Submission on Proposed CCPC Tax Changes

Presented to the Department of Finance Canada

Submitted by:

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Summary & Recommendations

In its 2017 budget, the federal government announced that it would be making changes to the tax treatment of Canadian-Controlled Private Corporations (CCPCs). The motivations behind these changes was to treat like income alike; some individuals are using the tax advantages of CCPCs to lower their personal income tax burden compared to those earning the same income through wages and salaries.

While we appreciate the importance of fairness in the tax system, after careful review of the proposed changes, CME has a number of concerns about unintended consequences, issues of unresolved tax fairness, and the increased complexity and compliance burden that could result.

These points are discussed in detail in the body of our submission. In addition, while we recognize that the consultation process and timeline have not been abbreviated, we believe that more time should be taken to fully examine and communicate the impact of these changes before implementation.

In short, we believe that the Government of Canada should not rush to implement piecemeal amendments to the tax code. Instead, the government should work towards longer-term and more comprehensive reforms to create a tax system that is simple and equitable, and that encourages investment and rewards success.

Primary Recommendation:

Recommendation 1: The Government of Canada should indefinitely postpone its proposed changes to the tax treatment of CCPCs. Instead, it should undertake broader and more comprehensive tax reforms, the goal of which should be to create a tax system that is simple and fair; that encourages business investment and growth; and that rewards entrepreneurship and innovation.

Secondary Recommendations:

If the Government of Canada is intent on proceeding with immediate reform to the tax treatment of CCPCs, we recommend a number of specific amendments to the current proposals that would help mitigate some of our specific concerns. These amendments should be viewed as interim steps in advance of the comprehensive reforms outlined in Recommendation 1 and not as a substitute for those reforms.

On Income Sprinkling:

Recommendation 2: The Government of Canada should disallow Canadians under the age of 24 from receiving dividends or other financial non-employment benefits from a CCPC owned by a family member – with the exception of farm businesses, where full income splitting should still be permitted. Spouses should remain eligible for income splitting to reflect the important role they play – especially in the early stages of a business start-up.

On the Tax Treatment of Passive Investment Income:

Recommendation 3a: In conjunction with the proposed changes to the taxation of passive income within a CCPC, the Government of Canada should introduce a tax credit allowing CCPCs to claim 110 per cent of labour income and capital expenditures against their taxable income.

Recommendation 3b: In conjunction with the proposed changes to the taxation of passive income within a CCPC, the Government of Canada also increase its research and development tax credits for CCPCs to 40 per cent, up to a maximum of $5 million.

On Tax Complexity, Administration and Compliance:

Recommendation 4a: When individuals invest personal funds into passive investments in a CCPC, the company should receive a tax refund equivalent to the highest marginal personal tax rate on the amount invested. All funds subsequently disbursed from those investments would be taxed identically, thus eliminating the need for the complicated “apportionment” and “elective” income tracking requirements.

Recommendation 4b: The Government of Canada introduce clear and explicit guidelines on the record-keeping requirements created by these tax changes. It should also clearly spell out all the process, timeline and reporting requirements that would be involved as a result of these changes.

On Instances of Tax Unfairness:

Recommendation 5: The Government of Canada should carefully re-examine its proposed changes and eliminate all instances of: discrimination against family succession; double taxation; and the inconsistent treatment of passive investment income within a CCPC compared to other corporate structures.

CME fully agrees that tax reform in Canada is badly needed. We need to work towards a simpler, fairer tax system that is globally competitive, encourages innovation and economic growth, and rewards reasonable risk-taking, entrepreneurship and job creation. CME is prepared to take a leadership role in working with the government to achieve that end. However, the current proposal regarding CCPC taxation does not advance this goal; it is extraordinarily complex, poorly understood and could have a number of unintended consequences. We believe that the Government of Canada needs to take the time necessary to ensure that these issues are addressed and concerns assuaged.

