultivateurs franco-ontariens	2,000 francophone farms in Ontario
Marc St-Roch, Accounting and Taxation Coordinator	Union des producteurs agricoles	41,000 farmers working in approximately 29,000 agricultural businesses
Mark Jones, Board Member	Winnipeg Chamber of Commerce	2,000 businesses