PRINCE EDWARD ISLAND LEGISLATIVE ASSEMBLY

Speaker: Hon. Francis (Buck) Watts

Published by Order of the Legislature

Standing Committee on Education and Economic Development

DATE OF HEARING: 4 OCTOBER 2017

MEETING STATUS: PUBLIC

LOCATION: LEGISLATIVE CHAMBER, HON. GEORGE COLES BUILDING, CHARLOTTETOWN

SUBJECT: BRIEFING ON PROPOSED FEDERAL TAX CHANGES FOR PRIVATE CORPORATIONS

COMMITTEE:

Bush Dumville, MLA West Royalty-Springvale [Chair]
Dr. Peter Bevan-Baker, Leader of the Third Party
Richard Brown, MLA Charlottetown-Victoria Park (replaces MLA Jordan Brown, MLA Charlottetown-Brighton)
Kathleen Casey, MLA Charlottetown-Lewis Point
Matthew MacKay, MLA Kensington-Malpeque
Hon. Robert Mitchell, Minister of Communities, Land and Environment
Steven Myers, MLA Georgetown-St. Peters
Chris Palmer, MLA, Summerside-Wilmot

COMMITTEE MEMBERS ABSENT:

Jordan Brown, MLA Charlottetown-Brighton

MEMBERS IN ATTENDANCE:

Hon. Jamie Fox, Leader of the Opposition

GUESTS:

MRSB Group (Terry Soloman)

STAFF:

Emily Doiron, Clerk Assistant (Journals, Committees and House Operations)

Edited by Hansard

The Committee met at 1:30 p.m.

Chair (Dumville): I'll call the committee to order. I'd like to welcome everybody here today. Thanks, everybody for attending. A special thank you to Terry Soloman, a partner from MRSB Group, for being with us today.

I'll move the adoption of the agenda.

Ms. Casey: So moved.

Chair: Kathleen Casey.

Everybody has pretty well got a wrap up of the new procedure here, so I don't think we have to go into that today in regards to live streaming et cetera, and how we conduct our meetings now that we're in this chamber.

What I'd like to do is welcome Mr. Soloman again. Mr. Soloman, what we usually do is, if you could speak your name before you present. I guess you're the only presenter here today, so, but just so Hansard will know who is speaking and they can take down your message. Obviously, it will be your message.

We can do this a couple of different ways; sometimes, we'd go right through your presentation completely and then the members ask questions after, or sometimes through the presentation, we allow the members to ask question if it's pertinent to something particular in your presentation. Sometimes, in the expediency of time something that you cover later in your presentation will already be answered.

What would your preference be, to continue through and then ask questions after your presentation?

Terry Soloman: I think that would be the preferred approached.

Chair: All right.

Committee members, Mr. Soloman is going to go through his presentation. We'll open the floor for questions after.

It's now 1:30 p.m., so we'll begin.

The floor is all yours, Mr. Soloman. You just go right ahead and give your presentation.

Terry Soloman: Thank you, Chair Dumville, and committee members for giving me the opportunity to speak here today.

My name is Terry Soloman and I'm a partner with MRSB chartered professional accountants here in Charlottetown.

I'm here to speak to the tax planning proposals that were issued by the federal Department of Finance in July of this year. Here as well, just to express my concerns as to the impacts of these proposals and the impacts that they will have on the small business sector on Prince Edward Island, and as well, the impacts, indirectly, then, for the economy.

I have circulated slides of my presentation, but it's up on the screen there, as well. I'll just be forwarding the slides as I go along. There were four main areas that the Department of Finance felt required amendments in the tax legislation in Canada. I have them here in bullet format and I will go into each of them in more detail in my presentation.

The first one is income splitting among family members, or sometimes called income sprinkling, which is a form of distributing the income of a company out to the shareholders.

The second area that I'm going to talk about is what has been referred to as multiplication of the lifetime capital gains exemption. That's an exemption that's available to a business owner when they sell the shares of their private corporation.

A third area of focus is what's being called, converting corporate income into taxable capital gains. I won't spend as much time on that area today, but I will have a few comments.

The fourth area, which is very contentious, as well, is what is being called, passive income in a corporation. If a corporation is retaining capital inside the corporation, how that is taxed and what changes they might want there.

Before I get into the specific proposals, I do have a couple of slides just with some general comments that I also passed along last week when I spoke – I spoke to the federal Department of Finance standing committee last week in Ottawa with a similar message that I'm giving here today.

My question on this slide is: Are the proposals hitting the intended target? That was the main message I wanted to deliver there, and the answer is a resounding no, they are not.

The July 18th document, the government stated that their intention was to raise taxes on the richest 1%. They wanted to close loopholes and they had a concern that corporate structures were being used by business to avoid paying their fair share of tax.

However, myself and many people in the tax community have studied these proposals in great detail. Really, the proposals are not just closing a few pieces of the act that might be seen to be not their intention. It's really a fundamental change in the way private corporations are being taxed in Canada.

As they are written now, it really impacts every corporation in Canada, every private corporation, regardless of your income level. Even though the intended target is that higher–income individual, the proposals, unfortunately, are casting a wider net than that. In fact, a middle-income business owner is being affected more so than the, let's call it, the upper end of the income scale. That really does include our farmers, our fishers, our business owners, our entrepreneurial sector, and also our professional sector, including physicians, who have been very vocal on this issue.

Before I get into the specific proposals, I thought I would just do a few calculations just to give the committee here some sense on what we're talking about when we say it impacts the middle class or the middle income earner.

On PEI – so these are all PEI-based examples – under the current rules if a PEI business made $100,000 a year and split that income with their spouse, they would pay about 23,000 in tax if they took that income out to their family personally. With the proposed changes that tax bill will be a minimum of about 28.5, so it's about a 24% tax increase on that business owner in that income category.

If the married couple continued to split the income the way they had before these rules changed, the tax rate could go even higher, up to about $37,000. That would represent about a 61% tax increase over what they would have paid in 2017. I'm not suggesting they would do that, but they would certainly be, at least, at that 24%.

Then I said, okay, let's look at it for someone that's only $50,000 a year, half of that. Someone making $50,000 a year certainly would not be considered to be in the wealthy 1%. Under the current rules, they would pay about $9,300 in tax. With the changes they would pay a bit over 10,000, so about a 9% increase. Even someone at that level of income is being impacted by these changes.

Then, I thought, maybe we should look at the other end of the income scale, and look at someone that would be in that wealthier category.

Someone that's making 500,000 a year, how much tax would they pay on PEI under the current rules if they split their income with their spouse? Under the current rules they would pay a little over – in the 208,000 range of tax. With the proposed changes they would pay about 232,000, so still an increase, but their increase is 12%, which is far less as a percentage than the person making 100,000 or less.

Then, I looked at it from a perspective of an incorporated physician on PEI because the physician community, in particular, has been very critical or concerned about these changes. I looked at a physician who is making –

Chair: Could I just interrupt a moment?

Terry Soloman: Sure.

Chair: One member wants a clarification.

Terry Soloman: Yeah.

Mr. Palmer: I'm not supposed to do this, but –

Terry Soloman: No problem.

Mr. Palmer: – just for clarity on this one. The 500,000 a year, right now they pay $208,000, that's each, would make 250?

Terry Soloman: Essentially, yes.

Mr. Palmer: Then, in the second part, where they'd pay 232,000, that means one person is taking the full 500 as income, is that where the –

Terry Soloman: Yes.

Mr. Palmer: Okay.

Terry Soloman: Yeah.

Mr. Palmer: Good, thank you.

Chair: Please continue.

Terry Soloman: As I mentioned a moment ago, I looked at a physician scenario, in particular, to see if their concerns that they're raising are, in fact, a concern that this committee needs to be aware of.

I used a physician who is making $250,000 a year as an example, and they're splitting their income with their spouse. They would pay, under the current rules, about 84,000 in tax. With the proposed changes they would pay about 101,000 in tax, or about a 20% tax increase for 2018. It could go as high as 106,000, but I think 101,000 is more the realistic number.

I guess I just posed the question at the end of some of these examples: Is a tax increase of between 1,400 and 1,800 a month, is that fair for the PEI physician community?

Mr. R. Brown: Chair, could I just have a clarification?

Chair: Okay, sure. Clarification, Richard Brown.

Mr. R. Brown: The 500,000 the person makes, they put it into a corporation.

Terry Soloman: Yeah.

Mr. R. Brown: If the spouse is a dividend, if the spouse owns 50% of the company and the dividends are declared, the dividends go out at 50/50, correct?

Terry Soloman: Yes, but it would depend on the structure of the corporation. You could have a spouse that owns a separate class of shares. One spouse could be, say, 100 Class A shares, another spouse 100 Class B shares, so the dividends aren't necessarily coming out of the corporation on a 50/50 basis. Each one can legally receive a different amount of dividend.

Mr. R. Brown: Are they eliminating that?

Terry Soloman: Yes.

Mr. R. Brown: Even though they own shares in the company?

Terry Soloman: Correct.

Mr. R. Brown: I'm sorry, I just have to get this straight. So, make 500,000, and the income goes to another company, so the Revenue Canada is going to be saying: no, you can't. There can only be one shareholder in that next corporation?

Terry Soloman: They're not saying there can only be one shareholder, but they're saying only the shareholder that actively created the income can receive the income at anything less than the very highest tax rate.

Mr. R. Brown: Okay, let's say you have two professional spouses, two professionals; one puts 100,000 in and the other one puts 200. CCRA is only going to allow them to take a dividend out of 100 and 200?

Terry Soloman: That's one factor they'll consider and I will talk about how they're going to do it here, shortly –

Mr. R. Brown: Thanks.

Terry Soloman: – but you are correct on that. That relative capital contributions will be one factor they will consider.

Mr. R. Brown: Sorry, I was just –

Chair: I appreciate clarifications. I think it's important. I just want to be careful that he's not covered, then we can hold them mostly until the end.