Background

In its 2017 budget, the federal government announced that it would be making changes to the tax treatment of Canadian-Controlled Private Corporations (CCPCs). These changes were motivated by the government's desire to treat like income earners alike: There are a number of strategies available to incorporated individuals that reduce the amount of taxes they pay compared to someone earning the same income as a salaried individual.

The Budget highlighted three specific issues:

- **Income sprinkling:** Individuals who own a CCPC are able to distribute their income among family members through a variety of means, allowing more of that money to be taxed at lower brackets and therefore reducing the overall tax paid.
- **Treatment of passive investments inside a corporation:** Because of preferential small-business tax rates, individuals making passive investments (in stocks, bonds or other assets not directly related to the business itself) inside a CCPC pay less in tax compared to someone investing the same amount out of their normal wages.
- **Conversion of income into capital gains:** Because half of capital gains are tax-exempt, if an individual uses a CCPC to convert its regular income into a capital gain, they pay a lower tax rate on that income.

On July 18 2017, the federal Department of Finance issued a paper, *Tax Planning Using Private Corporations* that spelled out the specific issues and proposed solutions in considerable detail. The release of that paper also triggered the beginning of a 75-day consultation process on the proposed changes, some of which could be in place as early as January 1, 2018.

CME's Guiding Principles on Taxation

CME believes that an internationally-competitive tax system is critical to attract new manufacturing investment to Canada and to foster entrepreneurship and growth. Small businesses are the engine of the Canadian economy. In the manufacturing sector alone, there are 81,400 self-employed individuals. The tax system needs to encourage these small businesses to innovate and grow by investing in their own future: in new facilities, technologies, machinery and equipment; and to reward entrepreneurial activity and risk-taking.

In short, we have three specific guiding principles that we believe must govern any and all changes to the tax system for manufacturers in Canada. The tax system should:

- Incentivize investment and growth;
- Reward and support risk-taking, innovation and entrepreneurship; and
- Be simple, clear and fair.

We believe that, by focusing on a narrow view of tax fairness, the federal government's proposed changes do not fully meet these criteria. In an effort to clamp down on some cases of legitimately unfair tax avoidance, the changes to the tax treatment of CCPCs, as currently proposed, are too broad, too complex, and could have negative consequences for many manufacturing businesses.

In our view, the Government of Canada should not rush to implement these amendments to the tax code. Rather, it should pause these reforms and address issues of tax unfairness as part of a longer-term, more comprehensive review of taxation in Canada. The goal of that review should be to create a tax system that is simple and equitable, and that encourages investment and rewards success.

Specific Concerns with the Proposed CCPC Tax Changes

Through our consultations with member businesses and tax experts, CME heard a number of concerns with the proposed changes to the tax treatment of CCPCs. These concerns fall into six broad categories which are discussed below.

1. Differences in business structure across CCPCs

The most significant and overarching concern with the proposed changes is that they apply to all CCPCs, overlooking the fact that there are important differences in business activity, structure and family involvement depending on the nature of the business itself. The aim of the tax reforms is to ensure that CCPCs are not used as a mechanism for tax avoidance. However, such instances are heavily concentrated in the services sector. Individuals who run farming or manufacturing operations have a very different business structure compared to those who provide services.

Individuals who run privately-owned manufacturing operations did not incorporate because they were already producing goods and saw a tax advantage to changing their business structure. They did so because they wanted to develop and sell a product, creating jobs and economic growth in the process. Many such business owners feel that they are being unfairly affected by measures designed to address problems that exist primarily in other sectors of the economy.

2. Differences between business income and wage income

The stated policy goal of the CCPC tax changes is, essentially, to treat like income earners alike. According to the Canadian government, a dollar in income earned through a CCPC should be taxed at the same marginal rate as the same dollar earned through wages and salaries. While they appear to achieve that narrow goal, CME heard that the proposed changes do not account for many key differences between the two types of income.

a. Personal risk

The first of these differences is in personal risk – which is far higher for CCPC owners compared to an employee earning a salary or wage – especially in manufacturing and farming. For one, income for many small manufacturing and farming businesses can vary considerably from one year to the next while income for salaried workers is far more secure. Goods-producing businesses are also subject to much wider swings in income compared to the intended target of these reforms – wealthy individuals operating CCPCs in services-sector industries.

