



Phone: 306.242.3060  
Fax: 306.242.2205  
Email: [info@nsbasask.com](mailto:info@nsbasask.com)  
Website: [www.nsbask.com](http://www.nsbask.com)

#9 -1724 Quebec Avenue, Saskatoon, SK S7K 1V9

---

September 29, 2017

The Honourable Bill Morneau  
Department of Finance Canada  
90 Elgin Street  
Ottawa, Ontario  
K1A 0G5

Re. Tax Planning Using Private Corporations

Dear Minister Morneau,

The NSBA is a Saskatoon-based, member-driven business association that serves, promotes, and protects business throughout Saskatoon and beyond through our lobbying and advocacy efforts. From its grassroots origins some 50 years ago by a handful of businesses, today's NSBA consists of a membership in excess of 700 companies. Members range from single owner-operator proprietorships to large multinational corporations that employ thousands. Although diverse, our membership mainly consists of a strong community of small to medium-sized businesses that are largely owner-managed by entrepreneurs.

We are writing to express our opposition to the proposed changes to legislation and regulation expressed in the Tax Planning Using Private Corporations consultation paper. We are deeply concerned with the proposed changes and their potential impacts on the economy and business climate. We even find the language used by the federal government to be deeply troubling and offensive to many in the business community, particularly the SME owner-manager. Many within this category are struggling just to get by, particularly during the recent challenging economic times.

Our members, which includes a faction of income tax experts and tax specialists, have told us that these changes will affect the ability for businesses to grow, innovate, and invest back into their business. Specifically, changes to the effective tax rate on passive income held within a corporation will stifle investment and job creation. Companies cannot effectively plan for growth when the money they would save for that purpose is taxed at almost double the current rate. If implemented, these changes will negatively impact Canada's economy across all industries and sectors. These changes will also further entrench the mobility of capital. Affluent companies can and will make investments in (and move operations to) other jurisdictions with lower effective tax rates.

Reduced economic investment and growth and capital leaving the country is not just a problem for businesses. One of our tax-expert members advises that even a 1% reduction in the workforce across Canada, which is entirely possible if these changes are implemented, will result in a reduction of 80,000 jobs. This will foster fewer sales, less development, and poorer economic performance in general. This in turn will lead to less money available to the Government through tax revenues. Furthermore, these

.../3

*"Saskatoon's Business Association"*



Phone: 306.242.3060  
Fax: 306.242.2205  
Email: [info@nsbasask.com](mailto:info@nsbasask.com)  
Website: [www.nsbask.com](http://www.nsbask.com)

#9 -1724 Quebec Avenue, Saskatoon, SK S7K 1V9

---

individuals will receive benefits from Employment Insurance, adding even further strain on the Federal Government's fiscal deficit. For these reasons we view the proposed changes as having a significant detrimental effect on the middle class.

Another key factor to our opposition of the proposed changes is that we believe that the economic effects will be felt more sharply among females than among males. Females comprise the majority of Class B shareholders, and, as has been stressed to us by members, this was done to allow females to stay at home and raise the family. As anyone in a family business knows, the business itself becomes like a member of the family, which draws attention, effort, savings and family time. Sacrifices such as these were done intentionally knowing that family members (again, typically females) would have access to income from the business. Taking this opportunity away will be harmful to females. Given this government's commitment to gender equality, we would strongly encourage the Government to take the time to evaluate this legislation through the lens of gender.

Comparing a business owner to an employee is not a fair or equal comparison. If owning a business was easy, everyone would do it. But it's not easy, nor is it guaranteed. Starting a business is a risky proposition, with most estimates concluding that upwards of 80% of startups fail. For some, especially employees who have never entertained launching a business, the amount of personal risk and sacrifice the owners and their families are required to put in just to get the idea off the ground is unfathomable. Entrepreneurs typically use their personal property (i.e. their home) as security to raise capital, they work gruelingly long hours away from their family, and they often forego a salary. And once the business is established, the business owner then takes on the responsibility to support staff with salaries, benefits, and retirement plans while having none of these guaranteed for themselves. They literally are the last to be paid, presuming any money is left for such a luxury. Labour Standards ensure that regardless of a business's viability, employees are always paid for every hour they've worked. There is no such guarantee for a business owner.

The proposed changes serve to decrease the odds of success for startups. Adding further taxes into already thin profit margins makes it even more challenging for a new business. And where the odds are shorter, the incentive to try becomes even smaller. Small businesses employ the majority of non-public sector workers in the country and startups are key to innovation, which is essential to providing more opportunities to Canadian families and creating a higher quality of life across the country.

We have deep concerns with how the changes will be implemented and the standards that the Canada Revenue Agency will use to determine who pays what amount of tax. Of particular concern is the reasonableness test that will be applied to dividends paid out of the business to adult shareholders. We understand that the test will consist of weighing a number of factors, but how these factors will be weighted is problematic in its vagueness and subjectivity. Given that each case will be judged on an individual basis it creates a scenario whereby two cases with similar fact patterns can be judged differently.

The main concern in this case is fairness between businesses and a level playing field for everyone. We

.../3

*"Saskatoon's Business Association"*



Phone: 306.242.3060  
Fax: 306.242.2205  
Email: [info@nsbasask.com](mailto:info@nsbasask.com)  
Website: [www.nsbask.com](http://www.nsbask.com)

#9 -1724 Quebec Avenue, Saskatoon, SK S7K 1V9

believe that a “fair” tax system requires rules that are clear, objective, and not overly complex such that they can be understood and confidently followed by all taxpayers and impartially enforced by Canada Revenue Agency with as little judgement and subjectivity as possible.

Moving forward, we would recommend that the Government extend the consultation period on these proposed changes, to allow a more meaningful, considerate level of engagement, analysis and consultation. Further to this, we believe for the benefit of the longer term, a new royal commission on taxation should be called to conduct a holistic evaluation of the tax system and make recommendations for reform. It is clear that these proposed changes have produced unintended consequences that are not in line with the stated purpose of the legislation. A commission with a mandate to examine the entire tax system and that is deliberate in its approach will eliminate these unintended consequences and produce legislation that benefits Canada.

The NSBA is willing to discuss the contents of this letter and any recommendations at your convenience. We feel that a strong dialogue and mutual understanding will result in a better and fairer tax system for all parties and one that does not unfairly target small business owners that are the backbone of our economy and country as a whole.

Sincerely,

A handwritten signature in black ink, appearing to read 'Keith Moen', written in a cursive style.

Keith Moen  
Executive Director

Cc: The Right Honourable Justin Trudeau, Prime Minister  
The Honourable Ralph Goodale, Minister of Public Safety  
The Honourable Bardish Chagger, Minister of Small Business  
The Honourable Andrew Scheer, Leader of the Opposition and MP Regina-Qu'Appelle  
David Anderson, MP Cypress Hills-Grasslands  
Sheri Benson, MP Saskatoon West  
Kelly Block, MP Carlton Trail-Eagle Creek  
Randy Hoback, MP Prince Albert  
Georgina Jolibois, MP Desnethé-Missinippi-Churchill River  
Robert Kitchen, MP Souris-Moose Mountain  
Tom Lukiwski, MP Moose Jaw-Lake Centre-Lanigan  
Gerry Ritz, MP Battlefords-Lloydminster  
Brad Trost, MP Saskatoon-University  
Cathay Wagantall, MP Yorkton-Melville  
Kevin Waugh, MP Saskatoon-Grasswoods  
Erin Weir, MP Regina-Lewvan

*“Saskatoon’s Business Association”*