FIRST CAPITAL FINANCIAL

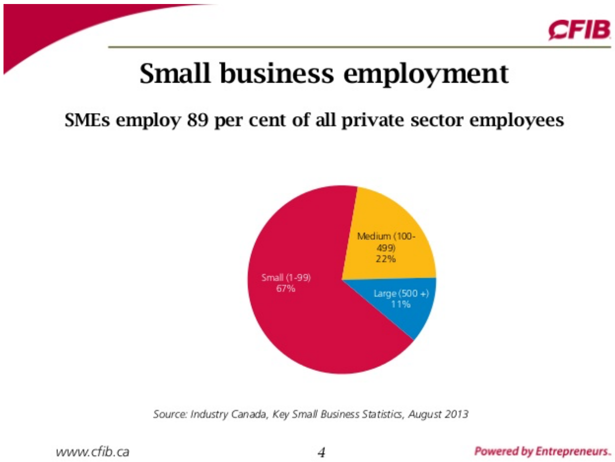
WORLDSOURCE FINANCIAL MANAGEMENT INC.
Sponsoring Mutual Fund Dealer

"This is Daddy, honey. That was Daddy's office voice."

Small businesses are the backbone of the economy, accounting for 67% of all private sector employees in Canada. Entrepreneurs take significant financial risk and pledge personal capital (their home and their savings) to fund their company, foregoing the certainty and predictability of a steady pay check, health and dental benefits and in most situations a pension at retirement. In return, businesses are taxed at a relatively low rate of just 11.5% on net income up to $500k, and businesses owners are allowed additional deductions on expenses incurred in the course of operating their business.

Assuming the business is successful -keep in mind that **half** of all small businesses fail to make it past their fifth year- often the single largest asset that businesses owners have (in lieu of a employer-funded pension or RRSP) is their small business. Monetizing its value then represents the only source of retirement security and return on a lifetime of hard work.

Selling their business to the right buyer is crucial, not simply from the standpoint of maximizing the value of the business itself, but ensuring that the business is transitioned to the right buyer, who will build on the legacy of what the founder has achieved. Often the natural successor would be the owner's children, having mentored under their parent growing up and where trust and a vested interest in the continuing success of the business is greatest.



Yet small businesses face significantly higher taxes if they sell to their children. The federal rule in section 84.1 of the Income Tax Act means that the sale of the company is taxed as a dividend instead of a capital gain. The result is tax at the top marginal rate (over 50% in most provinces), instead of a tax-free gain up to $835k on qualified shares of private corporations. This is causing tough choices for small business owners who have to consider the savings of transferring their corporation to someone outside the family, versus transitioning the business to their children.

Bill C-208 -a private members bill- sought to redress this inherent unfairness in the Income Tax Act and was scheduled to be passed this year. But the government announced on June 30th that it would delay implementation of the bill until January 1st of 2022, citing concerns that the bill creates an opportunity for tax avoidance. In the meantime the Department of Finance could significantly amend the law -or scrap it entirely. Read <here>

Canadian's standard of living depends on the entrepreneurial culture that fosters innovation and growth. Continuing a patent unfairness in our tax system that targets small businesses (heroes really) and taxes away a lifetime of work for doing nothing more than selling their business to their children, is simply wrong. It taxes away financial security for small business owners, who now face uncertain retirements. It is time for all Canadians to make their voices heard and to reach out to their Members of Parliament and stand up for all the Mom and Pop businesses which make local communities great places to live and raise families.

Be safe, be well!

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