Second, most CCPC owners in manufacturing have a significant personal stake in the success of their business. Many have invested their own wealth or taken on debt to finance their enterprise. They have drawn down their personal assets. They have taken out a second mortgage on their home. They have opened a personal line of credit or secured personal loans. Each of these incurs costs that do not apply to salaried workers. On top of that, business owners are personally backstopping their enterprise. If they fail, their home may be on the line. And that is to say nothing about the long hours, stress and family tension that often result.

We acknowledge that the purpose of the tax system is not to reward unreasonable risk-taking. Similarly, the tax benefits of incorporating should not be a meaningful consideration in an individual's decision to start a business. However, business owners strongly feel that they are making a positive contribution to the Canadian economy (see below). From their perspective, these tax changes penalize them for making that contribution.

b. Non-salary compensation

The second issue is that the proposed tax changes are only concerned with direct income – is $100,000 earned through a CCPC being taxed at the same rate as $100,000 earned as a salaried employee?

While it is difficult to argue against the principle of tax fairness generally, there are concerns that the proposed changes do not account for a wide range of non-salary benefits that provide financial gain to employees but are largely unavailable to CCPC owners. Employees get paid vacations. Most have a pension plan (defined-benefit plans in some cases). And the vast majority enjoys health/dental/life insurance plans for which they only pay a fraction of the cost.

By contrast, CCPC owners have none of these benefits unless they pay for them themselves. While there are some programs available to compensate for these differences, including the ability to set up a Personal Pension Plan (PPP) within a CCPC, these only partially close the gap.

The federal government is aware of these important differences. In late 2016, it actively contemplated taxing employee health and dental benefits as ordinary income, before eventually abandoning that idea. The rationale for that proposal was identical to the rationale for changing the tax treatment of CCPCs: the desire to treat all remuneration equally. The federal government clearly recognizes that health and dental benefits provide a financial advantage to some Canadians that are not available to others. However, businesses see those instances of tax unfairness going unaddressed, while the proposed changes to the taxation of CCPCs are going ahead. To be consistent, the principle of equality and fairness would have to reflect the full range of financial benefits, not just the surface-level compensation.

3. Deterring job creation and entrepreneurship

a. Job creation

CCPC owners in the manufacturing sector see themselves not just as self-employed individuals, but as job-creators. The clear intended target of the proposed CCPC changes is wealthy individuals who have no intention of creating work for other Canadians, but instead are exploiting the tax advantages of incorporation to minimize their overall tax burden. However, the proposed changes cast too wide a net. Caught in that net are legitimate small business owners that are trying to succeed, expand their operations and create jobs for other Canadians. The current CCPC tax arrangement recognizes that key difference and provides a modest incentive for business owners to take risks to help build a healthy, vibrant economy. The proposed changes remove those incentives.

Small businesses are the engine of the Canadian economy. In the manufacturing sector alone, there are nearly 68,000 establishments with fewer than ten employees. While not all these businesses may be CCPCs, they do employ nearly 274,000 Canadians. Those business owners should be rewarded for their efforts and encouraged to do more to create jobs in Canada.

b. Entrepreneurship and Innovation

A related issue is that the changes to the tax treatment of CCPCs effectively discourage entrepreneurship and innovation in a time when the federal government has made an Innovation Agenda one of its hallmark policy priorities.

The current tax advantages that are available to small business owners exist in recognition of the risk inherent in entrepreneurship and because of the job-creating potential that starting a business represents. The proposed changes aim to treat a business owner just like an employee earning the same wage. But as already discussed above, the two are not the same.

