Karen Ludwig, MP
49 King Street
St. Stephen, NB
E3L 2C1

Subject: How the Tax Proposal Affects My Business and My Community

Dear Karen,

Since July 18, 2017, I have been thinking about how best to draft this letter to you in your role as my Member of Parliament. As you are aware, July 18, 2017 was the release of the Tax Proposal, Tax Planning Using Private Corporations, which has weighed heavily on my mind since.

My first instinct as a Tax Professional was to ensure that people were aware of this Proposal and its affect on Business Owners and Individuals, especially those located in my community of St. Stephen. While Prime Minister Trudeau and Finance Minister Bill Morneau maintained the message that this Tax Proposal would not affect Small Business or Individuals who earned less than $150,000 from a Private Corporation, my first read of the 78-page Proposal provided me an entirely different picture than the one presented consistently all summer by Mr. Trudeau and Mr. Morneau.

Prior to January 2012, eight and a half years to be exact, I worked at Deloitte (an International Accounting Firm) in Saint John as an employee. During that eight and a half years, I had various opportunities presented to me, including an offer to move to Toronto to employ my unique skill set of working with Owner Managed Businesses (Deloitte's buzz word for Small Business), however I had always believed it was important to be part of the Province where I grew up, so I continued my role in Saint John.

My hometown of St. Stephen was important to me and I felt it was where I needed to be and this was solidified when my wife Barb and I decided this is where we would start and raise our family. Coupled with this decision, I also felt that I could make a difference in our community and that Toronto would not miss what they never had.

So, in January 2012, with a three-and-a-half-year-old, a mortgage and bills to pay (along with the support of my wife), I quit my job at Deloitte to join Dave Archambault and Laurie

Neathway to form Archambault, Neathway and Rideout, more widely known as ANR. I left the world of steady paycheques for the world of opportunity and to fulfill a life long dream of becoming a Business Owner.

Fast forward a little over 5 years to July 18, 2017, ANR has grown exponentially and now employs five full time employees and supports three Partners. ANR continues to move in the right direction, however there has been challenges along the way. Those challenges were minor in comparison of the challenge brought forth by the Tax Proposal.

The Tax Proposal outlined three key issues to address with new Tax Legislation, which was directed toward Private Corporations. I have immediate interest in this as Jason G. Rideout Professional Corporation Inc., is a Private Corporation. The Tax Proposal has a direct impact on me and I will confirm with you in this letter, that I do not make $150,000, which is the figure Prime Minister Trudeau and Finance Minister Morneau keep referring to.

Issue #1 – Income Sprinkling

The Tax Proposal wants to reign in Income Sprinkling in respect of Private Corporations. The Proposal states that Private Corporation shareholders utilize this concept of splitting income amongst various shareholders to avoid tax and pay less tax than their neighbour that is an employee.

The Proposal provides a series of tests to be utilized to determine if income, specifically dividends, is provided to a shareholder based on their Fair Value contributions to the Private Corporation or their investment in the Private Corporation. These tests would be the responsibility of the Shareholder to document (fair enough) and would be subject to the discretion of those enforcing the tax legislation, which would typically be an agent of the Canada Revenue Agency.

I for one, having experienced dealing with Canada Revenue Agency on a daily basis, do not want an agent providing a determination of my wife's value to my Professional Corporation. The Proposal provides far too much discretion in its reasonableness test in my opinion.

Without the support of my wife, I know my business would not be as successful. While she may not be in the office preparing tax returns or working on bookkeeping, she handles various tasks when called upon, runs our household including being primary caregiver to our two daughters which allow me to put in the long hours required in running a business. At the end of the year, her contributions are extremely valuable and I believe she has earned compensation in the form of a dividend.

I do not want to have a CRA agent inform me that they do not agree with the position taken and subsequently let the dividend income paid to my wife be subject to 53.3% income tax.

Issue # 2 – Investment Income in a Private Corporation

The Tax Proposal aims to tax investment income within a Private Corporation in a more "fair" manner to ensure that Private Corporations are paying their "fair" share of tax on their investment income.

While I currently do not have any investments within a Private Corporation, my goal was to start having some in 2018 (which I am on track to have), however I am wondering if this is a good thing!

While I know input has been requested for this section of the Proposal for how to better capture this income and tax it properly, the concept of taxing investment income at the highest Personal Tax rate (53.3% in New Brunswick), then having to pay tax on it again when I withdraw the same income from my Corporation does not encourage a business owner such as myself to save.

Businesses are cyclical, it does not matter if you are Accountant, a retail shop or a construction company, there are cashflow high and lows. There is always a need to reinvest in equipment, inventory or people. The Proposal concept that Business Owners should just take advantage of their RRSP contribution room and TFSA to save toward retirement are not always a practical solution due to the restrictions of these saving instruments.

In my experience as an Accountant, Cash is King for businesses. When excess becomes available, business owners require it to be liquid and accessible to their business both short and long term. Being able to invest their excess within a corporation allow the business owners to have access to cash when needed and it provides them an opportunity to build a retirement fund, which will typically be dipped into when times are tough or when that new piece of equipment is needed.

If a Business Owner was to pull the excess out and invest it in their RRSP, then the business requires funding, there will be a 25% withholding tax on money withdraw from their RRSP and that will be taxed. It is possible for a business owner to be left with half the cash with the RRSP strategy versus leaving it in their company in the first place.

In my situation, I would never use the idea of pushing money to my RRSP only to have to take it out again. Plus, I would need sufficient RRSP room to invest and business owners may not have a significant RRSP contribution room if their income from their businesses are not steady or have not been paid as a salary.

