



Webcast

**Proposals on tax planning
using private corporations**

October 3, 2017

Described as the most
significant change in
Canadian tax policy
since 1972

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Housekeeping items

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Summary of the proposals

Three areas of consultation



Income sprinkling



Capital gains



**Passive investments
in a private corporation**

Polling Question 1

Which category of proposals do you expect will have the greatest effect on your business?

- A. Income sprinkling
- B. Capital gains
- C. Passive investments
- D. All of the above
- E. None of the above, if you do not believe they will affect you or you are unsure

Our view and key themes

**16 Specific
recommendations**

**4 overall
themes**

**33 Pages of analysis
and examples**

**5 urgent
recommendations**

Themes

- Complexity and cost
- Retrospective effect
- Tantamount to tax reform
- Impact on Canada's competitiveness in a global market

Complexity and cost

20+ Times the term “reasonable” is used in the draft legislation, which is not defined

0 Times that the term “significant” is defined

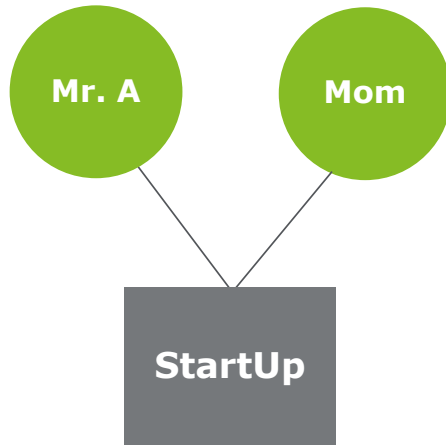
25.5

Pages of draft legislation related to income sprinkling alone

27

Pages of draft legislation, noting that legislation related to investment portfolios has not been released

Complexity and cost

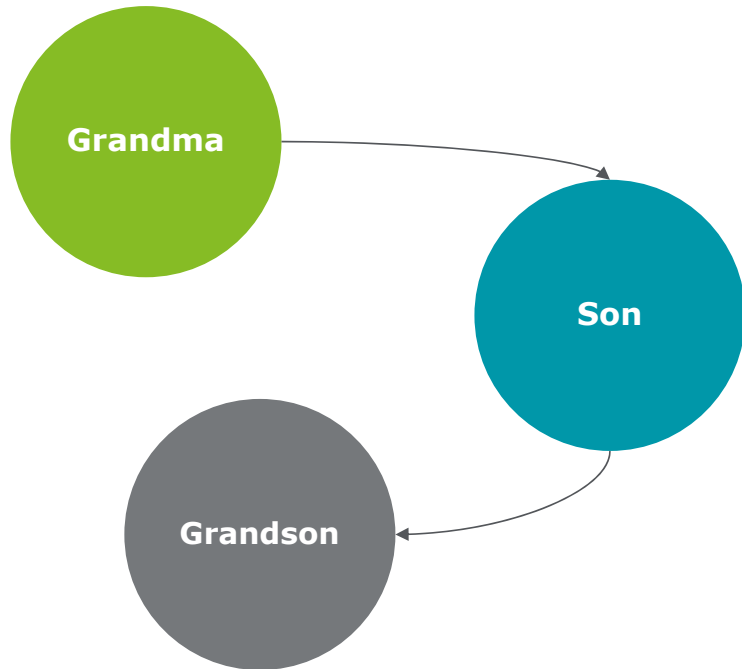


What is a reasonable return to Mom on the financing of her son's start-up?

