Date

Dear Member of Parliament,

I am writing to you regarding the recent Department of Finance proposed tax rules. The purpose of this letter is to convey my deep concerns regarding the long-term impact of these proposed changes to both our economy and, more importantly, the “middle class”. For a government that is dedicated to the support of the middle class, proposing these rule changes is completely irreconcilable.

***Introduction***

I applauded the Liberal Government when they announced their dedication to “fixing” the middle class. Unfortunately, they continue to hack away at the rules and incentives that support the middle class. The latest round of proposed tax changes is just one more example of how their attempts to assist the middle class will likely hurt them instead.

For the most part, the middle class is made up of employees and entrepreneurs. This group of individuals represents over 90% of the Canadian workforce. That is to say, according to Stats Can, over 90% of employment opportunities in Canada are created by small to medium sized businesses. Any **further** disincentives aimed at this group are going to hurt the opportunities available to the middle class.

Based on these stats, should we not be doing everything we can to support this group? Should we not be doing everything we can to encourage the creation and operation of small enterprises that will ultimately become medium sized enterprises?  Previous governments (of all parties) have established tax rules that were designed to provide incentives to promote this entrepreneurial behavior. These rules recognized the risks taken by these business people and provided some level of reward for that risk and related uncertainty. The consistent erosion of those incentives coupled with the recent massive increase in tax rates will only serve to drive away our entrepreneurs.

***Poor Communication***

Firstly, I note that the communication related to the proposals refers to “tax loopholes of the rich”. This is blatantly false and misleading. The group most directly impacted by the proposals are small business owners, Canadian entrepreneurs –the majority of whom would be considered middle class.

In addition to this, the proposed rules are exceedingly complex, making them difficult to understand and almost impossible to enforce. The labyrinth of rules and complexities within the legislation place an undue burden and impose unfair costs on small business owners. The last thing a young entrepreneur needs is more uncertainty. Yet uncertainty is exactly what these rules create.

It is deceptive and wrong to compare a small business owner and an employee for several reasons.

* 1. An employee is paid a market wage to work for an employer and enjoys the benefit of strict labour laws, employment insurance, paid vacation, and other employment benefits (including pensions in many instances) with none of the financial or personal risk experienced by a business owner.
  2. A small business owner starts their business with no guarantee of success. Their ability to put food on the table is entirely reliant on the success and accomplishments of their enterprise. There is no employment insurance available as a safety net.
  3. It is not unusual for a small business owner to earn no personal income for many years during their start-up phase. This can place a significant burden on their savings and their families.

With all of this in mind, small business owners should be able to rely on the Tax Act (the Act) to be fair and supportive. This is essential to assist the business owner in their ability to save for the future growth of their business, and ultimately to save for their retirement. In the absence of these provisions, an entrepreneur cannot effectively compete with the compensation and benefits of an employee.

I reiterate, small businesses are the engine that drives the economy and the country. Why would any enterprising individual starting a new business want to be based in Canada? The personal tax rates are excessively high and, now, all tax planning opportunities have been removed. These rules might very well push entrepreneurs and small business owners to base themselves outside of Canada.

***Fairness***

Some of the rules that became effective July 18, 2017 relate to transactions that occurred before the effective date. The transactions undertaken to realize gains and/or income to take advantage of better tax rates on gains versus dividends were undertaken following the rules at that time. To then say that the tax free capital dividends created by these transactions cannot be taken out tax free is punitive and unfair. Any capital dividend created before the announcement date should be accessible as a tax-free capital dividend, as permitted under the previous rules.

Included in the proposal are a set of rules designed to punish corporations for taking surplus funds and investing them in passive investments. This seems to be void of logic. By a corporation having funds available to invest, there are more funds in the system, more funds available to help the enterprise grow, and more funds to backstop difficult times.

The tax rules should not be concerned with ensuring that a small business owner has as much to invest as an employee. We should be focusing on both of them having as much as possible, not as little as possible. If surplus funds cannot be kept in a corporate structure, why will companies incorporate? Furthermore, it can take several years before a company can afford to reinvest in a major asset. These new rules will place undue tax burdens on small businesses that wish to reinvest in the future.

These rules also do not allow for true succession planning. Any transfer between generations now puts a tax burden on the second generation. This is a huge disincentive to grow the “family business”.

***Conclusion***

Overall, the rules are seemingly a punishment to small business owners and an expropriation of their savings. Small business owners generate jobs and wealth. Without their entrepreneurial spirit and willingness to risk, our economy would be stagnant. Entrepreneurs will have little incentive to stay in Canada, let alone open a business in Canada, and in the end the consequences will impact us all.

**The proposed rules are not closing loopholes - they fundamentally change the taxation of corporations.**

I would respectfully request that you tell the Minister of Finance that these proposed rules are unfocused, do not address specific concerns, and will have negative and far reaching implications to Canadians and our economy.

I am also interested in hearing how you vote if and when these measures are put forward.

Respectfully