Mr. R. Brown: Okay, sorry Chairman.

Chair: That's fine.

I was remiss to welcome Richard Brown here, substituting for Jordan Brown –

An Hon. Member: Substitute.

Chair: – substitute. I'd also like to welcome Hon. Jamie Fox, who is not a member of this committee, but is sitting in today.

Sorry for that, gentlemen. You may go ahead.

Mr. R. Brown: Maybe I shouldn't have came.

Dr. Bevan-Baker: Chair?

Chair: Oh, I'm sorry. I forgot Peter Bevan-Baker.

Dr. Bevan-Baker: That's all right. No problem, that's perfectly fine, Chair.

Terry, thank you for being here, Terry, I just want some clarification on the figures that you have used here in these real-life examples.

Terry Soloman: Sure.

Dr. Bevan-Baker: In the first couple of examples, with a lower income, the tax rates, I mean, they vary a little bit, but you're looking at about 20% of the income through splitting income with, and using dividends as that means for splitting income.

In the first two examples, it's about 20%. In the third example, the $500,000 example one, you're saying that they would pay in the range of 200,000, which is over 40% tax.

Can you explain to us why, at a lower rate, why, it was my understanding that small business rate or corporate tax was a flat rate, is that not correct?

Terry Soloman: The corporate tax rate on income is a flat rate on the first $500,000 of profit. On PEI it's 15%. On these examples the money is then being paid out to the shareholder so there is a corporate tax, and then to have the money into their personal hands they have to pay further tax personally, as dividend income. There is more than – there is both corporate tax and personal tax being considered on these examples.

Dr. Bevan-Baker: Okay, sorry. That wasn't clear. Can I ask a follow-up question please, Chair?

Of course, splitting income using dividends is only one tax vehicle and one tax structure that can be used. If one were to – I mean you can split this up in all kinds of ways, but if that income splitting was done through, let's imagine the spouse, it's a woman who owns the corporation, the spouse is doing legitimate work in that, that income can be split through straight income to that individual rather than through dividends from shares, correct?

Terry Soloman: Are you referring to wage remuneration?

Dr. Bevan-Baker: Yes.

Terry Soloman: Yes.

Dr. Bevan-Baker: So this isn't the only mechanism that one – not the only way that the income could be distributed?

Terry Soloman: Correct.

Dr. Bevan-Baker: Okay. I just wanted to clarify that.

Terry Soloman: These income splitting changes federally are only with respect to dividend income –

Dr. Bevan-Baker: Yes.

Terry Soloman: – not with respect to wages.

Dr. Bevan-Baker: Yeah.

Terry Soloman: Yeah.

Dr. Bevan-Baker: Thank you.

Thank you, Chair.

Terry Soloman: Okay.

Chair: Go ahead.

Terry Soloman: I kind of gave a few examples of what these income splitting changes may mean.

Maybe I'll go through some of the background now behind it.

As I mentioned before, dividend income sprinkling is a strategy where the income that the family company is earning is distributed out to the family members in a manner that minimizes their tax liability; and that applies whether it's a business profit or whether it's a profit on passive investments.

How does it occur? We spoke about it briefly here, but oftentimes a corporation would be structured so that different family members have different classes of shares in order that differing or varying amounts of dividends could be paid to different family members. Or, a family trust could be used, where the company is owned by a trust and then the trust receives the dividends, which in turn then pays it out to various family members on whatever basis the trust document would allow. The department of finance basically says they have an issue with both versions of that strategy, because both versions of the strategy are the same result.

I will say this kind of planning, dividend sprinkling, has long been an accepted practice in Canada, and has been explicitly blessed right up to the Supreme Court of Canada back in the 1990s. So this is a legislative change that is happening that was not there before.

This particular issue, this dividend sprinkling issue, is something that has been an ongoing concern of government for the past couple of decades. Back in 1999, new rules were put in place that was meant to prevent this kind of income splitting with minor children.

It affectionately became known as the "kiddie tax" rule, so I'm sure some of you in the room probably would have heard that terminology before. Basically, what it said was, you can pay a dividend to your minor child if you want, but from a tax perspective it's going to be taxed at the very highest rate.

There might have been a reason to pay a child a dividend other than tax minimization, so they still allowed it. But they said if you do it, it's going to be at the highest rate, which pretty well meant not many dividends were paid to minors after that. There would have been in some cases, but it certainly shut down that type of planning.

What these current amendments are doing is really just expanding that rule they put in place in 1999, where before those rules no longer applied once you were age 18. The new rules more or less say: We're going to apply these rules if you're essentially; you're related to the person that owns the corporation. So it would apply to an adult child now, where before once the child was 18, it no longer applied; and it applies to a spouse. So, those two types of taxpayers are the significant changes with these new rules.

There's no longer any age limit for this to apply. It now would apply, essentially as long as you own the business. What it means is that those types of individuals, if they receive dividend income from a corporation, are now going to be taxed at the highest rate applicable to that type of income. On PEI, it's approximately 44% is the highest rate on dividends personally. So even if you received just a few thousand dollars of dividends, you're going to pay 44% tax rate on that.

Chair: Just a point of clarification.

Terry Soloman: Sure.

Chair: You're talking dividends; you're talking shares, et cetera. What happens if you place a family member on payroll and it's done through salary?

Terry Soloman: Right. You can still pay a family member salary, but salary was always subject to them actually working in the business. So a salary is a payment for services rendered to the business, whereas a dividend was always a payment for ownership. So a dividend, you did not actually have to work in the business.

It's no different than if someone owns shares of Royal Bank on the Toronto Stock Exchange, you're receiving a dividend because you own the shares; you're not actually sweeping the floor at the local branch. You're receiving income because you own it, whereas salary you're receiving it because you're doing services.

You can still pay a wage to a family member and they're not impacted by these rules, but the family member does have to actively be in the business now, where before they did not.

Chair: But what if they were at the bottom grade? What if they're sweeping the floor in the bank but you're paying them as a manager?

Terry Soloman: Well, actually, that's the very next point I have here.

Chair: Which I should –

Mr. R. Brown: (Indistinct)

Chair: Which I shouldn't be interrupting your presentation.

Terry Soloman: No, but that's a very good point, and it's a point that's of significant concern. As part of these rule changes, before the rule applied, simply if you were under 18, the new rules say we're now going to have to have a reasonability test, and the reasonability test will say: Well, you can receive dividends as long as you're doing something for the business and these rules will not apply.

But there's no rules, there's not a lot of guidance as to how this reasonability test will be applied, other than CRA says we will factor in things like did the person invest capital into the business, or did the person actually work in the business and not get paid a wage? So really, the dividend is almost in lieu of a wage.

But the problem with this new rule is the judge and jury are both Revenue Canada, and they get to decide what's reasonable. So a person working in a business in PEI, the wage they're being paid, what if they were working in Toronto, is the wage the same rate? Or if you felt a family member deserved a $40,000 dividend because they were working in your business, CRA can arbitrarily come in and say: No, we disagree, we think that person's only worth 30,000, so the excess you paid them is going to be taxed at the highest rate.

It just gives a significant amount of power to a tax authority that is just not a good idea. Because even if they say they're going to apply it with discretion, history has shown when these kinds of rules come into place, the discretion goes down as time goes on and they become increasingly tight as to how they're interpreting things. We feel it's going to create a lot of conflict and a lot of new appeals, court cases. I don't think we're overestimating that if they do not change this test somehow.

What we're asking is instead of a reasonability test, if they proceed with this, have it more of a bright-line test like they have now. Is it an age? Is it an amount that they're concerned about, if it goes over that amount it has to be justified?

The problem with this is, is many businesses are not tracking this information. If you're a farm working out on the fields every day, you're not keeping – sorry?

Chair: Oh, I have a clarification –

Terry Soloman: Yeah.

Chair: – for Mr. Fox.

Leader of the Opposition: So just to be clear, if the reasonability test is not passed, CRA could take that income – so he was getting paid $50,000, they believe he's only worth $30,000 – they would take that $20,000 and place it back on the owner of the company. Am I right in that?

Terry Soloman: No. It's still taxed to the person who received it, but it's taxed at the highest rate, even if the owner's tax rate wasn't at the highest rate.

Leader of the Opposition: Yes, but if they deem that that job was only worth $30,000 and the company was paying 50, then who gets taxed on the 20%? I thought that that would have to go back to the primary shareholder.

Terry Soloman: No. My understanding is the income would be broken down into two parts. One being the part that they consider reasonable would just be taxed as normal and the balance of the dividend would be taxed at the highest rate.

Leader of the Opposition: Okay.

Terry Soloman: But to that taxpayer that actually received the money.

Leader of the Opposition: Okay, yeah.

Terry Soloman: Yeah.

Chair: Chris Palmer.

Mr. Palmer: Thank you, Chair.

This reasonable test is for dividends only, not to wages, or are you getting to that?

Terry Soloman: There has always been a reasonability test for wages.

Mr. Palmer: Okay.

Terry Soloman: Okay, so that test has always been there, but it has never been there for dividend income before.

Mr. Palmer: Is the wage reasonableness test have clear guidelines around amounts or ages or is it kind of a subjective piece that if the feds decide it's too much, it's too much?

Terry Soloman: It's very fact-driven as well. There is no hard-line tests on it –

Mr. Palmer: Okay.

Terry Soloman: – depends on the facts.

Mr. Palmer: Yeah.

Chair: Steve Myers.

Mr. Myers: Thanks.

I just have a quick one: So, if I had a business and my son was working in it and he was sweeping the floors, somebody would actually come and look and see what he was doing, or would they look at his job title? I'm not sure, with the workforce Canada has, how we would ever have tax people going around doing this.

Terry Soloman: Yes, that's exactly our concern; how is this test actually going to be applied when businesses, most small businesses, aren't necessarily even tracking that information. What did that individual do three years ago for that wage? They just will not have the information.

