Dear Member of Parliament:

As you are aware, the Federal Government recently proposed significant changes to private corporations. These changes have the intended objective of improving "tax fairness" by reducing income splitting, changing the taxation of passive investments in corporations, and preventing the conversion of dividends to capital gains. There is merit in some these policy objectives, and the proposals accomplish their direct objective of discouraging such activities.

The backlash from businesses has come from the network effects of these changes, which taint countless legitimate structures and strategies. This creates situations where family assets are confiscated by taxes that no reasonable person would characterize as "fair".

As tax legislation is intrinsically difficult to fully comprehend, it is worth considering the conclusions from a broad range of technical experts. A partial list of outcomes pursuant to this legislation follows. These are not idle speculations, but certain consequences arising from a thorough understanding and thoughtful analysis of these proposals by Canada's leading tax and legal minds.

We respectfully request that you publicly address these concerns, so that your constituents can better determine how Canadian interests are being prioritized.

1. No economic study forecasting the impacts of the proposals to the Canadian economy has been publicly performed or planned to alleviate concerns of respected economists such as David Rosenberg and Jack Mintz.

2. Canadian Controlled Private Corporations ("CCPCs") with multiple family members as shareholders will pay additional costs of compliance and face greater risk on their remuneration question compared to corporations with unrelated shareholders.

3. CRA auditors will arbitrarily determine the "reasonableness" of dividends and capital gains to family members.

4. CCPCs which have as shareholders children saving for education, or retirees planning for retirement could be subject to ~45% tax increases.

5. Public and/or and foreign-owned corporations operating in Canada will receive advantages on investment income compared to CCPCs, as well as an overall tax savings. For instance, in Ontario, public corporation will have a tax deferral advantage of 23.67% and a tax advantage of 17.33%

    a. Sarah is a young entrepreneur looking for an investor to help with her artificial intelligence business in her space. Unfortunately, Canadian investors are not interested in risking their corporate profits as they will face tax rates between ~60% and ~75%.

6. Taxes at death for a shareholder of a CCPC will be rise from a possible 26% to a minimum of 45% and in many cases will range between 70% and 100%.

    a. Chris passes away and the business is left to the children of Chris. Prior to July 18th, 2017, Chris would pay tax ~25%, and the next generation would continue the business. Post July 18th, 2017, Chris will pay tax ~45% if able. If not, Chris will be subject to rates between 70% and 100%.

7. These rules are also retroactive as they are effective as of July 18th, 2017, even for estates that arose from deaths prior to that date. Many of these estates already have tax rulings from the CRA approving the planned post mortem distribution of funds. These rulings are no longer valid because of the proposal's retroactive effect. .

8. Entrepreneurs will be less likely to solicit or receive capital from family members due to the compliance tax risk and costs arising.

9. Entrepreneurs will have difficulty attracting external capital due to increased taxes on successful businesses with after-tax funds to invest.

10. Businesses (e.g. family farms) will be sold to public corporations, large private corporations, and/or foreign corporations instead of family members in order to receive favourable tax rates. The rules will als result in fewer small businesses in the market to purchase other small businesses because of the disadvantages outlined in the legislation.
    a. For example, if Dad is looking to sell his business. If Dad sells to a public corporation, the total tax rates will be ~25%. If Dad sells to his son/daughter, the total tax rates will be ~75%.
11. If an individual loans an amount to their business, the Canada Revenue Agency could later decide that the loan repayment is taxable income.
12. If RRSPs are the only "legitimate" vehicle for deferring income until retirement, businesses will lose the liquidity, legal ownership, and value they need from corporate investments.
    a. Michael sold the corporate assets of his business a few years ago to fund his retirement. Due to the new rules already in place as of July 18th, 2017, amounts that would have been tax-free are now subject to tax rates of ~45%.
13. Income splitting measures that involve the true legal transfer of assets and cash to others will be prohibited, but tax schemes that lower taxes by shifting the taxable income to others are intact.
14. Our currency inflates by about 2% each year, taxing its value indirectly. CCPCs will have to choose between losing value, or taking on more risky investments to preserve their after-tax cash positions.
15. The taxes on investment income are higher for CCPCs than for individuals in every province. If punitive taxes compel the liquidation of corporate assets, businesses become more vulnerable to economic fluctuations.
16. Many worthwhile not-for-profit entities will experience a shrinkage of contributions that came from donated investments inside small business corporations.
17. Adults between 18 and 24 years of age in a family business will be subject to targeted compliance rules not applicable to others.
18. The same amounts will be fully taxed under the Income Tax Act two or more times (double/triple taxation), by design.
19. Retroactive taxation will now be an acceptable policy, while affording citizens no recourse for having done responsible tax planning.
    a. Thomas has a corporate life insurance policy to fund the taxes on his death. Due to the new rules announced on July 18th, the life insurance policy is now fully taxable forcing a sale of the business to fund the Estates tax liability.
20. Stock option deductions that create capital gains instead of employment income will be acceptable for some businesses, but not all.
21. The changes will reduce business flexibility to business owners and force them to choose between their retirements and cash available to their businesses to grow.
    a. Jamie's business has excess cash after a positive year. Jamie needs to start saving for retirement but also needs access to cash to weather a challenging year. If Jamie pays herself additional salary and invests in her RRSP, the cash is no longer available to help the business.
22. The legislation adds considerable complexity, uncertainty, and risk. These factors undermine the integrity of the tax system if it's too complex to comply.

23. The costs of compliance and enforcement to both taxpayers and the CRA will be exceptionally high. This will lead to higher reliance on professionals.
24. CCPCs will face punitive tax consequences when purchasing other CCPCs. This will impact the market for mergers and acquisitions and further impacting CCPCs remaining in the market.
25. The complexity in the legislation will increase tax disputes and add further strain to Canada's court system.

This document has been prepared to allow you to clearly understand the impacts to businesses beyond reducing income splitting, passive investment in corporations, and the conversion of dividends to capital gains. Therefore, if you vote in favour of the proposals, you are also voting in favour of the implications above.

We've heard a lot about targeting strategies used by "the one percent", but these points are meant to raise the concerns that impact every small business owner in Canada.

We the undersigned have reviewed the proposal and supporting legislation, and can affirm that these results listed above reflect the consequences of the proposed changes.

In the interests of strategic policy and a functioning economy, we oppose these changes, and request a genuine and comprehensive tax consultation.

1. Jay Goodis, CPA, CA — Tax Templates Inc.
2. Joel Cohen, FCPA, FCA, C. Med — Cohen Sanderson Inc.
3. Mac Killoran, CPA, CA — Fruitman Kates LLP
4. Allan Sawiak, CPA, CA, CAFA, TEP — Kingston Ross Pasnak LLP
5. Peter Weissman, CPA,CA, TEP — Cadesky And Associates LLP
6. Manu Kakkar, CPA, CA, CGA, TEP — Manu Kakkar CPA Inc.