

Nova Scotians
TAX FAIRNESS
Tax Fairly Spend Wisely

October 2, 2017

FROM: Nova Scotians for Tax Fairness
c/o Brian Gifford, Chair
6299 Summit Street
Halifax, NS B3L 1R6
Email: brian.gifford@eastlink.ca

TO: Finance Minister Bill Morneau
Department of Finance
Consultation re Propose Small Business Tax Changes
Via email at: fin.consultation.fin@canada.ca

Dear Mr. Morneau:

Recommendations

We believe there are compelling reasons to support your government's proposed small-business tax proposals. We support the intent and most of the details of your proposals. Our recommendations:

1. **Implement the proposals:** Our primary recommendation is that you have the courage to put your proposals into law and practice following the intent originally stated in the consultation document, with appropriate minor adjustments based on feedback.
 - a. We are a member of the Canadian Coalition for Tax Fairness and support the Coalition's positions.
 - b. We were very disappointed by your failure to proceed with your proposals to tax stock options fairly. We hope and trust that you will not succumb to the American style misinformation campaign that has been aimed at the current proposals.
2. **Introduce changes based on consultation:** We recommend that changes should be made to the final package of proposals in order to appropriately deal with transitional measures and alleviate genuine and fair-minded concerns that have been expressed while maintaining the direction and integrity of the initial proposals.

- a. In particular, we support any changes needed to meet your stated goal of placing no barriers to inter-generational transfers of farms and small businesses.
 - b. The timing of the consultation process has created an appearance of bad faith and underhandedness that has hampered your efforts to introduce badly needed tax reforms. This could be alleviated by having an additional round of consultation based on the final package of proposals, including changes that affect inter-generational transfers and any other changes.
 - c. It is essential to inform Canadians of the factual basis behind your conclusion that the changes will create no disincentives to inter-generational transfers and to meet with farm organizations to secure their confirmation that this is the case.
3. **Advocate vigorously for the proposals, combatting disinformation and scaremongering:** After you have determined the details of how you plan to proceed, we strongly urge you to mount a vigorous information campaign explaining the real impact of the changes and exposing the shameless American style disinformation and scaremongering that has been spread by the Official Opposition and some advocacy groups. These include:
- a. The false claim made by the Canadian Federation of Independent Business that all small businesses could be affected. As you know, many small businesses are not incorporated and therefore would be unaffected. An even larger number have earnings so low that they also would be unaffected. In NS, over 50% of small businesses are not incorporated.
 - b. The often repeated and inaccurate claim that businesses will no longer be able to save for a rainy day and for growth. As you know, there will be no change in the ability of small businesses to save for these legitimate business purposes.
 - c. The mistaken assertion that business owners and doctors need passive investments sheltered at low tax rates in order to save for retirement, maternity leave, sick days, or holidays. As you know, they have the option to pay themselves a salary and contribute to EI, CPP, RRSPs and TFSAs.

4. Adopt comprehensive changes to make the tax system fairer: We urge you to make additional comprehensive changes to the tax system to make it fairer and to help stem the concentration of wealth at the top end of the income pyramid, while also providing the revenue needed to fund improvements to Canada's public services and programs that benefit all Canadians and society as a whole. It is vitally important that your government make the case for the tax reforms in a way that most fair-minded Canadians will be able to support.

a. We support broader and more extensive public consultation with a full range of stakeholders and more accurate and accessible information—and less misinformation—for the public.

b. We support the comprehensive proposals made by Canadians for Tax Fairness and The Canadian Centre for Policy Alternatives.

c. An example of the positive impact of improved public services and programs is the Child Tax Benefit. It lifted thousands of children and their families out of poverty. Additional anti-poverty measures, pharmacare, childcare and funding to incentivize the widespread adoption of best practices in medicare as well as infrastructure investments are all examples of how Canadians can benefit from additional tax revenue, fairly raised.

5. Invest additional funds in Canadian medicare for recruitment and retention of doctors and nurse practitioners: In Nova Scotia, as elsewhere, there is a concern that the measures will affect doctor recruitment and retention. Low taxes through the back door of small business incorporation is a very bad strategy for doctor recruitment and retention. This strategy, used by Nova Scotia since 1995 and Ontario since the mid 2000's, has led to some of the problems you are trying to address, including similar tax avoidance benefits for other professionals like lawyers and financial planners. Yet cash-strapped provincial governments have a legitimate beef with the fact that Canadian medicare, the most popular Canadian public service, was funded 50/50 by federal and provincial governments at the start and now the federal government only pays for 20% of the cost. The recent long-term agreement for medicare is inadequate. A minimal step would be for the federal government to add additional funds while making these tax changes, targetted specifically at effective recruitment and retention strategies for doctors and nurse practitioners.

Background: Our published position in support of the proposed tax reforms is reprinted below.