Mr. Myers: No.

Terry Soloman: So, you're more or less at the mercy of the auditor.

Mr. Myers: If I changed his title to vice president of facilities, would they be more likely to be left alone? I'm not sure where they think this is going. Smart people are in business. They're going to find a way to run the tax people around all over the place. So the tax people actually want to go to this length. I'm not sure – they'll waste more money than they'll ever make by putting a fleet of people on the ground checking to see if my son is sweeping or not.

Terry Soloman: Yeah, like I say, it's just going to fact-based, so –

Mr. Myers: All right (Indistinct)

Terry Soloman: You're going to have to be able prove that your family member is doing something that warrants a wage of, you know, whether it's $40,000 or $50,000 or $60,000.

Chair: I'd just be – you can comment on it later. I'd just be curious of how they could flag that. I have Robert Mitchell has a question, then Chris Palmer.

Mr. Mitchell: Thanks, Chair.

I know it's more about clarity, but I just because we're at this point here now.

Terry Soloman: Yeah.

Mr. Mitchell: Obviously, you have been in the business for many, many years. Has the reasonableness test on the income, like on the wage part, has it been challenged over the years? Are there inherent flaws that you have seen in the past that you think would carry over to something like this, or is it been pretty effective previously?

Terry Soloman: It's a test that has been used over the years and they will adjust the wage. What they do with wage is, is if you have paid too much wage they just do not allow it as a deduction to the business. It's still taxable to the person that received it. They're not disputing the person that received it, has received the income. They pay their tax. They do dispute whether the business is entitled to deduct it. It's essentially a double tax because the business doesn't get to deduct it, but the family member still has to pay tax on it.

That's one reason why there was a shift to dividend income over the years, is it avoided having to have any kind of debate with CRA over the value of that service, they could just be paid as an owner of the business instead.

Mr. Mitchell: Okay –

Terry Soloman: It avoided the fight.

Mr. Mitchell: – that was – I have never heard of that before. What you said there was completely new news to me. I have never had anybody mentioned it as an issue in the past. I figured you'd have a good idea about it.

Terry Soloman: Yeah.

Chair: Chris Palmer.

Mr. Palmer: And maybe you answered this: How did they police that piece of it? I didn't get that part, on the wage.

Terry Soloman: How do they police wage reasonability?

Mr. Palmer: Yes.

Terry Soloman: It would just be part of an audit of a business where they're looking at all their expenses. If they noticed, in most cases, it would be a spouse, or an adult child. If their wage looked out of line versus what all the other staff is being paid, something like that might –

Mr. Palmer: How long –

Terry Soloman: – trigger it.

Mr. Palmer: – has that rule been in place, it's been there forever –

Terry Soloman: That's –

Mr. Palmer: – I guess.

Terry Soloman: – been there forever.

Mr. Palmer: Okay.

Terry Soloman: Yes.

Mr. Palmer: Thank you.

Chair: Thank you.

Terry Soloman: I'm just going to keep flipping along here.

The next couple of slides, it relates to this whole area of income splitting. If you review the federal Department of Finance document, you can see what they're trying to argue is that a business owner has to be compared to an employee of the business and that in order for there to be tax fairness in the tax system, both an owner and an employee has to be treated not just fairly, but equally, so both should pay the exact same amount of tax.

Our concern with that is that you have to look at in the bigger picture than that. You have to compare all of the pros and cons of being an employee versus pros and cons of being a business owner. We feel there does have to be incentive for people to, basically, create jobs and take risk in the economy.

The next couple of slides just talk about some of those differences. I'm not going to read them in detail. It really talks about, you know, a business owner may not necessarily – they may pay less tax because they were able to split income with their spouse under the current regime, but they also have to factor in things like, but they also pay twice as much Canada Pension for the same benefit as the employee that's not being considered.

The employee is not guaranteeing loans and putting their house up as collateral. The spouse gets drawn into that whether they want to be or not. They don't have paid vacations. They don't have paid medical plans. In some cases they don't have employer-sponsored RRSPs or pensions plans. There are so many other factors that it's unfair to compare just one of the factors.

I think you have to look at it in a more complete way. We did make that argument last week.

The next issue the Department of Finance had with some of the things that were going on in the tax world, is they were concerned about what is called multiplication of the lifetime capital gains exemption.

That's a lot of words, but it basically – when a business owner sells the shares of their company they can sell the shares up to, currently, about $835,000. It's index annually, so the number changes each year by a few thousand. If a business owner sold their shares of their company for $1 million, $835,000 of it is what I would call sheltered, and the other $165,000 they would pay tax on that gain.

There were structures being created, or when multiple family members own a business. If a husband and a wife owned a business, each of them have $835,000, so the business could sell for approximately one-point, close to $1.7 million before they would pay any tax. That's because each taxpayer in Canada has their own lifetime limit on that.

The Department of Finance, similar to the dividend rules, they're now also saying: Well, if your spouse owns shares of your business, but they're not active in the business and that business sells, same theory; you should not be able to have capital gains exemption on that share sale. And to make it even worse, the gain that the spouse receives has to be taxed at the highest rate; not even the marginal rates, but the highest rates, so it really is meant to tighten up the rules in the capital gains deduction area.

Now there were family trusts that were set up, and sometimes businesses were selling for even in excess of 1.7 million. If there were two or three adult children there as well, they were also able to use their lifetime exemption. So there was a concern that there was too much exemption being utilized; but every taxpayer in Canada has that exemption, and if they use it here, than they can't use it here. It's not like it's being doubled up or anything like that. Everyone has their limit and once they use it, that's it.

Chair: Excuse me.

Terry Soloman: Sure.

Chair: Chris Palmer.

Mr. Palmer: Terry, for clarification on that: Is that $835,000 exemption – if I have to sell my business and make $100,000 on it as my capital gain –

Terry Soloman: Yep.

Mr. Palmer: – I pay zero tax, or I pay tax on 50% of that? Is it capital gain exemption, the whole thing?

Terry Soloman: In that example, you would pay tax on 50,000 because every capital gain is only 50% taxable.

Mr. Palmer: Right.

Terry Soloman: So this 835,000, that's the gross amount, so the taxable amount would be half that.

Mr. Palmer: Oh, okay.

Terry Soloman: So you would actually get a deduction. So if you had a gain of 835,000 on the sale of shares, half of that amount would go on your tax return as the taxable half, and half of this deduction would come off the return.

Mr. Palmer: So there's always, in the capital gain, there are always tax implications; it's never a zero tax game there. You still pay tax on 50% of your gain?

Terry Soloman: No, you could – as long as the gain was less than 835,000 in total –

Mr. Palmer: Okay.

Terry Soloman: – you would not pay tax on the gain unless there's a secondary tax that kicks in called alternative minimum tax, but we won't necessarily get into that today. I think you could think for this purpose, the gain would be tax-free until it goes over 835,000.

Chair: The Chair recognizes Matthew MacKay.

Mr. MacKay: Thank you, Chair.

So a question is, I guess – so for an Island business, we use an Island business for example that's been in business for 30 years and the business has been their retirement. So they're getting ready to retire, and the 835,716 is current. So with these new rules, basically since that business has been in business for 30 years, is it going to be retroactive? Are they going to follow the old rules, or do these new rules come in to somebody that's just about to retire? How's it going to affect them?

Terry Soloman: Again, another great question. There has been much debate about that issue in that the Department of Finance has been saying these rules only apply retrospectively; they're not retroactive. However, on a situation like what you described, the rules would be retroactive because if the sale happened in two years' time, that spouse would no longer be eligible if the spouse wasn't active in the business to be able to utilize their deduction, or they would be able to if it was sold this year. So there is retroactivity to some of these proposals.

Does that answer your question?

Mr. MacKay: It does, and – one more question, Chair.

Chair: Go ahead.

Mr. MacKay: I'm more on the numbers side of it, right? So if these new rules come in, and a business is selling for a million dollars, what is the difference in tax? So a million-dollar business with the rules today as the future rules you're proposing, what would it cost a business that sells for a million, different in tax-wise? How much more tax is it going to cost that business to sell?

Terry Soloman: It's a difficult question to answer, but if you assume that a business is owned 50-50 between two spouses, so each of them are entitled to 500,000, and if you further assume that one of the spouses was not active in CRA's eyes, then their half of that business sale is not tax-free anymore. So that would be about 125,000 in tax that would not have been there before.

Mr. MacKay: Okay, that's what I was wondering.

Thank you.

Chair: The Chair recognizes Steven Myers.

Mr. Myers: I guess my question is similar to the one I had in the last area, is the taxpayer/beneficiary may not have invested or contributed in the value of the business being sold. How would that be determined?

Terry Soloman: Again, it's just a fact-based analysis. It's putting the business owner in the position where they're going to have to justify – if they questioned. Not every business sale is going to be reviewed by Canada Revenue Agency. But if they're questioned, they're going to have to be able to support that they were part of why this business grew in value, in order to be able to have a tax-free sale.

Mr. Myers: In my opinion, that's something that's really hard to prove. My dad's been in business for 45 years. He's been married to my mom for longer than that. So it would be hard to say, if she was part of a family trust, that the things that she did when I was a child didn't contribute to him being able to grow his business. Because I can tell you, she did a lot of things. She may not have driven a forklift for him, but she would have done a lot of things that would have meant that he could stay at work later or he could take jobs in New Brunswick or Nova Scotia or wherever he had to travel to do those works.
So in my opinion, to have some bureaucrat in Ottawa determine my mother's worth to the growth of my father's 45-year-old business is completely ridiculous.

Terry Soloman: Absolutely, that is a real big issue. I think I even mentioned it in one of my earlier slides, although I didn't mention it here. It's in the slides where these rule changes do not give the proper credit for a spouse who – whether they were directly working in the business or whether they were indirectly just supporting the business, that indirect contribution is now seen to have no value, where before, that wasn't an issue.