With the concept of taxing investment income at the top Personal tax rate coupled with the concept of removing the inclusion of the non-taxable portion of capital gains from the Capital Dividend Account, it would appear the Tax Proposal wants no one to invest within a Corporation.

Issue # 3 – Converting Income to Capital Gains

The Tax Proposal should have provided legislation that would allow Business Owners to transition a Private Corporation to a Family member in a less complicated manner and with similar tax consequence as selling to a non-related entity.

It is extremely concerning that if I were to die tomorrow, the shares of my Professional Corporation would be taxed at their Fair Market Value and then when my wife and daughters look to wind down my corporation and access funds to assist them in day to day life after I am gone are taxed again. How is double taxation on the same fair value considered "tax fairness"?

It is also extremely concerning that under this Proposal, my retirement income pool could be subject to the interpretation of legislation by a Canada Revenue Agent. They have the power to cut my retirement pool in half if they decide that a capital gain is not a capital gain but a dividend which is subject to a much higher tax rate.

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Besides the three primary issues of the Tax Proposal, there are a few other items that I would like to address in this letter.

The Consultation Period of 75 days is not enough time on such a dramatic change in tax legislation. This is my professional opinion as a Tax Professional. How does the Department of Finance expect submissions of suggestions, ideas and potential alternate legislation in a mere 75 days? It has taken most of the 75 days to get the message out there, have time to digest what the Proposal means and provide the Government with a letter on my position.

What is the rush on this matter? The existing legislation that this Proposal aims to change is over 40 years old and when it was enacted it took almost 10 years. The most recent major tax legislation changes around Testamentary Trusts took almost two years of consultation prior to implementation. Based on the understanding of the Prime Minister and Finance Minister of the Tax Proposal and its actual consequences are opposites as the net cast by the Proposal captures essentially all Private Corporations, not just ones that earn $150,000 or ones that their shareholders earn $150,000.

The tone of the Proposal was not appropriate either. It was presented to pit Neighbour versus Neighbour and Business Owner versus Employee. The Proposal does not provide any weight to the financial risks and burden assumed by a Business Owner.

If the Business Owner who utilizes a Private Corporation has such an advantage, why are not more people Business Owners? One reason I believe is the safety and security of being an employee with health benefits, vacation, sick time and a pension coupled with the safety net of Employment Insurance should you lose your job. A Business Owner can have everything on the line, including their Family Home or their retirement fund. They have to worry about ensuring their Business supports their Employees. They have to try to save funds for a contingency in case they become sick or want to take a maternity/paternity leave.

The Tax Proposal has consumed my thinking over the past two months.

From a Personal perspective, I have wondered why I am being penalized for building a successful business. I have wondered why I should not be able to have a comfortable retirement like one that would be enjoyed by an employee (especially one of a Civil Servant). I have wondered why what will become my largest asset, my Corporation, would be subject to double tax when an employee that has built an investment portfolio is not subject to double taxation?

From a Community Perspective, I am concerned about the impact to St. Stephen as a Community that has started doing things on its own because in rural New Brunswick. The only way to find success is to build it yourself. So many people in our Community would be directly affected by this Tax Proposal and I am concerned of the impact to the Community. It could affect the delivery of services, pricing of products, closure of businesses, business owner's retirement strategies impacted so much that they will have to revisit what retirement could look like for them.

In closing, we need more time to evaluate this Tax Proposal. We need a longer consultation period, period! The Department of Finance needs to involve Tax Professionals in the Tax Proposal as they have in the past and not shut them out. The Department of Finance needs to test their proposed legislation to understand its impact and how far the Proposal reaches.

If it was the intention of the Department of Finance to tax the 1%, this Proposal does not accomplish this. It directly impacts the Middle Class.

As our Member of Parliament, I ask you Karen to take my concern and the concerns of other Business Owners to Ottawa. The Tax Proposal as presented on July 18, 2017 is not the solution. It needs work, if it is to accomplish its stated goal, that of tax fairness.

There are pieces that make sense for taxpayers, however there needs to be more clarity and precision in the Legislation and proposed reasonableness tests. If the intent of the Tax Proposal is to target Taxpayers in the range of $150,000, then the Legislation will have to reflect this because as written, it captures a range far lower than that.

The impact of this Tax Proposal as presented would be detrimental to our Community and your Riding. The impact on the Small Business Owner if passed as presented would be wide spread and felt for years to come, especially in small communities like St. Stephen.

I would ask you to raise these concerns of your constituents to Parliament and work to ensure that a longer Consultation Period is obtained which will allow time for the Legislation to be re-evaluated and revised so that it aligns with the intent of the Department of Finance.

I want to thank you for taking the time to read this letter, as well as attending the various meetings and presentations on this topic. I also want to thank you for listening, which is the most important in this time of consultation on the Tax Proposal. I believe with the information that you have received and will be receiving, it allows you to understand the huge impact that this Tax Proposal will have if implemented as presented.

At this point, my hope is that the Tax Proposal and its legislation as presented will be revised after this consultation period and be re-released for consultation. However, if the Tax Proposal (and its legislation) is not revised, and it forms part of Bill or a Budget which you will vote on, I would ask you to vote against it.

If you would like to discuss this letter further, please feel free to call me at 506-467-1129 or send me an email at jrideout@anraccountants.com.

Sincerely,

Jason Rideout, CPA, CA, TEP
Jason G. Rideout Professional Corporation Inc.