

Opening Statement by Eric DenOuden, President, Canadian Home Builders' Association to the Standing Senate Committee on National Finance

October 24, 2017

Thank you for inviting me here today. I am joined here by Jason Burggraaf from our National office staff, but as we only have a few short moments for opening statements, I will make those. Afterwards, we are both happy to answer questions.

Although the government has announced some adjustments to its proposed tax changes, my fellow builders and I still have a number of concerns as we move forward.

The residential construction and renovation industry is made up mainly of small, family-run businesses.

83% of construction, renovation and associated specialty trade firms have 9 or less employees, accounting for approximately two-thirds of all on-site employment.

The residential industry is cyclical in nature and vulnerable to regional economic conditions.

The fragmented nature of its trade and sub-trade work, and, importantly, the liability issues that come with the job - have meant that the industry has always largely consisted of small companies and incorporated individuals.

These two factors mean that the industry is particularly sensitive to changes in the business environment.

When the government's plans were initially announced, we were concerned that well-accepted, standard practices in our industry were under considerable threat.

Practices like:

- your family's important involvement in the business;
- carrying considerable equity that can be liquefied quickly, like GICs, to take advantage of business opportunities such as purchasing land; and
- having the kids buy you out to help fund your retirement.

We are pleased to see the government acknowledge these concerns in its announcements last week, and make attempts to address them.

But there are still numerous details to be clarified by the government before we can fully analyze the impact of specific rules around income sprinkling and passive investments.

We hope that the new rules on income sprinkling recognize the dynamic contribution of family members to a business, and we are encouraged by the government's references to capital and equity contributions, as well as taking on financial risk, in determining "meaningful contributions" to creating and running a business.

We will also work to ensure that the red tape burden for businesses in our industry resulting from these tax changes does not increase.

In terms of passive income, we are pleased that the government recognized passive investments within a corporation are a critical tool for residential construction businesses. Such investments are essential to manage risk, operate efficiently and effectively, and plan for the future.

We hope that the government will agree to periodically revising the passive income threshold to ensure that it is targeting only the very top earners and at the same time limiting impact on the real business requirements for passive investments.

As well, there will be new rounds of discussion and consultation, a process CHBA looks forward to participating in, on how to address what the government sees as problem issues related to intergenerational transfers of business ownership.

Finally, while the plans to reduce the small business tax rate are welcome, the benefit is lessened when you consider the discontinuation of the Small Business Job Credit at the beginning of this year—while overall EI premiums were lowered, because of the loss of the credit, EI premiums for small business actually went up.

As has been observed by others when considering the government's plans last week, 'downside' protection is more important to small businesses than a lower tax rate. Lower taxation of profits certainly help when business is good, but it doesn't help when business is bad.

In a similar way, uncertainty is always bad for business, and the government's proposals have created a great deal of uncertainty within the industry. That uncertainty is still with us today.

It is imperative that the government release final and detailed rules and implementation timeframes for the provisions that are moving ahead, so that businesses can make any necessary adjustments.

It is also critical for the Department of Finance, Canada Revenue Agency and private industry to work together to ensure that interpretation guidance for the legislation is clear, so that implementing the new rules does not create confusion and a whole new set of problems.

CHBA and CRA have done great work together to address the underground economy in residential construction and renovation. But higher tax rates and perceived unfairness are known to drive more cash deals. It would be a shame if the result of tax changes was more people operating illegally, and therefore government realizing less tax revenue.

We are pleased that the government is adjusting course in light of the concerns raised by CHBA and other business organizations, but more needs to be done.

We are ready to fulfil our commitment to engage in meaningful consultations to address areas the government sees problematic in relation to tax policy. Our goal, one I would expect is shared by the government, is to ensure the integrity of our tax system without harming the viability and vitality of small businesses across the country.