Like you say, if a business is 40 years since it started, to now and try and explain today how they participated in that for the last 40 years to justify why they are now a tax-free sale, the businesses will not have that information.

Richard Brown: No.

Terry Soloman: One thing finance did do is they did say: We do realize that people that currently are entitled to have capital gains exemption on their shares are no longer going to be entitled. So they have agreed to – and I'm going to skip ahead one slide here – they have agreed that anyone that owns shares in a business today that would no longer be eligible to sell that business next year and have that exempt gain, can do an election to report the gain even though they didn't actually sell the business.

If you own a business and your shares are worth $500,000, you can on your 2018 personal tax return report that $500,000 gain, and therefore, when you sell the business in the future you would only have to pay tax if you got more than 500,000 for it. So you kid of reported part of the gain.

That all sounds good. At least it is a transitional rule. I'll give them credit for that, that they've at least tried, but this happened before when they played around with this about 20 years ago and it ended up being very problematic for people. One of the things you would have to do to do this election is you would need your business valued, which would cost thousands of dollars; and if CRA disagreed with that value, more than 10% difference, and anyone that sells a business, 10% is not a big band to be out, then there are penalties that apply that this – so you could actually make this election in good faith and be actually penalized for doing it.

The other thing that happens with this election is because you're reporting income on your tax return, if you're aged 65 you're going to lose your OAS that year, even though you actually didn't receive any money because OAS gets clawed back when your income is at a certain level. Even though you're reporting it and you're not paying tax on it, it's going to have these side effects of the election whether you're going to lose your OAS for a year, and other income-tested benefits like GST credits, guaranteed income supplement. All of these other things could be impacted if you make this election.

It's good the election is there, but it's going to have – not all people will be able to take advantage of it.

Chair: Chris Palmer.

Mr. Palmer: Terry, on that point. Just to summarize what I think you said, is I would do a voluntary claim on my taxes this year, to say: I own a business that's worth $500,000.

Terry Soloman: Yeah.

Mr. Palmer: I didn't actually get $500,000; I just said I have a business –

Terry Soloman: Yes.

Mr. Palmer: – worth $500,000, but OAS and all those other things would view it as if I received the $500,000?

Terry Soloman: Yes.

Mr. Palmer: Okay.

Chair: Crazy.

Terry Soloman: Yeah.

Mr. Palmer: Thank you.

Chair: Go ahead, Terry.

Terry Soloman: Because all those other social programs, just base the calculation on what's on your tax return –

Mr. Palmer: Yeah.

Terry Soloman: – they don't make a distinction as to whether it's real income or just an election.

The next slide, I guess, is just some observations from our firm. These changes to the lifetime capital gains exemption will – are going to particularly hit the farm sector harder than most. The reason for that is farms tend to be businesses where many members of the family are working in the business. A lot of time there would be, you know, different generations working in the business. Maybe a spouse, or two or three are working in the business.

It's going to put all of this extra regulatory issues that the farms are going to have to deal with. And, if a farm was structured in the past where it was held by a family trust, it will no longer be eligible to receive the capital gains exemption at all under the way the new rules are drafted.

The new rules say if your business is held by a family trust, the gain is not eligible for the exemption anymore. Farmers that, for various estate or financial planning reasons, set their farm up a certain way are now going to be hurt by the fact that the money, the legal and accounting cost that they incurred to set these things up are now going to be lost.

The fact is, a lot of farms are worth a lot of money because of the amount of capital that is involved. The chance a farm being worth more than that $835,000 is higher than say, a service type business. So you would need to be able to multiply that capital gains exemption in order for the farm to be able to be handed to the next generation in a tax efficient way.

Now, I have heard, even this morning, the federal minister has made comments recognizing that some of this legislation may have had unintended effects, especially for farmers, and that they're considering changes. So, I guess we'll have to stay tuned on that, but –

Mr. R. Brown: (Indistinct) put the farmers in.

Terry Soloman: He specifically identified farms as a concern. I feel it should be all small businesses. I don't see why there would be that distinction.

Mr. R. Brown: That's discrimination.

Ms. Casey: (Indistinct)

Chair: Continue.

Terry Soloman: The next slide is, and I won't spend a lot of time on this because this is something – Canada Revenue – there is good and bad to this next proposal.

This part of the act has been there for a long time. Basically, what it tries to do, is it was concerned if one family member sells their business to the next generation that they might do it in a way to get cash out of their company, and utilize this lifetime capital gains exemption to deduct the tax coming out of their company instead of calling it a dividend.

There are steps that can be done where if there is cash inside your corporation you can extract it out using capital gain rates as opposed to dividend rates. It really was, in many ways, abusive. So, the rule was there for a reason. The problem with the rule is it does impede family business succession.

If I'm a business owner and I want to sell my business to my son or daughter, because of this rule, I have to sell it to them personally. They personally have to buy my business from me personally. They can't use a corporation to do that purchase, where anyone else can.

You might say what is the difference? The difference is it's far more tax costly to purchase those shares personally because the money has to be earned in the future corporately, taken out of the company as a dividend, pay the personal tax, then make your loan payment to your parent or your bank. By having the purchase personally you have to extract the money out and pay for it personally, which typically can add about 40% to the cost of a business sale where it's between family members.

Finance has recognized that. That this is a problem that it does impede family business succession and they do say they're concerned about it and they want to fix it. At the same time they're actually tightening this rule and making it even more tough that it was before. I think they do acknowledge that there is an issue that has to get resolved, but they don't have a solution for it as of today.

One thing that will happen with these new rules is it also actually impact estates. Estates, if someone dies, they have a business, the shares of the business are – when someone dies, they're treated as having been sold on their death, so the estate pays tax on that gain. These rules will now make it where you might actually pay tax twice and even three times, potentially, depending on the structure you have.

You might have seen some press out there in the last couple of month talking about this. These new rules do need work so that estates aren't negatively impacted, and I do believe that was an unintended consequence, but the way they're written now that would be the case.

Chair: Richard Brown.

Mr. R. Brown: I could see that for a small business. The McCain family, you know, a McCain dies, leave a billion dollars, so Junior gets all the cash and doesn't have to pay any taxes on it. You know, in that case –

Terry Soloman: Yeah.

Mr. R. Brown: – like I believe leaving something to your kids, but not a billion dollars. Not that I have a billion dollars.

Terry Soloman: I agree, but what is happening now is the tax is paid by the estate and then when the money comes out of the company it's paid again as a dividend. So it's –

Mr. R. Brown: Oh.

Terry Soloman: – being –the same value is being taxed twice.

Mr. R. Brown: Oh, okay.

Terry Soloman: That's the concern.

Dr. Bevan-Baker: Chair.

Chair: Peter Bevan-Baker.

Dr. Bevan-Baker: Thank you.

Just to pick up on what Richard was just saying there, the intent, I believe, at the beginning of this was fine. I think the details of how they've tried to roll it out, unintended consequences is the euphemism they use, but if the intent was to get to the McCains of this world then surely we should be looking at the stock option deductions and the off-shore tax havens.

Why, in your opinion, has the government backed away from that?

Terry Solomon: That's really not for me to say, but the stock option was one thing that was mentioned in their election platform as something they were going to look at and I'm not sure they've abandoned that idea, but they just haven't implemented it yet.

Dr. Bevan-Baker: Okay.

Thanks, Chair.

Chair: Continue.

Chris Palmer.

Mr. Palmer: I want to follow up on what Peter asked.

If the stock option – do you have any – have you done any forecasting around what kind of tax dollars would be generated if that stock option piece had been implemented and do you have any kind of forecast of what this is supposed to generate for the feds? This option?

Terry Solomon: Well, the Department of Finance document that was issued for these proposals suggests that the income splitting changes are going to generate $250 million a year in additional tax. To me, that sounds low. I would be surprised if this much effort would have gone into something that was that amount of money.

All I know for the stock options is what I read in the press because I don't know how many executives have stock options and what they're worth, but there was a number thrown around between 750 million and a billion a year of tax that could be collected if those stock option changes were made. I do not know if that number is – how solid it is. That might be just an estimate.

Chair: Chris Palmer, then we'll continue after Chris.

Mr. Palmer: Sorry, Chair.

This may not be a fair question, but in that stock option, would you have any guess of how many of those income earners would live in PEI if there was stock option taxing?

Mr. R. Brown: We (Indistinct)

Terry Solomon: Yeah, my sense is it wouldn't have a huge impact on PEI because it's mostly publicly traded company CEOs, so you would think they would be in the larger financial centres, but there would be some for sure.

Mr. Palmer: But the other income splitting and those things are going to impact everybody in PEI?

Terry Solomon: Correct.

Mr. Palmer: Thank you.

Chair: Matthew MacKay.

Mr. MacKay: Thank you, Chair.

Just going back to a question Chris just asked on the 250 million additional tax: Was that just for the income splitting?

Terry Solomon: Yes.

Mr. MacKay: So there's going to be − that one rule change will bring the federal Liberal government another 250 million, minimum, in taxes, is what they're saying?

Terry Solomon: That's what the Department of Finance document suggests.

Mr. MacKay: Okay, thank you.

I just wanted clarification on it.

Thanks.

Chair: Richard Brown.

Mr. R. Brown: Thank you.

So has there been a calculation done that we're going from 11% corporate tax, small business tax – we've gone to 10.5 have we, federally, and the promise is to nine?

Terry Solomon: There were some promised reductions that have not occurred yet.

Mr. R. Brown: Yeah, but didn't it go from 11 to 10.5?

Terry Solomon: I believe that's the number. I don't have it.

Mr. R. Brown: Yeah, okay so –

Terry Solomon: The combined rate with Prince Edward Island is 15.

Mr. R. Brown: Have they calculated how much money that will save companies?

Terry Solomon: I have not seen it, but I'm sure they would know the number.