Who we are

Nova Scotians for Tax Fairness was formed in 2012 to broaden the public discussion about the essential role played by the tax system in financing public services and supporting greater equality. We advocate for fair tax policies and enhanced public services.

Conclusion

We strongly encourage you to enact changes to small business tax rules to prevent high income individuals using the significant tax advantages available to small businesses to shelter their income from normal taxation rather than using those tax advantages to support and grow small businesses as intended. Some changes to the proposed tax reforms may be needed but any changes must not gut the intention of the proposals.

Show courage, communicate effectively, and host additional consultation sessions to make sure you get this right. But above all, we urge you not to cave in to pressure built up through misinformation and scaremongering. We urge you to act on these proposals and to take a more comprehensive approach to making the tax system fairer.

Yours sincerely

(Sent by email)

Brian Gifford
Chair
Nova Scotians for Tax Fairness
Halifax, Nova Scotia

An Op Ed published September 29 in the Halifax Chronicle Herald, submitted by NSTF:¹

There are compelling reasons to support the federal government's proposed small-business tax proposals. Does that surprise you? Let's pause for a moment and consider a few facts.

Tax breaks in the last 20 years have benefited Canada's corporations and wealthiest citizens far more than the rest of us. These breaks have contributed to wealth concentration at the top and entrenched poverty at the bottom.

They have gradually starved governments of billions of dollars needed to pay for vital programs and services. The current proposals will replace some of the tax revenue that has been lost — about \$1 billion yearly by some estimates. Taxes and public services have come to represent a significantly smaller percentage of our economy than in most other developed countries — it's time to stop the bleeding.

Canada has the lowest small-business tax rate of any G7 country. Even if the proposed tax changes are implemented, small businesses will continue to benefit from the low small-business tax rate, which is a significant \$3.6-billion taxpayer subsidy.

The proposed changes would affect high-income Canadians far more than the middle class. Based on 2011 figures, almost none of the bottom 50 per cent of income-tax filers (earning under about \$52,000) would be affected, while 50 per cent of the top one per cent (incomes over \$163,000) and almost 80 per cent of the top 0.01 per cent (with incomes over \$2 million) would be.

Refusing to stem the bloodletting in tax revenues creates havoc in people's lives. Nova Scotia's high child poverty rate is shameful and income assistance rates are so abysmally low that many disabled Nova Scotians and families can't afford a decent place to live and are forced to use food banks.

Infrastructure investment is sorely needed. We can't grow our economy without it. Money isn't the only thing needed to make our public services top-notch, but it is an essential element, and anyone who tells you it isn't is kidding themselves.

Health care is on everyone's mind. It's hard to attract doctors and nurse practitioners and cut wait times without having the tax money to pay for improvements. Public pharmacare — available in most other industrialized countries — costs tax dollars but ultimately saves billions of dollars. It would be difficult to create these and other improvements without having a stronger, fairer tax system.

¹ <http://thechronicleherald.ca/opinion/1507398-opinion-federal-tax-reforms-will-help-nova-scotia-and-canada>

Burnout, high student loans and recruitment are serious problems for doctors, but there are much better solutions to these problems than low taxation, such as creating salaried positions in community-based collaborative clinics for doctors and nurse practitioners and offering a student loan forgiveness program.

Doctors and other health professionals are essential to the success of Nova Scotia's health-care system and certainly deserve our support. But reduced taxation on income isn't a solution to the problems they have raised, it's part of the problem.

What about the concerns expressed by other small-business advocates?

Some of their claims have been flat-out wrong — a petition by the Canadian Federation of Independent Business says all small business could be affected. That's simply not true. In Nova Scotia, a high percentage of small businesses are not incorporated and one half of small businesses earn less than \$33,000. The proposals will have no impact on them. It's fearmongering to claim they will be affected.

Some have claimed it will be harder for businesses to save for a rainy day and to save for re-investment in their businesses so they can grow. Not true. The proposals explicitly state businesses will be able to shelter passive income at the low small-business tax rate for later use, the same as they have in the past.

What will change is the calculation of taxes when funds are withdrawn from a business as personal income. The proposed changes will ensure the income is taxed in a way that is similar to how everyone else is taxed, so that the corporation doesn't serve as a way for high-income individuals to avoid paying normal taxes. What will also change is that family members who are not working for the corporation won't be able to get paid as if they were, which is now done to reduce taxes. That change is common sense to any fair-minded person.

Many other problems with the tax system need to be addressed to make it fairer. The proposed changes to small-business tax rules are a small step toward reducing growing inequality and an unhealthy concentration of wealth.

Fairer taxation will also provide additional revenue to fund medicare, education and other vital services that Canadians cherish. Consultation is important to get the details right, but we are counting on the federal government to stick to the plan and make the proposed tax reforms.