



# Urban Development Institute of Nova Scotia

September 13, 2017

The Honourable Stephen McNeil  
Premier of Nova Scotia  
Office of the Premier  
7th Floor, One Government Place  
1700 Granville Street  
Halifax, Nova Scotia  
B3J 1X5

## **RE: Small Business Tax Fairness on proposed Federal tax changes**

Dear Premier McNeil,

We are writing to you today to ask for your support against proposed federal tax changes that have the potential to severely impact small businesses that make up the backbone of our industry. We ask that in your role as the representative of the people of Nova Scotia, you strongly encourage the Prime Minister and the federal finance minister not move forward with these initiatives.

As you may be aware UDI of Nova Scotia represents the development industry in Nova Scotia. UDI's 2010 Economic Impact Study demonstrated that our industry (defined as private development construction) contributed 12,596 direct jobs, \$618 million in direct labour income, \$749 million in direct GDP and \$350 million in direct government taxes/fees in Nova Scotia annually for the period 2006-2010. The report also stated that the private development construction sector is larger than tourism, or the combined agriculture/fishing/forestry sectors.

Roughly a third of UDI member companies are small businesses. The construction industry as a whole makes up 12% of small businesses nationwide, according to a Statistics Canada report from June 2016, second only to the retail sector. They include developers, architects, engineers, consulting and design firms, lawyers, carpenters, plumbers, electricians, builders, landscapers, and many more.

It has been noted by yourself and others that small businesses make up the backbone of our economy. In Nova Scotia small businesses contributed 26% of 2014 GDP (British Columbia's Statistical Service, *Small Business Profile*, 2015), and they employ a large segment of our workforce. Both the *One Nova Scotia Coalition Collaborative Action Plan* and the *Field Guide for Nova Scotia's Innovation System* mandate an increase in the number of entrepreneurs in the province, yet the proposed federal tax changes will discourage people from starting or owning businesses.



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Minister Morneau has not provided any accompanying economic modelling that estimates the consequences to wealth creation that result from these proposed changes. It is our opinion that insufficient regard is given to the contribution of business owners as wealth creators, or for the personal risk they assume.

Three key areas have been targeted by Minister Morneau:

### **Income Sprinkling**

This provision allows a business owner to spread income between family members, and reflects the reality that family often share risk and reward, as well as contributing unofficial labour. In Statistics Canada's 2014 survey, 84% of small businesses used personal financing for at least part of their start-up. Financing from friends and family was used in over 17% of start-ups. In many cases the risk is incurred by a whole family, for instance when a home serves as collateral. Business owners are also not eligible for employment insurance or sick leave, and that 'cost' is often absorbed by their household.

### **Passive Income in a Corporation**

Many businesses invest some of their income (taxed at the corporate rate) and earn passive income on it. This type of investment serve two purposes for a small business owner, allowing a fund for business emergencies or innovation, whilst also providing a retirement strategy. We believe the proposed change will limit certain forms of saving in the business, making the firm more vulnerable in bad economic times. In addition, it will penalize a sector who rely on their own initiative in saving instead of pensions and benefits.

### **Capital Gains**

This tax planning tool is complex, but it seems likely that proposed changes could affect business value appreciations from the past, result in the double taxation of some estates, and could make it more difficult for business owners to transfer businesses to the next generation, a common practice in the construction and related industries.

We ask that you and your government demand that Minister Morneau shelve these proposals, and instead encourage consultation with the business community to explore real solutions to taxation issues.

Thank you for your consideration, we look forward to your response.

Sincerely,

A handwritten signature in blue ink, reading "J. Andrew Giles". The signature is written in a cursive style and is positioned above the typed name and title.

Andrew Giles  
President  
Urban Development Institute of Nova Scotia