Chair: Continue.

Mr. R. Brown: (Indistinct) – everybody should be watching.

Terry Solomon: The part I'll talk about now is passive income and private corporations. Now, the way they issued these proposals is they actually, on the ones I've talked about so far, the proposals are quite advanced in that the draft legislation was already drafted before the proposals were announced.

This one, they did not issue any draft legislation so I would say this one is less complete than the others. But, I also believe it's probably the most potentially damaging to the economy.

Chair: Jamie Fox.

Leader of the Opposition: Before you get too far in there, I want to – so you just said a second ago that draft legislation has been drafted and tabled on the first two or three, right?

Terry Solomon: Yes.

Leader of the Opposition: I'm a little bit confused, because at the Delta the other day MP Sean Casey clearly stated, I thought, that no draft legislation was submitted or dropped or whatever. Can you clarify that?

Has draft legislation been dropped? Yes or no?

Terry Solomon: The proposals in this area are not as advanced as the other areas.

Leader of the Opposition: But draft legislation has been dropped on the previous things you're talking about?

Terry Solomon: That's my understanding.

Leader of the Opposition: Thank you.

Chair: Continue.

Terry Solomon: So people may say: What is passive income and why is there a distinction here? Well, a corporation can run a business. That's pretty simple. It's business income. Passive income is really anything else a corporation might involve itself in that's not considered business income. So it could be something like owning an apartment building. It could be just cash in a bank account, so it's accumulating cash for some reason. It could be GICs or a stock portfolio. It's really; any asset that a company owns that's not business income is considered passive income.

CRA or federal finances looked at this and feel that there's an advantage that business owners are receiving by being able to accumulate capital in a corporation in this manner. So as we talked about a moment ago, there's a 15% tax rate on PEI for active business profit. So using an example of $100,000, the business would pay 15,000 of corporate tax and the other 85,000, if it stays inside the corporation, there would be no further tax on that until it comes out to the shareholders.

Their argument is: Well, if you did not have a corporation, or if you're an employee, you would pay somewhat more than 15%. So there's an advantage, in that the business owner is able to save $0.85 of every dollar, where maybe an employee is saving somewhere between, worst case scenario, $0.50 at every dollar. But, in many cases it would be more than that.

There is a gap there. There's no question that there's an initial – initially, by using a corporation that is accumulating capital that came from an active business, that it does have more initial capital than someone who was not incorporated, in most cases. But, that was something that the tax system actually intended. Previous governments put that in place so that businesses could accumulate capital so that they could have that money for a rainy day or for an expansion, or for increased employment, or wage raises for themselves or their staff. It's now being portrayed that it was some sort of unintended loophole that needs to be corrected. Our point is we feel that that was actually an intended part of the tax system. If you look back when these changes were made, these kinds of discussions were had and it was not anything that was mistakenly done.

The other thing that might be getting lost here is that when corporation has capital inside of it and it has $0.85 on the dollar instead of $0.50 on the dollar, that capital is being redeployed into the economy. So whether they're building an apartment building or buying another business for more employment, that capital is generating more economic activity. What will happen here with these proposals is there will be less capital left inside corporations. It will be more difficult for them to raise financing with banks; there will be just less capital in the economy.

Chair: Peter Bevan-Baker.

Dr. Bevan-Baker: Thank you.

I appreciate what you have just said, Terry. Mark Carney, who used to the Bank of Canada governor and now the Bank of England governor, he talks about hundreds of billions of dollars of what he calls dead money –

Terry Soloman: Yeah.

Dr. Bevan-Baker: – sitting in the big – and we're not talking about family businesses –

Terry Soloman: Yes.

Dr. Bevan-Baker: – but the big corporations. That, government is unable to get any – because that's not being invested, that's being held back by these big corporations, so it's inevitable that that money is going to be reinvested. Sometimes they just sit on it because that's an appropriate thing to do.

Terry Soloman: Yeah, sometimes it appropriate to just set it aside if there is a reason to. I agree, some larger corporations probably do have excess sitting there, but that's the whole, in many ways, the point of what I was trying to say. With smaller corporations it's not the same thing and maybe they need to target that kind of activity where they could have, well, the tax rate is different if the corporation is X hundreds of millions booked –

Dr. Bevan-Baker: Sure.

Terry Soloman: – that's not being utilized, but to just throw them, the ma and pa type companies in with them and say everyone is going to be treated the same, that's where the breakdown happens, I think.

Chair: Terry, if I could just interrupt there –

Terry Soloman: Yeah.

Chair: Tax credits. How does this affect tax credits that could be held inside of a corporation?

Terry Soloman: Tax credits in which –

Chair: Like if they have tax credits through the years that they – is there anything there?

Terry Soloman: Well, if a corporation has any tax credits it certainly is able to use it against its tax that –

Chair: Yes.

Terry Soloman: – this income may generate. Is that what you're (Indistinct) –

Chair: I'm just wondering would they be affected if they had tax credits and this legislation changes, would those disappear.

Terry Soloman: No. No existing tax credits are being proposed to be eliminated as part of these changes.

Chair: Richard Brown.

Mr. R. Brown: I know we reduced the corporate tax on PEI here a few years ago to zero basically.

Terry Soloman: Yeah.

Mr. R. Brown: Now, it's going back up with the HST was introduced. That was an incentive for people to say: look, don't take dividends out. Keep it in your company. Reinvest in your company, grow your company and that's good for PEI.

I think it worked quite well because a lot (Indistinct) businesses have grown over the last few years and I think that tax policy has benefitted Prince Edward Island substantially in the past few years.

Could they not say then, if a passive investment, anything over the net capital, you have invested in your company. Okay, I own a company. My planting equipment is worth $1 million. Okay? If I have investments at $3 million, quite obviously, I'm hiding money in the investments that I'm not going to use in my company because I have planting equipment at $1 million. You know, you could be looking at a big expansion, but –

Terry Soloman: Yeah.

Mr. R. Brown: – or – could say, okay, if you leave your money in for after five-year period, meaning you're going to – you're not investing back into your company.

I agree with the federal government in terms of if you're going to hide cash and big amounts of cash in a corporation and not reinvest it in a company, yeah, it should be taxed.

Is there any way that they could change it that way to say, you know: After a certain period of time if you didn't reinvest this passive investment then you're going to be taxed on it?

Terry Soloman: They certainly could change the tax law to put certain thresholds in to encourage that kind of thing, but that's not currently being discussed.

Mr. R. Brown: Okay.

Terry Soloman: So–

Mr. R. Brown: Thanks.

Chair: Peter Bevan-Baker.

Dr. Bevan-Baker: Thank you.

I just wanted to follow-up- on the question that I asked earlier about the billions of dollars that has been horded by the large corporation and if that was, indeed, reinvested that would yield income and revenue for government.

I think it's the sort of nuances, I mean, you described a possibility of how government could come at this to not touch the small business owner and the family corporations that are quite legitimately used for the right purposes.

I think that's the problem here. It's the detail; it's the nuance that's the problem. Just to clarify what Mr. Fox said earlier. The legislation is drafted but it has not been tabled. It has been drafted, but until the consultation period is over it will not be tabled in the House of Commons. Just to clarify that.

Being that it is a draft, it's a living document –

Terry Soloman: Right.

Dr. Bevan-Baker: – it's not, as I understand it, not –

Terry Soloman: I think you're correct.

Another – a bit more information on why we feel the changes to passive income are more problematic. One thing you have to appreciate is once that money is parked, let's call it parked, inside a holding corporation, there is no – that company does not get 15% tax rate on that profit. It only gets 15% on its business profit.

If a business earns money and now has a GIC where it's earning interest income, that income is not taxed at 15% on PEI; it's taxed at almost 55%. It's taxed higher than the highest personal rate already, that's the case in almost every province.

They've already acknowledged this in years past; that, look, if you want to invest passively in a corporation, we're not going to wait until you pull that money out for the tax benefit, or the tax revenue for government. You're paying that tax as you go along.

The way the tax system works now it's what is called tax integration. They look at how much money did the corporation pay and how much did you pay personally when it comes out versus if you didn't have a corporation how much you pay personally. Pretty well every province that number is almost the exact same, so they try and make it tax neutral, whether you're holding investments in a corporation or not.

I think it's important to point out that these passive rules really are not necessary. Other than the initial capital difference, which, depending on the situation, the number could be more or less, but once that money starts earning income inside a corporation it's paying almost 55% tax on that income until it comes out to the shareholder.

What they're proposing now is a new refundable tax, so that if the corporation paid 15% as business profits and now invests that money, one thing – and these are just ideas they're throwing around. There is no draft legislation on this, yet, but they wanted input from private sector; a new refundable tax that would bring that rate from 15% to 50% as a starting point with the argument that it's putting you on the level footing as someone who is not incorporated.

Another idea they had would be – the way it works now when the corporation pays the 55% tax upfront, when that money goes out to the shareholder part of that tax gets released back to the company because the shareholder is then paying tax personally.

Again, the total tax paid is about the same whether you do it one way or the other. They're not suggesting eliminating that refund to the corporation. They're saying: yes, we'll take the 55% that the corporation paid, and that 45% that is left, when you pay that out, we'll tax that, as well. The effective rate on PEI will now be up to about 75% on passive income coming from a corporation.

What it's going to force businesses to do is they will not be able to leave that money in a corporation. They will likely pay it out personally. Pay the additional tax that will be required. There will be a significant amount less capital left in the economy.

Again, all of these things in this area, I can't stress that these are not the rules that are in place, yet. They're just ideas they're floating.

A few comments we have on it as a firm we see a lot of this go on in our client base. The use of a holding company to accumulate capital is, as I mentioned before, long been seen as a rainy day fund source for capital expansion.

Oftentimes a business will sit on these funds for years and then an opportunity comes up. Whether it's a new business or a new business line, that's when that capital gets deployed back to the business. So, if instead of 15% tax was paid on it, 55% tax is paid on it there is going to be a significant difference that will affect the economy for sure.

