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Department of Finance Canada
James Michael Flaherty Building
90 Elgin Street
Ottawa ON K1A 0G5

Submitted by email: fin.consultation.fin@canada.ca

Subject: Consultation on Tax Planning Using Private Corporations

Independent Financial Brokers of Canada (IFB) appreciates the opportunity to comment on this consultation paper, and consents to the publication of this response.

Who we are

IFB is a national, not for profit, professional association representing approximately 3,500 individuals who are licensed financial advisors. Every day, they assist a diverse population of clients and their families, in communities across Canada, to set financial and estate planning goals that will help secure their financial future.

IFB members are self-employed, and generally operate small to medium-sized businesses. They choose to be independent so they can offer clients advice on a range of financial products and services from more than one company. We do not represent company or bank employees, or advisors who work in an exclusive relationship with one company.

An important part of the work IFB does is to advocate on behalf of our members for a well-regulated industry that recognizes the value that independent advice brings to clients of all financial means.

While many IFB members operate under a sole proprietorship, a number have incorporated their small business to help them plan for the long-term, while building a sustainable business that will support their families, and sometimes a small number of employees. It's important to note that for many, the owner may be the only licensed advisor. The majority of these

businesses are family-run, and depend on the support of a spouse or other family members to assist with client relations.

At issue

It is clear that the discussion around this consultation has become increasingly polarized. Many organizations, tax and accounting professionals, government stakeholders, and others have weighed in. Therefore, it is not our intent to provide further analysis, but rather to set out the issues pertinent to IFB members.

We support the concerns expressed in the two Coalition letters to Minister Morneau. At this juncture, we respectfully ask that this consultation be set aside until we can have confidence that the objectives of these proposals can be met in a way that does not disadvantage, or do disproportionate harm to, small business owners.

Our response

1. IFB is an original member of the Coalition for Small Business Tax Fairness. This Coalition has grown from the 30 original members to over 70 participants. Collectively, the Coalition represents hundreds of thousands of small business owners, family-run enterprises, and various professionals. We all share in common significant concerns about the direction of these proposals, the unintended consequences, and the rush to put legislative proposals in place by 2018. Each member of the Coalition has intimate knowledge of their small business constituents, and has chosen not to support the proposals as presented.
2. There continues to be robust debate about the effects these proposals will have on small business owners, which has led to widely opposing views. Given the divergence of opinions between the government's assessment of these changes and the counter points developed by leading national accountancy firms and others, IFB believes the only prudent course is to delay any further implementation or legislative development until the details of the proposals have been studied more closely.
3. IFB is very concerned that small business owners, like our members, may be inadvertently captured by rules that are not intended to disadvantage them. The cost for these owners, in time and money, to respond to a mid-stream change in tax planning, possible CRA questions or audits arising from their (in)ability to quantify the contributions of family members, and other possibilities like retroactive taxation, are real. These measures run counter to the government's stated objective to support fairness for the middle class.
4. There are valid reasons a small business owner may choose to incorporate, not limited to tax planning. These involve managing business risk, planning for retirement, business interruptions, succession planning, and others. Income for IFB members can vary dramatically from year to year, as they are remunerated based on sales. Saving within their corporation provides them with a buffer to weather these times of uncertainty.

We find it disturbing that at a time when many Canadians have been shown to be ill-prepared to deal with unexpected expenses arising from sudden illness or disability, retirement, or even a bump in interest rates, the government is taking measures to reduce the ability of those who are, through their corporations, planning responsibly and saving for these events. In our view, this runs counter to the formulation of sound public policy.

5. Most IFB members start their career as an independent advisor operating as a sole proprietorship. They have to build their own book of business and manage their own business expenses before they can achieve the earnings level that makes incorporation an option. They do not earn salaries – they are dependent on commissions and/or fees paid to them by the companies they do business with, or directly from clients. Even then, as the government’s own statistics show, the majority of private corporations earn less than \$73,000 (and many far less) – a far cry from the high net worth market the government alleges it is targeting.
6. These changes come at a time when small business owners are already facing additional costs, such as CPP and EI premium increases. However, IFB members face the added prospect that Canadian securities regulators will introduce a ban on embedded commissions, such as trailer fees. To reiterate, most IFB members rely solely on commissions, including trailing commissions, for their income. While securities regulation is under provincial jurisdiction, it is important that all level of governments be cognizant of the collective impacts that their proposed changes can have. These advisors established their business based on the compensation structure and practices already in place. This potential ban has created a great deal of uncertainty for our members. If implemented, it may force many to exit the business, as their ongoing income derived from trailing commissions will be severely reduced. [IFB’s submission](#) to the Canadian Securities Administrators on this subject provides greater context, and we invite Finance and government to review it.
7. Similarly to the previous point, IFB members who set up private corporations did so in compliance with the existing rules. Now these proposals could force them to disband their corporation (at a cost) or incur higher costs if they remain incorporated. Again, contributing to more uncertainty for our incorporated members - uncertainty which is not limited to the future of their business, but about appropriate planning for the remainder of the 2017 tax year. If these proposals are to advance in any way, there will need to be consideration given to grandfathering existing private corporations, and transition options.

The paper also asks for input on how the potential impact of these proposals might be different for men and women. Certainly, while still a minority, the number of women entering the financial advisory field has grown in the past decade. These changes will disadvantage them in the same way as their male counterparts; however, given that there

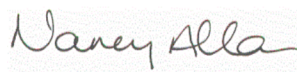
are fewer female advisors to begin with, reducing their ranks just as more women have begun viewing financial advisory services as a viable career path would be a step backward.

A more opaque situation arises when trying to value the contributions a spouse makes to his/her partner's business in both direct and indirect support. As well, we refer to the point made above, that succession planning, retirement planning and estate planning (e.g., in the event of the death or disability of the business owner) is essential within the corporation, to provide for the financial needs of the spouse and other family members.

IFB looks forward to continued consultation with Finance and other stakeholders to ensure that IFB members and other small business owners are not unduly disadvantaged by these proposed changes.

Please contact the undersigned, or Susan Allemang, Director, Policy & Regulatory Affairs (email: sallemang@ifbc.ca) should you wish to discuss our comments further.

Yours truly,

A handwritten signature in dark ink, appearing to read "Nancy Allan", is shown on a light-colored, slightly textured background.

Nancy Allan
Executive Director
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