In its pursuit of tax fairness, the Department of Finance argues that the decision to incorporate should be based on the potential economic returns of starting a business and not on the personal tax benefits that result. We agree with that point. However, because the tax changes consider only a partial view of financial reward and ignore risk altogether, they in fact do the opposite: they discourage entrepreneurship and distort economic decision-making.

Many small manufacturers see the proposed changes as dampening the incentive for an individual to start a business; they could earn the same salary by taking a job with someone else. They would pay the same taxes, while also enjoying more extensive company-paid benefits and enduring far less personal risk in the process. This is surely not the intent of the proposed changes.

4. Adding tax complexity and raising the cost of doing business in Canada

a. Cost of doing business

One of the most important issues raised by manufacturers is that the proposed tax changes add to the relentless increase they have seen in the cost of doing business in Canada. Governments often point to Canada's relatively low headline corporate tax rates as a signal of our global tax competitiveness. But this paints an incomplete picture; a whole range of tax and regulatory changes, and other government policies, are adding to business costs and eroding our global competitiveness. Some of these changes include:

- Rapidly-increasing electricity costs in Ontario, Manitoba and elsewhere
- The move to a $15 minimum wage in Ontario, Alberta and BC
- Higher Canada Pension Plan premiums

- Plans to implement a nation-wide price on carbon
- Rising property tax rates in some jurisdictions
- Recent corporate tax increases in BC, Alberta and Newfoundland and Labrador

These examples are on top of the federal government's cancelled plan to reduce its small business tax rate from 10.5 per cent to 9 per cent.

Clearly, most of these changes fall outside the purview of the federal government. However, this is a distinction that seldom matters to individual businesses: They see their costs rising; they see government as responsible.

It is also true that no single one of the items listed above is alone enough to fundamentally alter Canada's competitive landscape. Together, however, they add up quickly. The proposed changes to the CCPC taxation rules only add to that burden and to the perception that Canada is becoming less welcoming to business.

Moreover, the trend of rising business costs in Canada stands in sharp contrast to the stated intention of the US government to dramatically lower its business tax burden. Canada could soon find itself with a significant business cost disadvantage, leading to the migration of investment and jobs south of the border.

b. Tax complexity and the compliance burden

There is also the issue of administrative and compliance costs. Evident to anyone who reads the Department of Finance's discussion paper on the subject, the proposed tax changes are extremely complex and highly nuanced. While closing certain tax "loopholes" will simplify some elements of tax compliance, the new restrictions on income sprinkling in particular will impose significant short-term costs as businesses try to adjust to the new rules. Moreover, tax experts have pointed out that, in many cases, the language within the draft legislation is vague, creates ambiguity, and allows a generous scope for interpretation of the new rules.

These tax changes will increase government scrutiny of family-member employment, income and investment for CCPC owners, while at the same time muddying the rules that underpin that scrutiny. Without clear guidelines on auditing, record-keeping requirements, definitions of terms, and other administrative procedures, small family-run businesses could find themselves unintentionally offside the tax code and inadvertently face stiff financial penalties.

5. Inconsistent Application of the "Tax Fairness" Principle

Changes to the taxation of private corporations are motivated by the government's desire to achieve tax fairness; a marginal dollar of income should be taxed consistently regardless of how it is earned. Many of the points above demonstrate why comparisons between salaried income and business income are not entirely appropriate – failing to reflect key differences in risk, as well as considering only a narrow and incomplete view of income.

However, there is another problem: the governing principle of tax fairness is being inconsistently applied across the tax code. Consider the following examples:

- **Tax treatment of employee benefits and stock options.** As noted earlier, the federal government has backed away from a plan to tax health and dental benefits as if they were ordinary income. They have also retreated from a plan to cap the tax deduction on employee stock options. While the government is adamant that the principle of tax fairness demands action against CCPCs, it is not applying that same principle in these other areas.