The other thing that does go on, and I think it has been mentioned here earlier, is for a lot of business owners, their operating company and any holding company they have they see that as part of their retirement plan.

In many ways the business is their RRSP. I know there have been some comments in the media about well, they can just contribute to an RRSP then it would be the same as being an employee. But in the real world it's not that simple all the time. A lot of time the business owner does not have those excess funds to both maximize their RRSP and fund business growth. Instead of funding and RRSP, they leave the money in their holding company. Maybe for their retirement, but you don't know, yet, or maybe it'll be redeployed in the business. It's just maybe a little more flexible than an RRSP.

I guess what a lot of business owners are feeling at this point is they followed this strategy for decades really where they were building up funds for both expansion and part of their retirement and then the rules of the game get changed on them right before they retire or midstream. It would almost similar to someone contributing to their RRSP and then next year the government announcing that we're now going to tax those RRSP funds even though you didn't take them out, yet. That would be an analogy and you could imagine the uproar –

Mr. R. Brown: (Indistinct) riots.

Terry Soloman: There would be riots in the streets, and it's not too far from that on this one.

Chair: Matt MacKay.

Mr. MacKay: Thank you, Chair.

A question on a business and the RRSPs like you just said.

Terry Soloman: Yeah.

Mr. MacKay: If a small business had $50,000 in, is there any incentive for them to put it in an RRSP? If a business was to withdraw $10,000 out of the company to put into an RRSP how are they taxed?

Terry Soloman: It would be essentially a wash. They would have $10,000 of income on their tax return by taking it out of their company and then offsetting a $10,000 deduction into their RRSP. It would be tax neutral.

Mr. MacKay: Thank you.

Chair: Continue.

Terry Soloman: This is really the last slide I have.

I guess the question for some people might be: Will there be collateral damage or other unintended consequences?

We have talked about this one already, but we do feel with less capital to invest there has to be an impact on business growth going forward. I don't want to overplay that or underplay it, it's just a fact. We don't know yet how much it will be.

I do know, it's already impacting our client base. I have had discussions with clients that have delayed projects because they're uncertain what these proposals are going to look like so they will not invest money until they know – to have some tax certainty on their proposals.

I have spoken to physicians that are feeling like they're being attacked by the tax authorities. Some of them talk of: well, if I'm going to be paying this much tax, I just will not work as many hours. Or maybe I will retire sooner.

I do think it's going to have impacts on the resources in the health care sector. I meet with quite a number of physicians that moved to PEI. Quite a number of them in the last few years have been physicians from other countries. I know that Canada's tax system was seen to be appealing to them.

They like the fact that they could incorporate. They like the fact that they could do some income splitting with their spouse. That was definitely a factor, in some cases, of them choosing to come to Canada. I don't know what impact it will have on recruitment. This one would be applicable to all the provinces. Maybe it'll just mean Canada-wide it could have an impact.

There is a question out there: With these changes will there actually be more tax revenue or will businesses just reorganize themselves to make sure they pay less tax to Canada?

A business could, if they're doing a lot of business in the US, they simply will set-up a US operation and Canada will not see that profit anymore. There will be that kind of this to offset the tax issues that are being arisen here.

Those are some of the things that we're concerned about and have raised them in various forms. I know Department of Finance has heard these things many, many times. That's just some of the side issues beyond just the pure tax differences that are being raised.

Chair: Jamie Fox, Matt MacKay and then Steven Myers.

Leader of the Opposition: Thank you, Chair.

I just have a couple of quick questions for you. You talk about income splitting beside small businesses is there anybody else in the country that's allowed to use income splitting? It's not just confined to small business owners, is it not?

Terry Soloman: Well, there are different types of income splitting. Yes, the business owner one, the one we have discussed. The other one that's very common is pension income splitting.

For many years you could split your Canada pension with your spouse. In the last, I'm not sure exactly now when it came in, but more recently, I think within the last 15 years or less, you can now split other types of pension income.

If you receive a pension as a public sector employee or if you have an RRSP from your business years and you're now pulling that RRSP out in retirement you can now split that income with your spouse. There does not seem to be any concern or any perceived lack of fairness where pensions can be split, but there does seem to be if it's dividends. That would be the other primary one where income could be – can be split with another family member.

Leader of the Opposition: I'm not talking frontline service people. Am I right in saying senior people within government, or senior bureaucrats can income split presently right now, this will not affect them?

Terry Soloman: They can income split once they're drawing a pension.

Leader of the Opposition: Okay.

Chair: Matt MacKay.

Leader of the Opposition: Chair.

Chair: Oh, sorry I thought you were done.

Leader of the Opposition: In your opinion, the consultation period on this is 75 days. From what I understand, talking to all the other different briefings I have had and listening to you, is there any way shape or form this 75 period day consultation period long enough?

Terry Soloman: That's certainly a concern that has been expressed by many in the tax community. First of all, the 75 days started in mid-July. It was announced in the middle of summer where most people are on vacations, things like that.

You didn't really a lot of press on this until nearly the end of August when people started coming back. At that point half the consultation period had already expired. Now, there certainly was a lot going on behind the scenes during that time by more senior tax lawyers and accountants trying to just to get their heads around all these other implications of it.

We and others had suggested that if the government truly wanted to have a review of the fairness of the tax act – because it has been a long time since the act was looked at in a comprehensive way. It was always more just one-off changes – we suggested maybe if that's the approach they want to do, was they maybe should have some sort of a consultation like a royal commission. The last time that was done was back in the early 1970s and I believe it was about a five-year process before the changes were finally agreed to. If you compare that process to a 75-day process, it does not seem adequate to me.

Leader of the Opposition: One more final question.

What's your opinion on the black market? Could this cause an increase in black market sales or under table sales?

Terry Solomon: I don't think there's any doubt that that will occur, but that will depend on the type of business, too. Not all businesses are cash businesses, but I could certainly see an incentive. If people feel like they're being taxed beyond an appropriate amount, people will in some situations do that, but that would always be a risk.

Leader of the Opposition: Thank you.

Chair: Matt MacKay.

Mr. MacKay: Thank you, Chair.

What concerns me after your presentation, I guess, the most is more of a provincial level. So, we've got a population of 150,000 people. There are approximately 15,000 businesses in PEI, which 9,300 of them have employees and PEI is known as the highest tax rate in the country, as an overall tax.

Are there any numbers out now of – if this is implemented, how it's going to affect these 15,000 Island businesses? Like, as far as it goes to – is there a percentage of businesses that are going to fail because of it? Or how many people will be laid off because the businesses financially won't be able to pay for them? Are there numbers out province-wide right now?

Terry Solomon: Not that I'm aware of. That type of analysis has not been done yet. All we do know is if the business is incorporated, it's going to be impacted. So how much and how they react to it will vary. Some may just not expand. Some may have to have cutbacks in staff. You just don't know – it'll depend on the business. Some will just pass the additional costs onto their customers. It'll just depend on the sector and what they're able to do to react.

Chair: Thank you.

Mr. MacKay: One more question?

Chair: One more?

Mr. MacKay: I'm just more curious, and this with your profession dealing with clients every day, what are your clients telling you? You're obviously getting the phone calls and including this committee, we didn't really understand what was taking place and the misconceptions of it and so forth what was actually happening. What are your clients telling you? What are you hearing?

Terry Solomon: Well, it was hard to get their attention during the summer, but anyone who has found out what the implications are for them, there is a lot of anger, a lot of frustration; more so than I've ever seen before in my career. There's always tax changes most years and most of the time it means a bit more tax, but this one seems to be different.

I think it was partly because of how it was rolled out, where it seemed businesses felt like they were being targeted in a more direct way. But, any client that looks at it has been very upset probably proportionate to how much of a change it's going to mean for them. We certainly saw it last week down in the chamber morning meeting. I don't think there would be too many meetings the chamber would have had like that over the years. So that just kind of gives you a little pulse of what's going on out there.

Mr. MacKay: Thank you.

Chair: Thank you.

Steve Myers and then Chris Palmer.

Mr. Myers: Thank you.

I just have a couple of things I want to get clarified and they're more out of the rhetoric stuff that I heard so I want to clarify about –

one is trust funds, because I know the media was chasing Trudeau at one point asking him why he wasn't taxing trust funds because he's got apparently a trust fund that's large or whatever. Can you give us what the tax differential would be between trust funds and, say, something like a passive income change? Or any one of these changes, where there would be the differences?

Terry Solomon: Well, trusts in Canada are actually taxed at a very high rate so most trusts that earn income in Canada pay it out to their beneficiaries, or basically who the trust funds are being held for. So, I don't know specifics on the amount or whether he has a trust fund, but if he does, it would likely be income that it would generate, is likely being paid out, so it would be taxed at whatever the marginal rate is of whoever is in that trust fund.

Mr. Myers: Okay, the second one has to do with some of these changes could force, or could have business people turn towards looking at private pension funds, which Morneau in blind trust owns – Morneau Shepell who is one of the only companies in Canada that sells private pension funds – is there a significant advantage to, if these changes go through, for business owners to move to that type of model for savings versus saving it inside their own company like they have been?

Terry Solomon: Yeah, well what you're talking about there is individual pension plans.

Mr. Myers: Basically, yeah.

Terry Solomon: So, an individual pension plan is similar to an RRSP, but it just has higher contribution limits. It's almost, in some ways, similar to, like, a public sector pension; in some ways similar to an RSP. It's kind of half way between the two. But, it would allow a business to, if you set one up, if you decided in your business you're going to now have an individual pension plan, the business would contribute to it the same way you would contribute to an RRSP. But, there's many rules around them that subject – like how much you contribute depends on how big your salary is – similar rules to an RRSP.

So yeah, I could see that type of plan becoming more popular, but only for a certain segment because you could still do that with an RRSP anyway.

