

Chartered Professional Accountants of Canada

Remarks to the

Standing Senate Committee on National Finance

***on the Study on the Minister of Finance's proposed changes
to the Income Tax Act respecting the taxation of private corporations
and the tax planning strategies involved***

October 18, 2017

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Thank you Mr. Chair and Members.

Background

I am Bruce Ball, Vice President of Tax at Chartered Professional Accountants of Canada, known as CPA Canada.

We are one of the largest and most respected national accounting and business organizations in the world, representing more than 210,000 Canadian chartered professional accountants at home and abroad.

Collectively, CPA Canada and the profession enable, champion and safeguard the Canadian ideal of good business that values inclusion, sustainable growth and social development in cultivating a healthy and thriving economy.

We are committed to:

- Acting in the public interest
- Contributing to Canada's economic and social development, and
- Helping Canadians, businesses and the economy to succeed and prosper over the long-term.

Need for tax reform

CPA Canada is pleased to be here today to speak to the federal government's tax proposals involving private corporations. We also want to acknowledge the additional measures announced this week.

CPA Canada believes that tax policy is an essential lever to achieve key economic and social objectives in Canada.

That is why CPA Canada is a strong and long-time advocate of tax reform.

We have consistently called for a top-to-bottom review of Canada's tax system.

Many other national organizations, leading think tanks, economists and academics have joined the chorus.

With the government's proposed changes to tax planning involving private corporations, the call for a comprehensive tax review has grown even louder and more urgent.

There has not been a thorough review of Canada's tax system in 50 years.

There is no better time than now.

Tax proposals involving private corporations

The proposals involving private corporations, in many respects, run counter to the public interest and the basic principles of sound tax policy – including fairness, simplicity, competitiveness and efficiency.

The latest set of measures announced this week in relation to private corporations may represent some small steps forward, but fundamentally, these proposals continue to raise many questions and concerns.

For example:

On income sprinkling:

- We believe that the “reasonableness” test will be very complicated to apply. It will raise the costs of compliance, the overall costs of doing business and the government's costs to administer the tax system. We anxiously await further clarity on this proposal.

On passive investment income:

- I'd like to make three points:
- First, we need to ensure that the proposals around passive investment income are needed. These proposed rules will add a great deal of complexity, and we do not believe the government has made a good case for them.
- Second, further consultations on this issue are critical, between now and the next budget. The government must ensure that all affected stakeholders, including the tax community, have the opportunity to actively participate in any discussions on this issue.
- Third, we note today's announcement that the government will introduce a de minimus rule to exclude certain small businesses from the application of new rules in this area. This is something we recommended in our submission to Finance Canada. We look forward to further discussions with the government and other stakeholders to ensure the de minimus proposal is effective.

On capital gains:

- The playing field was already uneven when comparing arm's-length sales to intergenerational transfers. The proposals have added even more inequity, with a strong bias to sell a business to third parties rather than family members.
- We are hoping that the Finance Minister will address this unfairness this week.

We would be pleased to further discuss the concerns we've been hearing from the tax community and other national stakeholders, and CPA Canada's recommendations.

I wish to emphasize, however, that this week's measures in relation to private corporations do not change CPA Canada's overall position.

Our central recommendation to Finance Canada is that its private corporation tax proposals should not be assessed in isolation, but as part of a comprehensive review of Canada's tax system.

Ad hoc incremental changes to the Canadian tax system are not a long-term solution. In fact, they can create further complexities, inefficiencies and unintended consequences down the road.

The July 18 tax proposals and this week's additional announcements are a case in point.

Over the last few decades, Canada has added layer upon layer of complex tax changes without proper consideration to the impact on the tax system as a whole.

CPA Canada believes it's time to focus our attention on the entire tax system.

Domestic and international pressures for tax reform

Setting these specific tax proposals aside for a moment, let's look at the bigger picture.

Our tax system has not kept pace with Canada's changing economic and social realities – including:

- Slowing labour force growth
- An ever-increasing competition for global top talent
- And rising income inequality.

Let's also look at what is happening around us and what Canada needs to stay competitive.

Other countries are taking concrete steps to strengthen and streamline their tax systems. The U.K., for example, has simplified its tax system, which also greatly reduces compliance costs.

The U.S. is poised to introduce its plan for major corporate and personal tax cuts, and overall tax simplification. Should these reforms proceed, they would significantly change the competitive landscape.

In the face of all these challenges, it is time for Canada to build a best-in-class tax system.

This is something that every politician, no matter their political stripe, and all Canadians should support because it is in the public's best interest.

Does the country simply want to continue to plow ahead with incremental changes that only complicate a beleaguered tax system? Or, does it want to demonstrate leadership by charting a new and determined course to build a better and fairer tax system for the 21st century?

If we are truly committed to a fair tax system that supports inclusive growth and benefits all Canadians, then let's take the time to get it right.

Let's launch a comprehensive tax review. CPA Canada stands ready to participate in this exercise.

Thank you, Senators, for initiating your important study. I look forward to answering your questions.