- **Income splitting**. Federal government tax policy considers income splitting to be unfair on the basis that, for tax purposes, individuals should be treated alike regardless of their personal circumstances. However, this principle is not being upheld in the case of pension income – even in cases where seniors are considerably wealthier than working-age Canadians.

- **Lifetime capital gains exemptions on the sale of a home.** Capital gains on the sale of a principle residence are generally exempt from taxation. In other words, a certain type of capital gain is being treated differently from other types. On top of that, this exemption also provides an explicit benefit to wealthier homeowners and to those living in large urban centres.

We are not suggesting specific action in any of these areas. And we acknowledge that the government may have additional changes in mind to address issues of tax unfairness outside of CCPCs. Our intent is simply to point out that, however reasonable the motivation of tax fairness may be, it will encounter resistance from the tax base when it is seen as being applied in some instances but not in others.

6. Instances of unfair taxation

Related to the above, the proposed changes leave unaddressed many outstanding instances of unfair taxation and, in fact, create some new such instances that were surely unintended. These have been reported in a number of commentaries, submissions and formal letters from noted tax experts and accounting companies. While we encourage the Department of Finance to examine those submissions closely, we would also like to highlight a few specific issues that concern manufacturers.

- **Discrimination against family succession.** The total tax paid on the sale of a CCPC to a family member is greater than if it was sold to unrelated domestic or foreign investors. The proposed tax changes do not address this unfairness, but they do add complexity to the tax planning required to minimize that discrimination. For many CCPC owners, the family business is their legacy. Their choice of to whom they sell the business should not affect the total tax paid. However, there is a clear tax bias that encourages sale to domestic or foreign third parties.

- **Disposition of assets upon death.** Under the proposed rules, the estate of the deceased would be taxed on the capital gain from the deemed disposition of his/her assets. The family inheritor would then also be taxed on the deemed dividend (the remaining amount). The result is an effective tax rate on the original capital of more than 70 per cent. This is a particularly steep and insensitive instance of double taxation of an asset that remains within a family.

- **Penalties for “unreasonable allocation.”** If an audit determines that a CCPC owner paid more than a “reasonable” amount for family work, then the “excess” pay is taxed at the highest marginal rate. However, the cost in total tax paid by the family depends on the income of the CCPC owner. Families where the owner does not already pay the highest marginal rate will be assessed additional tax, while the impact on wealthy business owners is effectively zero.

7. Incentive to invest in business growth

Minister Morneau was clear in stating that the proposed tax changes are not intended to affect business’ ability to grow, create jobs and support their communities. On the surface, this principle is upheld by the proposed changes. The *Tax Planning Using Private Corporations* consultation paper emphasizes that, so long as income remains within the corporation, it can still take advantage of the small-business tax rate and its effective tax burden will be unaffected.

While our analysis supports this view, we have two concerns about the potential outcome. The first is that the proposed changes do nothing to encourage active investment beyond taxing individuals more heavily for removing money from the corporation. The second is that when companies do invest in new facilities or machinery that expand operations and profits, those profits could be more heavily taxed when they are distributed to business owners. In other words, the investment risks are unchanged, but the potential return on those investments is diminished.

Recommendations

CME understands the intent of these proposed changes to the taxation of CCPCs; self-employed individuals – primarily in services sector industries – are using the tax advantages of private corporations to unfairly lower their tax burden. While we appreciate the importance of fairness in the tax system, after careful review of the proposed changes, CME is concerned about unintended consequences, issues of unresolved tax fairness, and the increased complexity and compliance burden that could result.

In addition, while we recognize that the consultation process and implementation timeline are well within established norms, we believe that more time should be taken to fully examine and communicate the impact of these changes before they are implemented.

Primary Recommendation:

We fully agree that tax reform in Canada is badly needed. We need to work towards a simpler, fairer tax system that is globally competitive, encourages innovation and economic growth, and rewards reasonable risk-taking, entrepreneurship and job creation. CME is prepared to take a leadership role in working with the government to achieve that end. However, the current proposal regarding CCPC taxation does not advance this goal; it is extraordinarily complex, poorly understood and would run counter to many of our guiding principles on taxation.

