



HALIFAX CHAMBER OF COMMERCE

Submission to the Senate Committee on National Finance

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Good morning, my name is Patrick Sullivan and I am the President and CEO of the Halifax Chamber of Commerce. The Halifax Chamber of Commerce is a best-practice, business advocacy organization that continuously strives to make Halifax an even more attractive city in which to live, work, and play. Together, the approximately 1,600-member businesses and their over 65,000 employees, act as a single powerful voice through the Chamber to promote local business interests.

I am very happy to be able to speak with you today on the changes and updates to the corporate tax policy. We hear continuously from our members of the uncertainty and added stress these proposed changes have created and would like to take the next 5 minutes to address their concerns.

In our letter, submitted to the Department of Finance on September 29<sup>th</sup>, 2017, we noted our concern over the “reasonableness test”. The updates from the week of October 16<sup>th</sup>, 2017 stated that those making meaningful contributions to the business will not be impacted by the proposed income sprinkling measures. Our members do not know how this initiative will be interpreted, applied and enforced. Entrepreneurs will end up spending more time on administration instead of growing their business and creating jobs. We recommended a cost benefit analysis be done on this initiative to reduce the uncertainty surrounding this potential change.

We are pleased with the decision to not move forward with the proposed measures to limit access to the lifetime capital gains exemption. The proposed tax reform would have impacted family succession planning. Under the proposal, family businesses would have faced double taxation if the family business was to be sold or transferred to a family member. With over 70% of businesses expected to change hands in the next decade, those proposed tax changes would have severely impacted the ability for succession to occur or the value of the business. The unintended consequences would have been that many small businesses would close when third party purchasers are not available.

While the Chamber is happy to hear that the government fast tracked their promise to reduce tax on businesses to 9% by 2019, after initially saying in the last budget that it would be delayed, the proposed legislation on investment income will significantly impact a business’s ability to save for expansion and to weather economic downturn. In addition, many entrepreneurs provide capital to other entrepreneurs with innovative ideas. The level of proposed taxation on these funds will result in significant negative economic impacts on small business sustainability and growth. It seems the finance department only believes that organizations hold funds for savings. They hold funds for many reasons including, unplanned downturns, competitive activity and cash needs for acquisition. Now they will be taxed on these funds at an exorbitant rate. We don’t really understand why, at a time when other jurisdictions are examining how to reduce taxes for businesses, Canada is considering how to increase the cost of capital.

The Halifax Chamber of Commerce and our members still have concerns that have yet to be addressed which are causing undue stress and worry in the business community.



**Underrating Entrepreneurs:** The white paper compared the taxes paid by an employee with an entrepreneur. This is an apple to oranges comparison. An entrepreneur bears the risk, stress and rewards that comes along with owning a business. These changes could unintentionally create barriers for entrepreneurs. The same entrepreneurs that are the backbone of the Canadian economy, accounting for some 1.17 million businesses in 2015, of which 97.9% were small businesses.

**Economic uncertainty:** In this current climate of global uncertainty, in areas such as the NAFTA discussions and slow economic growth, we question whether these changes will incur more harm than good for the business environment and competitiveness in Canada.

We still have questions we hope you take into consideration, such as:

- Has an economic impact study been conducted on the proposed changes?
- Has government evaluated the increased burden and cost to small businesses?
- Has government evaluated the increased cost and administration for CRA?
- How will the proposed changes be managed? Some of the language is vague and subject to interpretation. For example, implementing a “reasonableness” test.
- Has the benefit to the Canadian taxpayer been evaluated against the potential job loss and business failures this will result in once these measures are implemented?
- Small businesses are the employer of the middle class. Who will employ the middle class once many small businesses no longer exist? Has the potential ripple economic effect of these proposed changes been considered or evaluated?
- Small businesses will be required to make the Atlantic Growth Strategy a success, a priority of this government. How will this strategy be executed upon if entrepreneurs are discouraged by these recent tax changes?

Nova Scotia is currently the highest taxed province in Canada and with the large amount of red tape facing current and future businesses, the proposed changes to Canada’s tax policy could have a significant impact on the Nova Scotia economy. Adding more barriers in a climate ripe with roadblocks could hinder Nova Scotia’s ability to support not only Halifax based businesses but those in rural Nova Scotia communities as well. We will be separately asking the provincial government to ask how they plan to compensate for these changes to ensure small business growth when there are less incentives to open, run or hold cash inside a small business.

The Halifax Chamber is committed to helping business succeed and we want to ensure that all businesses are treated fairly and equitably and are provided with the right environment to succeed. We hope you take the time to review our comments and questions as we are certain the proposed changes to the current tax policy for private corporations would have a myriad of existential impacts on Canada’s economy and Canadians well-being. We agree that the tax system is not perfect and as mentioned by the Canadian



Chamber of Commerce we also believe that it might be in the best interest of the Government to procure a Royal Commission for tax reform that clearly defines the problems to be solved and the objective of the change to tax policy to reduce the undue stress and uncertainty in the business community and lessen the impacts to global business competitiveness. Utilizing accurate language that more precisely describes the legal practices businesses use, instead of demonizing small business by using words like “loophole” and “sprinkling” would also provide more clarity for both business owners and the public.

Once again, I want to thank you for giving the Halifax Chamber of Commerce the platform to voice our member’s concerns and recommendations for a healthy business economy.

If you have any follow up questions, please do not hesitate to contact us:

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