September 7, 2017

The Honourable Bill Morneau, Minister of National Revenue  
Mr. Dan Ruimy, Member of Parliament for Pitt Meadows – Maple Ridge  
The Recipient of Public Commentary, by email at fin.consultation.fin@canada.ca

Dear Sirs and Mesdames:

We are the Canadian Veterinary Medical Association – Society of British Columbia Veterinarians Chapter, an independent Society representing the interests of Veterinarians in BC. We are headquartered in Maple Ridge and have included the MP for Maple Ridge in our response.

We write to you regarding our grave concerns with some of your proposed changes to three tax practices, namely Income Sprinkling, Passive Investment Income, and Capital Gains. Our members have legitimate and grave concerns over the unintended consequences that may befall them, should the Government of Canada proceed with proposed changes.

We understand that your intent is to provide fairness to the middle class by closing tax strategies and loopholes that are exploited by some of the richest Canadians. Specifically, you wish to address tax planning strategies involving the use of private corporations which can result in high-income individuals gaining tax advantages not otherwise available to Canadians.

**Unintended Negative Consequences**

In our view, there is a serious unintended consequence. Veterinarians, many of which are self-employed, do not have access to many retirement strategies available to other Canadians and therefore must create their own strategies, oftentimes using private corporations, income sprinkling, passive investment strategies, and capital gains. This is the only option available to many self-employed veterinarians to address their own retirements and the protection of their middle-class families, the very people you aim to protect and nurture.

Self-employed veterinarians using private corporations is not an attempt to avoid fairness. In fact, most veterinarians in BC are not wealthy and instead are small businesses comprised of community-minded individuals who provide employment, valuable and necessary veterinary
medical services, and are just trying to fund the growth of their businesses while trying to create for themselves a retirement strategy equal to those provided by other employers in the form of pensions.

Veterinarians, like many small business owners (and some locums), utilize their companies as a means to save and invest money. These deferred taxes are often utilized for both the purchase of essential equipment for the business, or for self-funded retirement savings. Veterinarians are required to operate and stock hospitals which are very expensive businesses. Savings and safe investments held within the company allow for unexpected and budgeted purchases for equipment. Hospital equipment can cost tens of thousands of dollars. If small businesses are taxed more heavily, such an action would cripple or significantly change the viability of many of these businesses as these savings (deferred taxes) would not be available. An inability to utilize their companies as self-funded savings plans (or RRSP) would change the economics of many veterinary practices and the desirability to enter the profession. We are not as fortunate as persons who are employed by large corporations or the government who have excellent pension plans; these do not exist for veterinarians. It is only what we save or self-invest, within our own corporations, that allow for a self-funded retirement.

**Income Sprinkling**
Income sprinkling is a legal strategy to divert income from a high-income individual to family members with lower personal tax rates, or who may not be taxable at all. As we understand your proposed changes, the Government of Canada intends to extend the tax on split income rules; constrain multiplication of claims to the lifetime capital gains exemption; and supporting measures to improve the integrity of the tax system in the context of income sprinkling.

Many small business owner "sprinkle" income over spouses and children. The proposed changes would require proof of reasonable compensation. This would be hard to define in the case of a veterinarian/clinic owner as a typical situation looks like this: a spouse does the bookkeeping in the evening hours or picks up clinic supplies during the day. To meet the “proof” threshold, detail logs would need to be kept on times and tasks. Another example is veterinarian/clinic owners very often work irregular hours. When emergency cases come in at the end of the day, or when the computers required immediate attention due to malfunctions. Updates, or other situations, or when the clinic toilet, for example, began to leak, it is the veterinarian/owner who stays late to address all these issues. This means that same veterinarian/owner is not longer available to perform his or her portion of household chores or childcare. In practical terms, the family members at home take on a greater burden to allow the veterinarian/owner to work as necessary and are thus prevented from earning income themselves. Income sprinkling permits fair payment for this necessary level of support. Just as the Government of Canada offers childcare tax breaks to assist young families, income sprinkling for veterinarians levels the playing field.