As such, we recommend:

Recommendation 1: The Government of Canada should indefinitely postpone its proposed changes to the tax treatment of CCPCs. Instead, it should undertake broader and more comprehensive tax reforms, the goal of which should be to create a tax system that is simple and fair; that encourages business investment and growth; and that rewards entrepreneurship and innovation.

Secondary Recommendations:

If, however, the government is intent on proceeding with immediate tax changes, we recommend the following amendments to the current proposals. These should be considered as interim steps in advance of the comprehensive reforms summarized in Recommendation 1 and not as a substitute for those reforms.

1. **On Income Sprinkling**

We acknowledge that the issue of income sprinkling needs to be thoughtfully considered in the context of overall tax fairness. However, we also believe that the different business structures within the broad range of CCPCs require consideration as well. Farm operations, for example, are truly family-run enterprises. Some form of income splitting may be needed to reflect that fact. For manufacturers, spouses often play a vital and unrecognized role – especially in the early stages of a start-up. They may be involved in strategic planning, accounting, the arrangement of financing or a range of other critical activities. By contrast, children tend not to be as actively involved in the company unless they are paid employees.

In its consultation paper *Tax Planning Using Private Corporations*, the Department of Finance observes that income sprinkling to adult-aged children is a growing issue. It notes that the total amount of CCPC dividends earned by those aged 18-21 is higher than for other Canadians in their 20s, and that because of their lower income, children in their early 20s offer particular advantages to CCPC owners looking to sprinkle income.

The compromise solution is clear:

Recommendation 2: The Government of Canada should disallow Canadians under the age of 24 from receiving dividends or other financial non-employment benefits from a CCPC owned by a family member – with the exception of farm businesses, where full income splitting should still be permitted. Spouses should remain eligible for income splitting to reflect the important role they play – especially in the early stages of a business start-up.

2. On the Tax Treatment of Passive Investment Income

The taxation of passive investment income is easily the most complex and most important component of the federal government's proposed tax reforms. While we understand that no implementing legislation has yet been drafted, we would like to offer some options that could allow the government to achieve its desired outcome on personal taxation, while also reinforcing the distinction between legitimate business operations and tax sheltering, as well as helping the latter prosper and grow.

a. Introduce wage and capital spending tax credits to businesses

The key goal for the government is to eliminate the use of CCPCs as a tax-avoidance mechanism. To do so, a clear distinction must be made between legitimate business operations and tax-sheltering activities.

One way to accomplish this goal is to concurrently introduce a tax credit for legitimate business activities – hiring workers and investing in capital, facilities, machinery and equipment. We propose a tax credit allowing CCPCs to claim 110 per cent of business investment and labour income against their net revenues. For example, if a company had labour costs of $2 million and net income of $1 million, it could claim an additional $200,000 in labour expenses, reducing its taxable income to $800,000.

Any amounts distributed to shareholders would still be subject to the proposed new rules on the taxation of passive income. In that way, the government would still achieve its goal of eliminating certain tax benefits to individuals, but would also create an extra incentive for businesses to retain income within the CCPC and expand their operations.

Critics might argue that CCPCs already benefit from the small business tax rate. Our proposal would help reward small businesses for growing rather than simply for being small. The incentive to shelter income in a corporation would be replaced with incentives targeted at business investment and job creation. These results are directly in line with Minster Morneau's objective of helping businesses grow, create jobs and support their communities.

Recommendation 3a: In conjunction with the proposed changes to the taxation of passive income within a CCPC, the Government of Canada should introduce a tax credit allowing CCPCs to claim 110 per cent of labour income and capital expenditures against their taxable income.

b. Boost existing federal research and development tax credits

Canadian-controlled private corporations can claim federal research and development tax credits at a rate of 35 per cent (up to a maximum of $3 million) to reduce corporate taxes. Raising this amount will create an additional modest incentive for small manufacturers to innovate and grow and help to offset the negative impact on the tax treatment of passive investment income.

