

May 29, 2024

Sent via email

The Honourable Chrystia Freeland, P.C., M.P.
Deputy Prime Minister and Minister of Finance
Department of Finance
90 Elgin Street
Ottawa, Ontario K1A 0G5

Subject: Capital Gains Changes

Dear Deputy Prime Minister Freeland:

On behalf of 97,000 small and medium-sized enterprises (SMEs) that are members of the Canadian Federation of Independent Business (CFIB), we are writing to share our members' views and to express our concern with some of the potential changes to capital gains taxation.

While the 2024 budget includes positive measures that have the potential to benefit many owners when they sell the shares of their business, such as an increase in the Lifetime Capital Gains Exemption (LCGE) to \$1.25 million and a new Canadian Entrepreneurs' Incentive (CEI) that could lower the inclusion rate to 33.3% on the next \$2 million for some business owners, the increase in the inclusion rate to 66.7% is deeply concerning to Canada's business community. Indeed, the majority (60%) oppose the package of changes without critical amendments.¹

It is very troubling that your government has proposed a dense package of changes, including the June 25 increase in the inclusion rate, without providing the draft legislation needed to allow small business owners to make informed decisions. CFIB and tax advisors have been fielding hundreds of calls from business owners without having access to the full information needed to make critical decisions in an incredibly tight time frame. This is deeply unfair.

The package of changes will create many winners and losers within the small business community. From CFIB's recent member survey, a strong majority (59%) of small business owners said the increase in the LCGE will be helpful to them.²

¹ CFIB, *Special Survey - Upcoming Changes to Capital Gains Tax, May 2 - May 17, 2024, Final Results*, n=2335.

² *Ibid.*

On the new CEI, 77% of small business owners support the concept of this measure, but only 45% felt they will directly benefit from it in its current form.³ That is why, for the CEI to encourage and support entrepreneurship, and help foster investment, it should:

- Include all sectors,
- Include both founding and non-founding owners,
- Include assets for farmers and fishers as the LCGE does,
- Have the phase-in period reduced from 10 to 5 years.

CFIB can find no public policy rationale to exclude a restaurant, hotel owner, physician's office or accounting practice from a beneficial tax policy available to a retailer or construction company. We urge you to broaden eligibility before passing the legislation.

On the increase in the inclusion rate, our data shows the change will have significant negative consequences for small business owners holding investments within their corporations. CFIB data shows that nearly half (48%) of small firms own property or land within their corporation and a third (33%) own stocks, bonds or other publicly traded securities. Overall, about 62% hold some form of other investments within their business.⁴

While many business owners hold outside investments in their corporations to help with their retirement planning (74%), over half (53%) use these investments to help save for economic downturns, like the one Canada experienced over the past several years.⁵ By subjecting the sale of these investments to a higher inclusion rate, this will take away from businesses' resiliency and ability to withstand economic downturns. Further, many business owners use these investments to help fund the purchase of new equipment and technology (36%) or to help fund other businesses or start-ups (31%).⁶ These changes will make it harder for many businesses to access financing to enhance productivity or grow.

Again, the assertion that the increase of the inclusion rate to 66.7% will only affect a small percentage of the wealthiest Canadians is misleading. Most small business owners are part of the middle class. Increasing the capital gains inclusion rate will not only impact the wealthy but many who are in the middle class, and those they employ. Over half (55%) of small business owners believe the increased inclusion rate will affect the eventual sale of their business, while almost half say it will affect the investments they hold privately (45%), and 41% say it will affect the investments held in their incorporated businesses.⁷

As noted earlier, small businesses do note some of the positive changes, including the boost in the LGGE and the concept of the CEI. But for this package to work, major changes are required. CFIB is calling on the federal government to:

³ CFIB, *Special Survey - Upcoming Changes to Capital Gains Tax*, May 2 - May 17, 2024, Final Results, n=2335.

⁴ *Ibid.*

⁵ *Ibid.*

⁶ *Ibid.*

⁷ *Ibid.*

- Protect the increase in the Lifetime Capital Gains Exemption to \$1.25 million
- Expand the new Canadian Entrepreneurs' Incentive to include all entrepreneurs:
 - Include all sectors, including farmers and fishers selling assets.
 - Include non-founders to encourage people to invest in small firms.
 - Cut the 10-year implementation schedule in half.
- Scrap the planned increase in the general inclusion rate to 66.7%. If government is unwilling to abandon this plan, it should:
 - Grandfather all existing capital gains using a V-Day (valuation day) as was done in 1971.
 - Allow CCPCs to benefit from \$250,000 each year at 50% inclusion like individuals.
 - Allow for 5-year income averaging to benefit from the \$250,000 annual threshold for larger capital gains for irregular events, like selling a property.

If you have any questions or would like to meet to discuss this issue further, please feel free to contact us.

Sincerely,



Dan Kelly
President and CEO



Corinne Pohlmann
Executive Vice-President, Advocacy

CC: The Right Honourable Justin Trudeau, Prime Minister
The Honourable Rechie Valdez, Minister of Small Business

Conservative Party of Canada:

M.P. Brad Vis, Shadow Minister for Small Business Recovery and Growth
M.P. Jasraj Singh Hallan, Shadow Minister for Finance and Middle Class Prosperity
M.P. Marty Morantz, Associate Shadow Minister for Finance and Middle Class Prosperity
M.P. Philip Lawrence, Associate Shadow Minister for Finance and Middle Class Prosperity

New Democratic Party of Canada:

M.P. Richard Cannings, Critic, Small Business and Tourism
M.P. Don Davies, Critic, Finance

Bloc Québécois :

Député Gabriel Ste-Marie, Porte-parole, Finances et Conseil du Trésor