General recommendation: Reduce complexity and mitigate compliance cost

- Clarify the intended application of provisions
- Narrow the application to offensive transactions

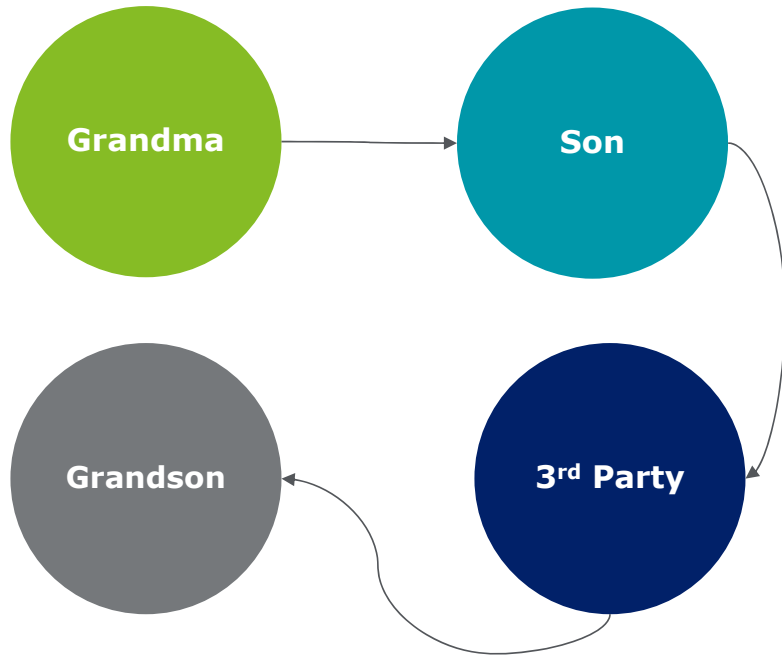
Retrospective effect



84.1 – Tracking previous gains realized

Grandma sold to Son, Son sold to Grandson. Grandson is required to know the gain that both Grandma and his father realized.

Retrospective effect



84.1 – Tracking previous gains realized

Grandma sold to Son, Son sold to third party, Grandson bought from third party. Grandson is still required to know the gain that both Grandma and his father realized.

Retrospective effect

246.1 – Applies on the date the distribution occurs, but uses historical transaction data to determine the outcome

Examples:

1. Transaction undertaken in 2014 that yielded an addition to the capital dividend account. Capital dividend only now being paid.
2. Capital invested in a private corporation via share subscription in 2000, which is now being contemplated to be returned to the shareholder via a return of paid-up capital.

General recommendation: Eliminate retrospective effect

- Eliminate the ongoing impact of legitimate business transactions previously executed
- Provide clear transitional provisions that prevent unmanageable tracking obligations

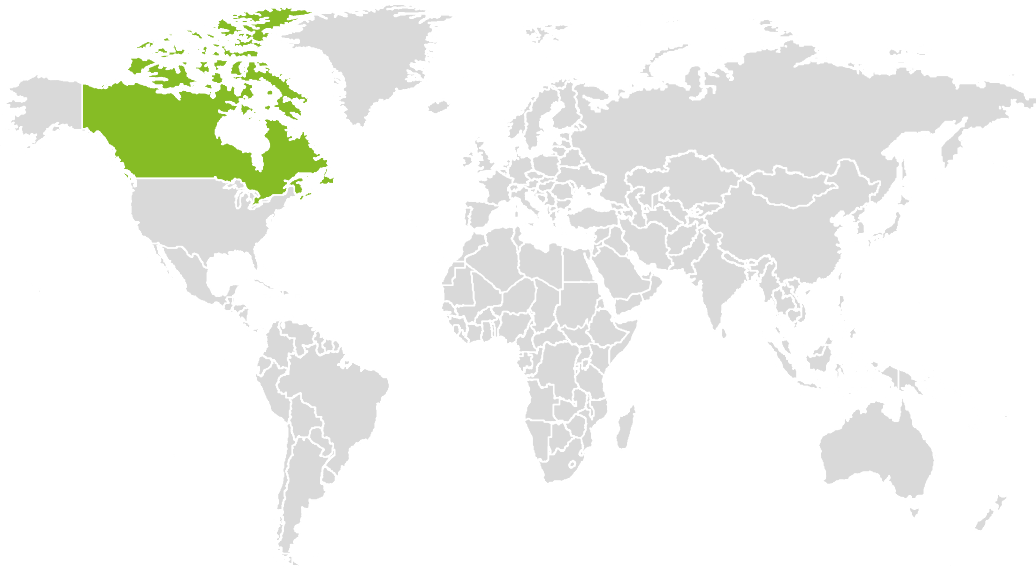
Tantamount to tax reform in the area of private company taxation

- These changes are a significant departure from a regime that has been in place for a long period of time.
- They amount to tax reform in the area of private company taxation.