Recommendation 3b: In conjunction with the proposed changes to the taxation of passive income within a CCPC, the Government of Canada also increase its research and development tax credits for CCPCs to 40 per cent, up to a maximum of $5 million.

3. On Tax Complexity, Administration and Compliance

a. Complexity of passive income tax proposals

One of the most complicating elements of the proposed tax changes is the fact that companies need to track the source of income invested passively in the corporation. For legitimate tax reasons, income from retained earnings has to be treated differently from income derived from direct cash contributions by the business owner. In its consultation paper, *Tax Planning Using Private Corporations*, the Department of Finance offers two options for how to track the money – the "apportionment" and "elective" methods. Both of these are highly complicated and would add to the tax-compliance burden for small businesses.

We suggest an alternative approach where any individual contributions to a CCPC be made eligible for a tax rebate to the corporation equal to the highest marginal personal tax rate. The corporation would benefit from a larger cash infusion; the business owner would be implicitly compensated for entrepreneurialism and risk; and there would be no need to track the source of passive investment income within the corporation after the fact. Since the amount invested from personal sources would be effectively untaxed when it enters the CCPC, it could be treated the same as passive income from the investment of retained earnings for tax purposes. All subsequent funds disbursed by the company would be taxed identically.

Recommendation 4a: When individuals invest personal funds into passive investments in a CCPC, the company should receive a tax refund equivalent to the highest marginal personal tax rate on the amount invested. All funds subsequently disbursed from those

investments would be taxed identically, thus eliminating the need for the complicated "apportionment" and "elective" income tracking requirements.

b. Audits and compliance on income splitting

New, stricter, rules on what constitutes an appropriate wage for the work of family members employed by a CCPC will likely require additional record-keeping requirements by small businesses and increase the likelihood of potentially invasive and burdensome audits by government employees looking for transgressions. To minimize that risk, we recommend:

Recommendation 4b: The Government of Canada introduce clear and explicit guidelines on the record-keeping requirements created by these tax changes. It should also clearly spell out all the process, timeline and reporting requirements that would be involved as a result of these changes.

4. On Instances of Tax Unfairness

Tax experts across Canada have pointed to a number of instances of tax unfairness that result from, or are not addressed by, the proposed changes to the taxation of CCPCs. These include:

- Businesses sold within the family are taxed more heavily than if they were sold to a foreign (or domestic) arms-length buyer;
- Businesses passed on in the event of death are taxed twice, resulting in a confiscatory level of taxation whereby the federal government leaves the family with only 30 per cent of the asset value; and
- Non-CCPC corporations would continue to qualify for a tax deferral on passive investment income while CCPCs would not.

These are surely not the intended results of these tax changes. While they speak to the need to pause the current process and examine tax reform more broadly (see Recommendation 1), if the government were to proceed with its reforms, immediate steps should be taken to address instances of tax unfairness such as those outlined above.

Recommendation 5: The Government of Canada should carefully re-examine its proposed changes and eliminate all instances of: discrimination against family succession; double taxation; and the inconsistent treatment of passive investment income within a CCPC compared to other corporate structures.

Who We Are:

Since 1871, Canadian Manufacturers & Exporters has been fighting for the future of Canada's manufacturing and exporting communities and helping them grow. The association directly represents more than 2,500 leading companies nationwide. More than 85 per cent of CME's members are small and medium-sized enterprises. As Canada's leading business network, CME, through various initiatives including the establishment of the Canadian Manufacturing Coalition, touches more than 100,000 companies from coast to coast, engaged in manufacturing, global business and service-related industries. CME's membership network accounts for an estimated 82 per cent of total manufacturing production and 90 per cent of Canada's exports.

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