

August 25, 2015

The Hon. Joe Oliver
Minister of Finance
House of Commons
Ottawa, ON K1A 0A6

Dear Minister Oliver,

The Canadian Federation of Independent Business (CFIB) is a non-partisan, not-for-profit political action organization representing the interests of 109,000 small- and medium-sized enterprises (SMEs) across Canada, including many that run self-storage facilities and campgrounds. We are writing in response to an announcement in federal budget 2015 to review the circumstances in which income from a business, the principle purpose of which is to earn income from property, should qualify as active business income.

Small businesses that run self-storage facilities and campgrounds often operate active businesses from which they draw their principle income, many of which also have employees. These business owners are denied access to small business tax incentives simply because they have chosen a specific type of business and have fewer than five employees. This means that often times these entrepreneurs are not able to access the small business deduction and they are instead charged at the much higher personal income tax rate. These types of tax rules are too simplistic and do not reflect the changing marketplace nor the realities associated with running these types of businesses.

Department of Finance documents indicate that passive income –specified as investment income – went through changes in the Income Tax Act of 1985. These changes were never intended to intentionally hurt or disadvantage small businesses. Rather, the intention was to simplify the administrative and compliance burden and to provide further tax savings for legitimate small- and medium- sized businesses operating active businesses. It is our understanding that independent motel operators, very similar in revenue and operations to self-storage facilities, fought and received an exemption to the minimum requirement of five employees. The reality is that self-storage facilities were not as prevalent at the time, but the industry has grown and gone through many changes in the last thirty years. Many of these entrepreneurs run their business as their primary source of income and not as investment property, and it does not make sense for them to be disadvantaged by the much higher personal income tax rate.

We have heard firsthand from a number of small business owners of self-storage facilities that these rules have lead to devastating consequences. One self-storage facility owner lost his business, his home and his marriage due to a CRA audit that resulted in legal fees and penalties running in the hundreds of thousands of dollars. This is an exaggerated and

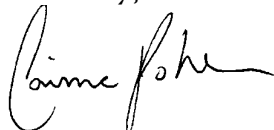
unjust punishment for a simple good faith error due to a lack of knowledge of complex tax rules. Many times, business owners are simply unaware of the reporting rules and are caught unfairly in an unfortunate situation.

As a result, CFIB is making the following recommendations:

- Modify current rules so that self-storage facility and campground owners operating active businesses are not denied benefits provided to other types of legitimate small businesses, such as access to the small business corporate tax rate. In particular, the current five employee rule seems arbitrary and does not necessarily reflect whether a facility is operating as a business or an investment property and should be reviewed.
- At the very minimum, create a process for businesses/sectors that feel they are unfairly affected by these rules to seek an exemption, starting with self-storage facilities and campgrounds. The process to seek an exemption must be straight-forward, simple to administer and involve a minimal amount of red tape.
- Lastly, it is our hope that once these rules have been reviewed and modified, business owners that were unfairly caught in the middle of these complex tax rules will be given retroactive compensation for any legal costs or expenses they incurred.

We thank you for the opportunity to provide feedback to these consultations and look forward to your response. If you have any questions or concerns regarding the contents of this letter, please feel free to contact me at 613-235-2373 or corinne.pohlmann@cfib.ca.

Sincerely,

A handwritten signature in black ink, appearing to read "Corinne Pohlmann". The signature is fluid and cursive, with the first name "Corinne" being more prominent than the last name "Pohlmann".

Corinne Pohlmann
Senior Vice-President, National Affairs