

September 12, 2017

Via Email [bill.morneau@canada.ca](mailto:bill.morneau@canada.ca)

Honorable William Francis Morneau  
Department of Finance Canada  
90 Elgin Street  
Ottawa, ON K1A 0G5

Dear Minister Morneau:

I write to you today both as a concerned Canadian citizen and a chartered professional accountant with 40 years small business tax experience. I also operate a small business and will be affected by these proposals but more importantly all my small business clients will bear the cost of tax changes that are being made for political reasons with too little time to study their impact.

While I share your overall views on ensuring tax fairness for all Canadians and support a review of existing tax policy, I do not believe your proposed course of action is a prudent one. After a thorough analysis of the private corporation tax proposals, my colleagues and I are very worried. In particular, we've identified a number of specific consequences and flaws that will have a material impact on the private business sector including small businesses, doctors and farmers - many of whom are in the undefined "middle class".

As noted we agree with the objective of tax fairness, however the details show otherwise and so I strongly encourage your office and your fellow Members of Parliament to listen to the people who will be affected, as part of your consultation process. It will also help address a number of concerns that your constituents have about the specific negative impacts.

We have identified a number of problems including but not limited to the following:

- a) Section 120.4 – the tax on split income, or as your department calls it "income sprinkling", will greatly increase the overall family tax burden of many smaller businesses. These rules also impact "startups" – especially when financing or capital is received by family members.
- b) Section 84.1 and 246.1 amendments – these amendments are too broad and result in significantly more tax being paid when a business is transferred to family members, as compared to a sale to an unrelated party. These concerns also apply on death, trapping many estates in a double taxation situation.
- c) Passive income / asset proposals – If the proposals are passed as contemplated, many entrepreneurs may be devastated. Running a small business involves planning for business cycles and often requires surplus cash to cushion against economic and other unexpected shocks. Additionally, for businesses to expand, significant surpluses sometimes needs to be built over a period of time. Your proposals are particularly unfair in light of the fact that larger public corporations will continue to be able to achieve these objectives unimpeded. While private corporations are at times used as personal retirement vehicles, we question the offensiveness of such an arrangement when entrepreneurs do not have the usual safety nets (like pensions, sick leave benefits, employment insurance and maternity benefits).

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As you can see, we are trying to engage in an open dialogue sticking to the facts around the impact from your proposals. We are very disappointed to see your ministers respond by labeling our work and others as "embellishments", "myths" and "misunderstandings", which we find offensive and insulting to our profession.

More troubling, is the appearance that your office - and the Prime Minister's - is uninterested in hearing opposing views on your proposals as evidenced by your limited and selected responses in the media that are dismissive of the valid concerns being expressed by not only tax professionals but also many, "middle class" Canadians. You have allocated 75 days of review for over 50 years of tax law evolution ?

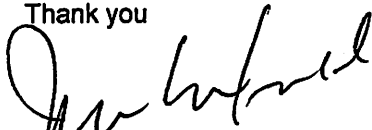
The tax and business community are trying their best to operate within the very short "consultation period" that you have provided. Unfortunately, many of our clients and those impacted are either on summer holidays, in the fields harvesting or fishing but we are working diligently to inform as many of them as possible.

If you are genuinely concerned about hard working, "middle class" business owners, then I would respectfully request that you engage in a true consultation process, one that is not in the middle of summer and one that is not constrained within an incredibly short 75 day period. Such a profound change in tax policy deserves a proper amount of time and should be inclusive of all stakeholders, not just academia.

Many fellow tax professionals and interested business groups have reached out to your fellow Liberals and asked to meet with you on this topic. The response has been to ignore the requests ?

The small business community's concerns are real and the political cost to the Liberal party will certainly be negative.

Thank you



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