Wednesday, May 29, 2019

RE: Policy Resolution to Canadian Chamber of Commerce

Level the tax playing field to allow for more family run businesses to stay in a family

Issue
Currently, there is little incentive through the Canadian tax system for family run businesses to be sold to another member of a family.

Background
As the current Federal Income Tax Act reads, if a business is sold to an unrelated person, it is considered a capital gain. However, if that same business is sold to a family member the difference between the sale price and the price originally paid is considered a dividend. The challenge is that capital gains are taxed at a lower rate than a dividend.   Therefore, the dollar difference between the sale to an unrelated person versus a family member can be significant and reduce the chances of a business being passed down to the next generation.

Small businesses are the foundation of our country. 98% of businesses in our country have less than 100 employees. That represents 1.2 million businesses across Canada, a majority of which are owned by baby boomers who are preparing for retirement. A BDC report released in September of 2017 shows, that 52% plan to sell their business to someone outside their family, 22% plan to wind down the business and sell the assets, and 26% indicate that they would sell to a family member.   The BDC report also reveals that by 2022 41% of business owners plan to exit their business.

Right now, under the current tax system there is no incentive to sell a business to a family member and this should be cause for concern to the Canadian economy. This is the wrong message to be sending at a time when entrepreneurship is on the rise. With the number of businesses expected to transfer hands it is imperative that all options available to sell a business are success driven and, on a level, playing field.

Recommendations
That the federal government:

1. Adjust the Federal Income Tax Act so that the sale of a business to a family member is taxed as a capital gain.

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CHAMBER OF
COMMERCE
2017-2019
with DISTINCTION

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