Mr. Myers: Thank you.

Chair: Chris Palmer.

Mr. Palmer: Terry, I'm trying to understand the impact to the economy if these things were to be implemented, and Matt asked a similar question to this. I don't remember the year, but I think there used to be $100,000 capital gain exemption that was removed in 1995ish?

Terry Solomon: Yes.

Mr. Palmer: So, there are three or four different tax proposals here that – I'm going to simplify and say each one of those would be equivalent to economic impact of the $100,000 capital gain exemption. I don't know if that's fair or not, but we'll use that as my assumption anyway. Do you recall, or has there been any evidence accumulated on what impact the removal of that $100,000 capital gain exemption in 1995 – what did that do to the economy? Did it spur growth? Did it hamper? Did it – what did it do? Do we know?

Terry Solomon: When that exemption was removed that would not be anywhere the significance of these proposals. That was just – it was removing a one-time potential deduction that would have been worth somewhere around 25,000 in tax, a one-time loss to taxpayers, where these changes impact every year and bigger amounts depending on if you're selling your business in a particular year. I just don't think comparing it to that would be a good comparison. This one is a far more significant change than that.

Mr. Palmer: If we did take that and then we'll assume it's a factor of 10 or 20 or whatever that is –

Terry Soloman: Yeah.

Mr. Palmer: – was there any evidence or any, was there any investigation into what happened in the market in the economy at the time because not only does this impact – these rules impact a number of small businesses, in the end it's going to impact the economy.

I guess history is a good predictor of the future. What happened in 1995 with this very small tax change back then?

Terry Soloman: Yeah.

Mr. Palmer: What did that do, if anything, and has there been any research done on that so that we can get some form of evidence base so we can understand what is happening here?

Terry Soloman: I'm not aware of any analysis that was done on that one.

Mr. Palmer: Do you recall anything; you would have been in practice then –

Terry Soloman: Yeah.

Mr. Palmer: Do you, kind of looking back on that period, did it seem like there was an awful lot more money around in the economy or were businesses all having to run out and sell right now, so effectively it would drop, I think, based on supply and demand would drop the price of businesses because there are more for sale.

Terry Soloman: Right.

It just, I wouldn't say there was nearly as much concern over losing that deduction.

Mr. Palmer: Yeah.

Terry Soloman: It was a deduction that applied to any capital gain. Whether you were selling shares or pieces of land or anything, so it was a nice deduction to have, but it was not a deduction that would be life changing if you did not have it. Whereas, the loss of some of these, like the capital gains deduction on the sale of a business certainly is a far more significant loss to a business owner. I just don't think you would see the same impact this time versus then.

I think it really comes down to, as far as the economic impact, it's just less. Any time there is more taxes coming out of the economy you see a slowdown. If people have less money to spend on discretionary spending or reinvestment in their business you're going to see less economic activity.

Mr. Palmer: You had said something (Indistinct) with each of these proposals, you had said that the one in 1995 wouldn't have been life changing where, individually, one of these is life changing and we have them piled on top of one another. Would that be fair to say?

Terry Soloman: It'll certainly impact people's monthly budgets that's for sure.

Now, they don't necessarily don't all hit you in the same year. If you look at these proposals, the dividend proposals, that's impacting people on an annual basis because the tax bill on their dividends are now going to go up.

The multiplication of the lifetime capital gains exemption and restricting on whether you get it, that only would apply in the case when you sold your business. Otherwise, it wouldn't have any impact on you.

Also, the passive income changes, if they go through as proposed that will have an ongoing impact as well because the corporation that is accumulating capital for whatever reason is just going to have a lot less of it.

Mr. Palmer: It would be not a one-time retraction of cash into our economy; it's a longer term –

Terry Soloman: Yes.

Mr. Palmer: Okay, thank you. Thanks, Chair.

Chair: Robert Mitchell followed by Richard Brown.

Mr. Mitchell: Thanks, Terry for your entire presentation. Some of it is, perhaps, your own opinion, but –

Terry Soloman: Yeah.

Mr. Mitchell: – definitely the opinion of your company, as well.

Terry Soloman: Yeah.

Mr. Mitchell: Obviously, you know, if you look at it in its entirety there is still a lot of clarity still missing from what the proposal is, I guess. Concise measures aren't there moving forward, you said yourself: Ideas being floated.

I guess in your conversations, you know, within, personal conversations with the federal government, but I don't know if you have a national body of firms that have discussions – the clarity piece that is missing, has there been a solid indication of when the federal government will have those parts and pieces put together because this unintended consequence that they have been alluding to, or accepting responsibility for that over the, I'll say, the last couple of weeks maybe –

Terry Soloman: Yeah.

Mr. Mitchell: – are supposed to be correct by all accounts, if you read in the media. Have you had a firm indication of by this timeframe that will be quite clear, quite concise so that people can, you know, take a good firm look at this?

Up until that time, you know, I see the angst and I get it, too. I fully understand how companies that have been doing business in a particular way for many years, have been basically thrown at this new method with – it's just not clear. The clarity is not there.

Terry Soloman: Yeah.

Mr. Mitchell: Has it been indicated to you that we will have this done, finished, take the angst out of things by a particular timeframe?

Terry Soloman: They have not given any date as to when they expect to announce any new considerations they're going to put into the legislation. The current date that we're working with is these rules will be in place as of January 1st, 2018.

That doesn't mean – they could announce tomorrow that they're going to delay that further because they need more time. They have not given a firm date as to any changes and any decisions –

Mr. Mitchell: It is positive they're accepting this responsibility of unintended consequences, I'll take some –

Terry Soloman: Definitely, yeah.

Mr. Mitchell: – solace in that –

Terry Soloman: Yeah.

Mr. Mitchell: – and, but certainly they – I think, if you read media. I don't care if it's in Prince Edward Island, Ontario, British Columbia, this is a national approach that businesses are taking to say: hey, this is, this has to be looked at and tore apart a bit.

Terry Soloman: I do agree, too, as far as implementation, the uncertainty is part of the problem.

Mr. Mitchell: Absolutely.

Terry Soloman: At least if the rules are there. Once you know the rules, at least you know what the consequences are. Whereas, right now, until the final decisions are made a lot of businesses are just not going to do anything until they're certain what the changes will be.

Mr. Mitchell: I appreciate that. Thanks.

Chair: Thank you.

Richard Brown.

Mr. R. Brown: Thank you, Chair.

Terry, I really want to thank you for your presentation today and I want to thank MRSB for allowing you the time to put this together. I've seen a lot of analysis done over the years in the Legislature here and an analysis like this would have probably cost the government $100,000. Not that we're going to pay you the $100,000.

I commend your company and I commend the chambers of commerce across Prince Edward Island for having the meetings. I attended the meeting along with the Leader of the Third Party and Steven and a few – and Kathleen, and it was quite clear that the business community, which is the engine of the economy, are not happy with these changes.

If one thing I saw at that meeting, small businesses on PEI, I believe are the engine of the economy, and small businesses on PEI want to spend time growing PEI and not fighting with governments. That was one of the things that I saw: Look, I want to run my business. I want to make my business successful. I want an opportunity for retirement. And I want an opportunity for my children.

That's what I saw the other day at the hearing. The number of people that got up and said: Look it, I'm working 80 hours a week. I'm giving up a lot of my time for my children. No one in this room would deny that.

I know Steven's father works extremely – you know, I've seen them work and they're 80 hours a week. We have got to protect that entrepreneurial spirit here on Prince Edward Island and in Canada because without it, we only have government to run the place and without the private sector I don't think the economy will go.

There's a quote from an economist that says: The economy grows with the middle class having money to spend. The more you take out of the middle class the less the economy will grow.

We have just seen it; a prime example of that in Canada and on PEI. I think with the middle income tax cuts that the federal government did the last time around, reducing the income tax in the middle class has spurred the economy on. There is no doubt about it. That really made the economy fire up, as it's being fired up now.

We're having one of the best years in the history of Prince Edward Island. I think it's a lot of it has to be contributed to the personal income tax cuts that have been made.

Your organization and chambers of commerce across the country are lobbying extremely hard on the federal government with this one and you're not going to stop lobbying until the final gun is shot, I assume.

Terry Soloman: No, well, the consultation period actually technically was over as of October 2nd, but there's still I'm sure much discussions and submissions happening.

Mr. R. Brown: But is it correct that the legislation has not been tabled, but it has been drafted. It would be a ways and means motion, done through a ways and means motion to the corporate income tax. That would have to go back to the federal finance committee, which is Wayne Easter I understand, and there would be public consultations on that?

Terry Soloman: I can't comment on the actual process once it goes into that stage.

Mr. R. Brown: Well, I just want to thank you for your work, and your company for their work, and the chamber of commerce for their work across Prince Edward Island. I want to thank all the small businesses in Prince Edward Island for what they're doing for the economy of Prince Edward Island. Through you and through the chamber of commerce, the pressure will be kept onto the federal government.

I think, being a political body, the federal government, if they don't listen to the comments and the presentations that have been made, like people by yourself and that, they're doing it at their own peril.

Thank you.

Chair: Thank you.

Anybody else or does that pretty well wrap up the questions?

Okay seeing none, Terry, I would thank you but – Mr. Brown has already taken my job away to thank you on behalf of the committee and all of the members here today, but I thank you anyway. He stole a little bit of my thunder, but I'll just keep one lightning bolt left.

I think what you and the chamber of commerce have done is remarkable for the country; and I do believe, like hon. Robert Mitchell has said, that the federal government is taking a reflective second thought on this, and I think that what you've done and what the chamber of commerce has done will reflect that as we move forward.

I thank you very much for being here today and giving us this wonderful presentation on behalf of the committee.

Terry Soloman: Sure.

Chair: Thank you.

Terry Soloman: Thank you.

