



October 20, 2017

Dear Business Owner,

As many of you will have heard, draft legislation is now being worked on based on what we have heard in an extensive consultation process, and also fulfilling a campaign commitment to reduce the federal portion of small business tax to 9% by 2019, after first moving to 10% in 2018. The feedback I received from Guelph accounting firms, legal firms, small businesses and engaged citizens was extremely helpful and contributed a lot to where we are landing.

Our goal was to address inequities in the tax system, where high income earners were able to self-incorporate and then use income sprinkling, passive investments, and capital gains in order to reduce the amount of taxes they pay.

- 1) Income sprinkling will require proof the person being paid is working within the business. Guidelines will come forward from CRA.
- 2) Passive investments were the most discussed issue, as they take many forms. A limit will be introduced reflecting \$50,000 in income, which based on 5% return would represent about \$1 million in investments held within a corporation. These savings are typically used to cover downturns in business, purchases within the business, or retirement savings. Below the threshold, existing tax rates would apply. Above the threshold there will be a higher tax rate. This will be on a go-forward basis, once legislation is passed. All businesses will have existing assets grandfathered, and growth from these assets protected. With this threshold, 97% of CCPC's will not see a tax increase on investment income, as today they are below this threshold.
- 3) Capital gains will not have any changes, continuing with the existing lifetime exemptions of \$1 million.

Hill Office

Room 702 Justice Building
House of Commons
Ottawa, Ontario K1A 0A6
Tel: (613) 996 4758
Fax: (613) 996-9922

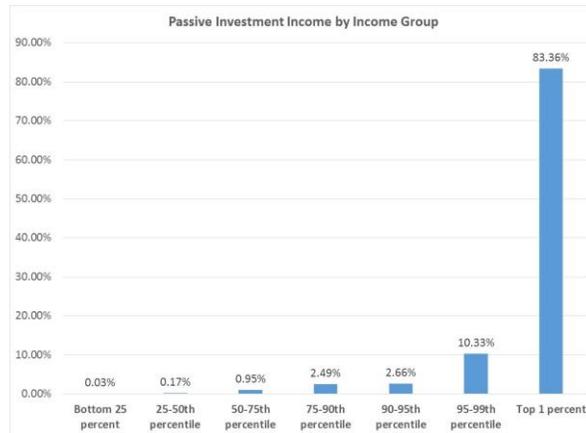
lloyd.longfield@parl.gc.ca

Constituency Office

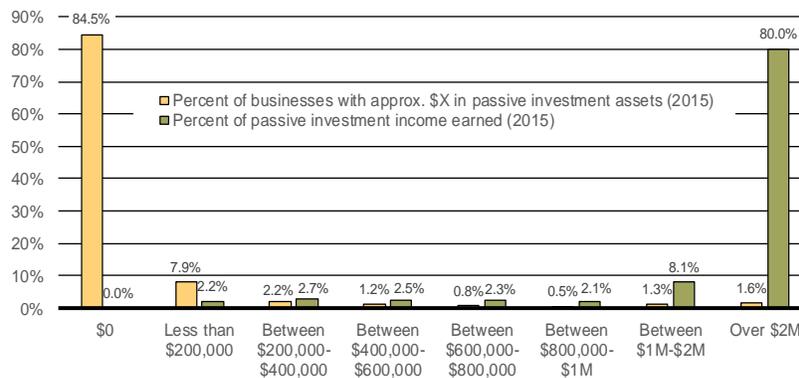
40 Cork St East
Guelph, ON
N1H 2W8
Tel: (519) 837-8276
Fax: (519) 837-8443



The distribution curves below highlight how these thresholds were determined.



Looking further into the amount of passive investments held by each business shows a similar curve, with 85% of small businesses not holding any passive investments.



I am very grateful for the input many of you gave me. We spent many hours internally discussing what we were hearing, and also providing written examples we received. In the end, it is good to see democracy functioning as it should – from the grass roots. I have been very proud to represent Guelph ideas during the process to date and will continue to do so going forward. We hope to see draft legislation tabled in early 2018, and will continue to keep you posted as further details are available.

Thanks again, and let's stay in touch.