



Fredericton Chamber Presents to Standing Senate Committee on National Finance

22 November 2017

FREDERICTON, NB – Today at 10:30 am in Saint John, Fredericton Chamber of Commerce CEO Krista Ross presents to the Standing Senate Committee on National Finance regarding the federal government's tax reforms proposed earlier this year. The committee is reaching the end of its cross-country tour and are expected to provide recommendations to the federal government by the end of 2017.

"Our members are very appreciative that the senate has chosen to take on this issue and consult with the businesses that will be impacted by the proposals," Ms Ross stated. "If Minister Morneau had engaged with a similar consultation, the government might have been able to avoid many of the issues with their original proposals."

Ms Ross' comments will focus on the concerns expressed by chamber members, the broader economic impacts of the proposals and a recommendation that the government pull the proposals and call a Royal Commission to fully review Canada's tax code.

"The business community has been calling for a comprehensive review of the country's tax policy for many years to no avail. The tax code has just become more complex, increasing compliance and administrative costs - apparently leaving employees at the Canada Revenue Agency only able to hand one in three calls from taxpayers." added Ross. "The silver lining with these proposals is that it is becoming more broadly understood that such a review is warranted and necessary."

Ms Ross' full opening statement is reproduced below.

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The Fredericton Chamber of Commerce, a nationally accredited organization with nearly 1,000 members, is an active business organization engaged in policy development and advocacy that affects the competitiveness of our members and the Canadian business environment. The Chamber's vision is '*Community Prosperity Through Business*'.

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Senate Presentation - Federal Tax Changes - 22 November 2017

Krista Ross, CEO

Fredericton Chamber of Commerce

Good Morning, I'm Krista Ross, CEO of the Fredericton Chamber of Commerce.

Thank you honourable senators for the opportunity to speak with you this morning about this issue that will directly or indirectly affect all 960 of our members. I can say without hesitation that this has been the matter that has concerned our members the most in my 15 years at the Fredericton chamber of commerce.

We are concerned that the communications from government do not demonstrate a nuanced understanding of the fundamental differences between being self-employed and being an employee- the comparisons included in the original discussion document are not apples-to-apples. A person's tax burden should be considered on an overall basis, considering both personal and corporate taxes where applicable. Tax professionals tell us that under the current system their clients will pay tax equal to an employee and any difference is simply about timing. Business owners that have incorporated do not have the same tax situation, or benefits, as an employee. Nor do they have the same income certainty. The current attempt by the government to make their situations 'fair' misses the point - what the original discussion document tries to do is make the situations exactly the same, when they clearly are not.

As we all know, the government has tried several times to refine their proposals and their messaging. A good example is the \$50,000 cap on passive income earned. It is true that most small businesses won't reach that figure, but the idea that small business would be happy that reforms would only affect the top 3% of corporations is wrong headed. Small business relies on larger businesses as their customers through their supply chains. Small businesses also recognize the importance of large businesses as an economic driver. The economy works best when all sectors and strata of the business community are



firing on all cylinders. The relationship between different industries and size of business is symbiotic and integrated. In Fredericton, we are known as the Startup Capital of Canada and many of these startups rely on mature businesses for their seed funding and as early adopters of innovative technologies. Do we want to stifle this germination of the ecosystem?

One of our members, Germaine Pataki-Theriault owns Gallery 78, a small private gallery and has stated that she doesn't expect to be directly affected by the proposals, but realizes her customers will be and this type of discretionary spending is one of the first things to go. Non-profits and charities are similarly anxious and rightfully so - their funding relies on the business community being successful - it's one of the reasons our organizational vision is *Community Prosperity Through Business*.

The proposals could also hurt the economy in undetectable, insidious ways. Imagine you own a very successful business and are ready to grow again, create more jobs, and support more small business through the supply chain. The uncertainty of the business and tax environment is currently so unsettled that people will delay investments perhaps indefinitely or look to other jurisdictions as a place to invest. And perhaps some will think twice about whether they wish to arrive at that threshold. Growing your business is not an easy task in the first place, maybe you decide it's not worth the additional risk. What about outside investors? If Canadian businesses are nervous, you can bet that outside investors are thinking long and hard about whether this is the best environment to put their money. The World Bank Group just released their 15th annual "Doing Business" report measuring business regulation and ease of doing business which ranked Canada 18th.... But in 2009, we were 8th.... And the types of punitive taxes being proposed... will likely push us further down this ladder.

Other big questions remain. Has an economic impact study been conducted on the proposed changes? Has government evaluated the increased compliance burden and financial cost to small businesses? Has government evaluated the increased cost and administration for CRA? How will the proposed changes be managed?



From the first day that the government's original discussion paper and draft legislation was released, businesses across the country have felt attacked by their government. From the offensive language used in that document to government officials' dismissive attitude towards business' concerns, trust with the federal government has been badly eroded. Business owners were told that the very tools provided by the federal government to encourage entrepreneurship and growth were loopholes and needed to be closed. Business owners feel that the implication is that they are tax cheats. Meanwhile, people had organized their entire financial lives around these rules. I don't see how any trust can be regained until the proposals are taken completely off the table and the government starts over with a proper process.

We echo the Canadian Chamber of Commerce's call for a Royal Commission. Rushing through reforms is the worst-case scenario for all parties. Just yesterday we learned from Auditor General Michael Ferguson (a Frederictonian like myself) that CRA is currently only able to field one-third of calls coming in from Canadians and are giving incorrect advice 30% of the time - this is beyond alarming already. Now the government is proposing to increase the workload of CRA employees by making the tax code even more complicated and adding the responsibility of deciding what's reasonable compensation for the spouse of a business owner. Business owners are already reluctant and apprehensive about working with CRA or asking questions.... this fear will only become worse with the suggested changes (and currently the lack of detail). At what point, will businesses simply throw in the towel - deciding that it is not worth what they must give up... and / or invest to be self employed.... And consequently, take jobs with them.

In closing, it is evident from the ever-increasing complexity of the tax code that tax policy is a political tool and it really shouldn't be. If the government's concern is really fairness, then let's have a full conversation and review through that lens. There is no chance that more tinkering and cherry-picking certain parts of tax policy will lead to the road to fairness - there are just too many moving parts to be able to do this on a piecemeal basis. So let's hit the pause button on the proposals, engage in a full review and ensure that any new proposals should be straight-forward, simple and efficiently



**FREDERICTON
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— *The Voice of Business* —

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implemented by CRA and easily administered by small business.