Chair: Just before we – is there any new business? Okay. I'll give you a chance to retire –

Terry Soloman: Sure.

Chair: – because we do have new business.

Terry Soloman: Sure.

Mr. R. Brown: I'll be putting this on my website, this thing. It's a lot of free advice for a lot of people on Prince Edward Island.

Some hon. Members: (indistinct)

Mr. R. Brown: Bradtrivers.com.

Terry Soloman: Thank you.

Chair: Thank you.

Okay, the floor is open for new business.

Mr. Myers: Chair, here.

Chair: Steven Myers.

Mr. Myers: Thank you.

I know we have other meetings that are in the process of being planned around here, but the last time we met we had talked about correspondence. So we had correspondence that we sent asking the Premier to support the extension. He did eventually. He did send that −

Chair: He did that.

Mr. Myers: − and I think that I'm wondering if there's any appetite in the committee to see if we can get him to take a little stronger stance. The reason I ask is that you guys were there. Richard, you were there and Kathleen you were there the other day, and Peter. There were a lot of really upset people.

I mulled around the Delta afterward and talked to some of them. They re riled up, and I think it's our responsibility as elected officials – regardless of whether it's a federal issue or not – to stand for the people who are the constituents of this province. I wouldn't recommend the wording or anything, but I would – I'm wondering if there's any appetite on the committee to ask the Premier to send something that, now that it's evident they're not going to extent the consultation period because it has officially ended, that we ask him to maybe take a more strongly worded stance to protect Island business interests and leave him the latitude to choose.

I'm not suggesting the wording. I'm suggesting that this committee ask him to send a letter of a strong stance to protect Island businesses to – not even really a motion. It's a general discussion if there's interest.

Chair: I'll open the floor for discussion.

Mr. R. Brown: As caucus chairman of the Liberal caucus, I'll bring it back to our colleagues in the caucus and we'll bring it back to the Premier.

An Hon. Member: Okay.

Mr. R. Brown: Like I said earlier, the consultation period's over. If the federal government – I don't think we need any more consultation, because if the federal government hasn't listened to the consultation up to now, they're not going to listen anymore. I think the business community of Prince Edward Island and Canada has made it quite clear. Small business in Prince Edward Island, in Canada and PEI, has made it quite clear.

We work extremely hard, the small businessperson. We spend a lot of time that we don't get paid for because we're so – and we saw it at the hotel the other day, the compassion of the people that owned the distributing company and how hard they work. One of them said she was having her baby and they had to stop to do the payroll before they went to the hospital. That's the kind of compassion is there, and if the federal government does not recognize that kind of compassion and that kind of motivation in the small businessperson, like I said earlier, they do it at their own peril.

I think if they come back with legislation that mirrors what they're presenting right now, there's going to be a lot of opportunity then to really get into the battleground. I think there are quiet negotiations going on right now behind the scenes of major changes, at least I hope so.

Thank you.

Chair: Okay. Is the committee satisfied that the caucus chair bring that to the –

Mr. Myers: Absolutely.

Chair: Okay.

Mr. Myers: And I have another one.

Chair: Okay, go ahead.

Mr. Myers: So I'll make a motion on this one: I make a motion that as a follow-up to our original quest – so we had sent letters to the four MPs asking for them to, well, at least respond to us. I can't remember the exact ask, but my motion is that to the three MPs who didn't respond – Robert Morrissey, Lawrence MacAulay and Sean Casey – we send a letter from this committee expressing our disappointment that they not only didn't respond to this committee who represents Islanders, but that they also chose to vote against extending the consultation period.

Chair: Discussion?

Mr. R. Brown: Mr. Chairman, like I already said: If the federal government, which is the Cabinet and the Prime Minister, if they haven't listened to what has been presented to date, it's just not going to work.

I'd prefer to wait until the ways and means motion. There's a procedure that will occur now that they've had their consultation. They'll put their ways and means motion in, and it either could be – it probably will end up in the budget. I think that's when we'd really get fired up, if the ways and means motion still contains what they're presenting today. I just cannot see it being the same as what's being presented today.

Mr. Myers: Chair?

Chair: Go ahead.

Mr. Myers: I just want to clarify. Just as a clarification, because I know Richard wasn't here for the last committee meeting so he might not be aware. We all agreed to send letters to senators, MPs, the Premier, Al Roach.

I'm disappointed that we have at least three Island MPs who chose not to stand up for Islanders. Sean Casey, not only did he not bother coming down to face the Charlottetown business community here last Friday morning, he basically left the impression that he had some interest in their perspective on the story, but last night he stood up in the House of Commons and voted against a motion that would have seen the consultation period extended, which was one of the original asks of the business community Canada-wide.

So while I don't disagree that if they're not willing to listen they're not willing to listen – you and I are on the same page there 100% – that was the ask. So when it came from this committee, it wasn't this committee's idea. It was us kind of expressing the view of business people because that's what they had been saying right across the country. I've heard it here on the Island. That's kind of where I was coming from on that. It was that we had asked them to do something on behalf of business. It wasn't even – we were just carrying the voice of what we were hearing.

I'm personally completely disappointed. I think there's something definitely wrong with politics today that you would turn your back on the very people, who put you there, and you can look at – those people are going to end up with a pension. They don't have to worry about scraping out of a $50,000 a year business to scrape out, you know, a pension after it's done. They're getting their pensions off the backs of the people who they're turning their back on right here in Charlottetown.

That's why I'd like to send something expressing our disappointment.

Chair: As Chair, I don't know – I guess I'll comment on that. I don't think singling them out is going to help this process at this time, it's just –

Mr. Myers: Maybe they won't turn their back on Islanders next time they have an opportunity to defend us.

Chair: I just think it's negative to single them out at this –

Mr. Myers: It's negative to turn your back on your constituents.

Chair: All right.

Anybody else got any –

Mr. Myers: I have a motion; you're going to have to vote it down.

Chair: There is a motion on the floor. I just want to make sure everybody had the chance to speak before I call the question.

Mr. MacKay: I just want to verify something, Chair.

Did any of the MPs respond back? I never really looked through the –

Clerk Assistant (Doiron): I can –

Chair: Go ahead, read it.

Clerk Assistant: There was, first an email response, and then a letter response from Wayne Easter –

Mr. MacKay: So, it did go out to all MPs, though?

Clerk Assistant: Yes, I believe it went out to all MPs.

Mr. MacKay: Okay, I just wanted to verify that before we vote on anything, right.

Chair: I can't – I don't. We send an awful lot of letters out, I don't –

Mr. MacKay: No, I know. I don't want have a vote on something –

Chair: I can't confirm it.

Clerk Assistant: From this memo, I can: in response to the committee's request that – so the request was sent to PEI senators and MPs –

Mr. MacKay: Right. Yeah, no, it's here.

It shows it was sent out to. Okay, perfect.

Chair: Okay, Mr. Brown.

Mr. R. Brown: Mr. Chairman, I know Steven. I have known Steven for a number of years. He's a good advocate for his constituents. He's a good advocate for Islanders. He knows the process. Right now, what is going on in Ottawa, I'd assume, Steven. I hope so, that there is a lot of negotiations going on right now with our MPs, with the government and things like that.

I'd prefer to wait and see what the negotiations and the discussion are going – the result of that right now.

I'm willing to give them some leeway. I'm going to wait for the ways and means, you know, when the final legislation comes through on that.

I know you're a fighter.

Chair: Chris Palmer.

Mr. Palmer: Thank you, Chair.

I would, for clarity, can you let me know – we sent letters to four MPs, which is part of Steven's motion. Who has – did we receive any responses?

Clerk Assistant: Yes, Wayne Easter responded.

Mr. Palmer: I would propose an amendment that we limit the wording of the letter to send to the three MPs that didn't respond. I agree with Steven; we're disappointed that they didn't respond to us. And see if they can give us an update on what they have been doing related to this file.

Mr. Myers: I would support that.

Chair: Did you want – can you write it out?

Clerk Assistant: Okay –

Chair: The amendment.

Clerk Assistant: – can you clarify the amendment?

Chair: Clarify the amendment.

Mr. Palmer: The amendment would be to send a letter to the three MPs that did not respond, express our disappointment with them not responding, and ask for an update on what they have been doing with – where they stand on this issue.

Mr. Myers: I'm okay with that.

Chair: Is there any further discussion on the amendment?

Question on the amendment.

All those in favour of the motion as amended?

Some Hon. Members: Aye!

Chair: Contrary?

Okay, the amendment is carried.

Chair: Now, we go back to the original motion?

Clerk Assistant: As amended.

Chair: As amended.

Clerk Assistant: Would you like me to read for –

Chair: Yeah, we're going to –

Clerk Assistant: – clarification.

Chair: – read it for clarity. The original motion as amended.

Clerk Assistant: This is what I have:

That the committee sends correspondence to the three MPs who didn't respond to the committee's original letter. And express disappointment and the lack of response to the committee's letter.

And, this is the amendment:

Ask for an update on where they stand on this issue.

Chair: Everybody okay with the –

I'll now call for a question on the amended motion.

All in favour?

Some Hon. Members: Aye!

Chair: Contrary?

Carried.

Any more new business?

An Hon. Member: (Indistinct)

Chair: No, just hold on a second, here.

Our next meeting –

An Hon. Member: (Indistinct)

Chair: – listen, our next meeting is October 18th. I don't know whether I should apologize to the committee, or just duck. The clerk has had quite a bit on the agenda. We do have an a.m. meeting in the morning. We have Montague Consolidated School students coming in to give a presentation on the red fox for the PEI provincial animal. Plus, we have UPEI Student Union.

Then, at 1:30 p.m. we have the department of education regarding children and their assessments and wait times.

Everybody okay with that?

We'll see you at 10 a.m. and 1:30 p.m. on October 18th and now I'll call for adjournment.

Ms. Casey: So moved.

Chair: Kathleen Casey.

The Committee adjourned