**Passive Investment Income**
Your position is that Canada’s competitive corporate tax system encourages business investment and economic growth, but you believe that some individuals gain an unfair benefit by retaining passive investments in a corporation, taking advantage of the fact that corporate income tax rates are much lower than personal tax rates for higher-income individuals. Your fear is that unfairness is created when an individual holds money inside a corporation, not to invest it in growing the business, but simply to shield it from the higher personal tax rate.
You propose that the Government consider approaches that preserve the intent of the lower tax rates on active business income earned by corporations, which is to encourage growth and job creation; and eliminate the tax-assisted financial advantages of investing passively through a private corporation.

Again, our veterinarian members believe there will be unintended negative consequences for them and for other small business owners. Currently there is no pension plan for small business owners. On the opposite side of this equation, Government employees have indexed pension plans where any shortfalls are guaranteed by the taxpayers. Regular employees can access EI disability benefits when they are sick, EI unemployment benefits if they lose their jobs.

For many small business owners like veterinarians, passive investment income in a corporation is a viable self-employed version of a retirement plan. For those veterinarians who have already completed or are close to completing their careers, changing the rules at this stage could jeopardize years of careful retirement planning. In the name of fairness, should Government propose to change the rules now, an alternate scheme must be developed to provide equal benefit to these retiring veterinarians.

**Capital Gains**

The Government of Canada proposes that converting a private corporation's regular income into capital gains provides an unfair opportunity to reduce income taxes, by taking advantage of the lower tax rates on capital gains. Income is normally paid out of a private corporation in the form of salaries or dividends to the principals of the corporation, who are taxed at their respective personal income tax rates. However, if these forms of income are converted to capital gains, this can result in a significantly lower tax rate, providing, in your estimation, an unfair tax advantage.

Your proposed changes that an amendment be introduced to prevent individual taxpayers from using non-arm's length transactions that 'step-up' the cost base of shares of a corporation in order to avoid the application of section 84.1 on a subsequent transaction. Government also proposes that the *Income Tax Act* be amended to add a separate anti-stripping rule to counter tax planning that circumvents the specific provisions of the tax law meant to prevent the conversion of a private corporation's surplus into tax-exempt, or lower-taxed, capital gains.

Once again, veterinarians in BC feel the unintended consequence of such a change will have a far-reaching ripple effect that will do nothing to encourage new entrants into veterinary self-employment. The capital gains exemption will certainly discourage veterinarians from risking their life savings to invest in a small business providing veterinary care to animals and employment to many individuals, let alone the investment required for land, building, materials, and consumables.

**Impact on BC Veterinarians**

We do not believe your intent is to do harm to the many small business owners, such as veterinarians in BC, with your proposed changes but that is exactly the unintended result of your proposed changes. With your proposed changes, the risk to veterinarians becomes too great. The government does not provide reasonable alternatives for self-employed people to access retirement planning (nor EI, disability, paid medical leaves to which other working Canadians
are entitled). Your proposed changes, in our view, will lay the foundation for irreparable harm to the small business community and will have the opposite effect that you seek. Your proposed changes will harm the middle income small business person and will not have the effect of protecting Canadians from tax unfairness and supporting the middle class which you so wisely purport to enhance.

The current consultation process has angered and scared many, many small business owners including veterinarians as the proposed plan only offers risk and hardship to small business people without offering any reasonable alternatives to protect income replacement and retirement benefit self-funded programs.

To reach your goal of treating all Canadians fairly when it comes to income taxes, the veterinarians of British Columbia implore you to proceed without introducing changes that have the negative impact on true small businesses that you propose to encourage. Otherwise, the result will be devastating for small business and for Canadians.

You may be interested in learning that the average graduate veterinarian working today in BC carries $50,190 in student debt, which he or she must pay off over the course of their first several years as a working veterinarian. In BC, the average associate veterinarian earns a mean income of $82,000 in 2016, representing 1880 hours of work. A practice owner veterinarian – one of the self-employed business people your proposed changes will harm – at a companion animal hospital in BC is left with net income of $173,355, which does not necessarily reflect the amount that is actually taken out of the practice, as practice owners may elect to use a portion of their net income to pay down practice debt or make capital purchases. These are working people building and maintaining their businesses, creating employment, supporting local economies, and planning for their families and their futures.

In closing, per the consultation directive, we consent to the disclosure in whole of our submission, we do not request that any identifiers be removed, and we do not request that any portion of our submission be kept confidential.

On behalf of the Board of Directors and our Chapter members,

Dr. Sarah Armstrong, President
CVMA-SBCV Chapter