General recommendation: Engage in a more robust consultation

- Engage in a more robust consultation and defer implementation of any changes accordingly
- Establish a task force to fully evaluate the topics and provide concrete recommendations
- Provide sufficient time to fully explore alternative approaches and assess impact

Impact on Canada's competitiveness



Canada's private businesses will face

- Higher tax burden
- Increased complexity and uncertainty for family businesses
- Punitive tax on death of business owners
- Punitive tax on business transfers to family and next generation

Polling Question 2

How do you believe these proposals, if passed as proposed, will affect Canada's competitiveness?

- A. Massive impact
- B. Some impact
- C. Minor impact
- D. No impact at all!

General recommendation: Full assessment of impact of proposals on Canada's competitiveness

- Undertake to assess the impact on competitiveness, innovation and growth through a dedicated task force

Specific recommendations

Key recommendations

1. The government should abandon the passive income proposals for the reasons that similar proposals were abandoned during the 1972 tax reform.
2. Spouses should be excluded from the income sprinkling provisions, thereby mitigating a large portion of the inequity and complexity associated with these provisions.
3. An intergenerational or other family business transfer should be subject to the same tax treatment as the sale of shares of a family-owned enterprise to an unrelated party.
4. The retrospective aspects of the proposed legislation, particularly as they relate to sections 246.1 and 84.1, should be eliminated.
5. The inherent punitive double taxation that would result on the death of a taxpayer who owns CCPC shares should be corrected.

Polling Question 3

How will these proposals impact your decisions on where to invest?

- A. I'm now considering leaving Canada completely.
- B. I'm primarily exploring other jurisdictions for future investments.
- C. I had never before considered investing outside of Canada, but I am now.
- D. The changes will have no impact on my investment decisions.

The future of private business in Canada: Looking forward

The Future of private business in Canada: The challenges

Domestic inequity and Globalization could disincentive innovation and growth for private business in Canada:



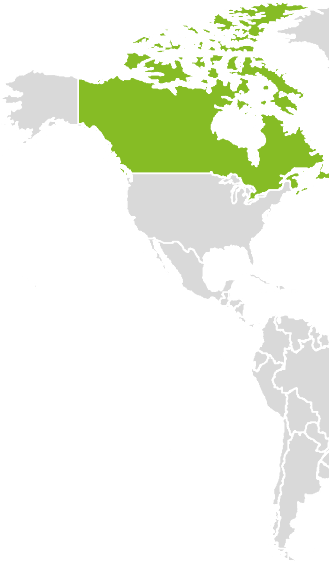
- Depending on the outcome of these proposals, there may be disadvantages to operating a private, family owned business in Canada
- Recent US Tax proposals directly aimed at lowering taxes and creating a more business friendly environment
- Many other global jurisdictions focused on creating business friendly environments, and potentially outpacing Canada in terms of competitiveness
- Technology and innovation making it easier to conduct business from anywhere in the world

The Future of Tax



Bold bets for our country:
It's time for deliberate
action

The Future of private business in Canada: Positive action & resiliency



Canada's private businesses have already come together to bring a collective voice to these issues from across the country.

Many taxpayer consultations, industry representations and media campaigns have been initiated to address these issues with the government – a true grass roots movement to ensure the government knows what is important to the people who drive entrepreneurship in Canada.

Our government is taking notice – MP's are responding publicly and the Senate announced a study on September 27 to examine these proposals even before they are presented for enactment.

Regardless of the outcome, we believe **Canada's private businesses will survive, adapt and continue to grow.**

Questions

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